

2019

COMPREHENSIVE ANNUAL

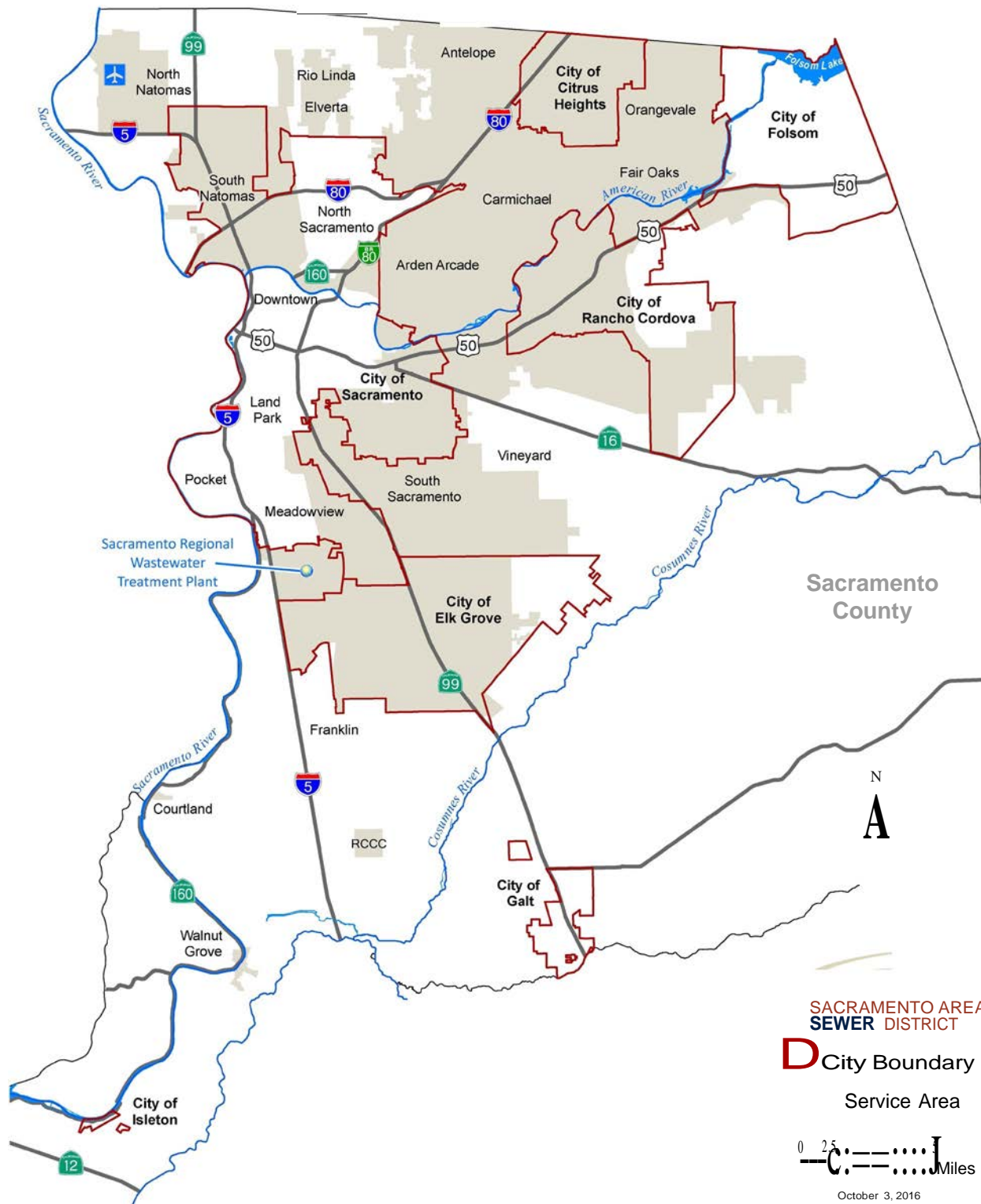
FINANCIAL

REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018
SACRAMENTO, CALIFORNIA



SASD SERVICE AREA



SACRAMENTO AREA SEWER DISTRICT

Sacramento, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2019 and 2018

Prepared by:

*Prabhakar Somavarapu
District Engineer*

*Joseph T. Maestretti
District Chief Financial Officer*

Intentionally Blank

Table of Contents

INTRODUCTORY SECTION

Transmittal Letter.....	iii
Board of Directors and Officials	viii
Organizational Chart	ix
Certificate of Achievement for Excellence in Financial Reporting	x

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
• Statements of Net Position.....	12
• Statements of Revenues, Expenses and Changes in Net Position	13
• Statements of Cash Flows	14
• Notes to the Basic Financial Statements	16
Required Supplementary Information:	
• Schedule of Proportionate Share of the County's Net Pension Liability	43
• Schedule of Pension Contributions	44
• Schedule of Proportionate Share of the County's OPEB Liability	45

STATISTICAL SECTION

Index to Statistical Section	48
Tables Presented:	
• Net Position by Component	49
• Changes in Net Position	50
• Operating Revenues by Source	51
• Operating Expenses	52
• Nonoperating Revenues and Expenses	54
• Capital Contributions	55
• Wastewater Collected and Conveyed	56
• Number of Customers by Type	57
• Sewer Rates	58
• Ten Largest Customers	59
• Pledged Revenue Coverage	60
• Net Ratios of Outstanding Debt by Type	62
• Demographic and Economic Statistics	63
• Private Sector Principal Employers	64
• Number of Employees by Identifiable Activity	65
• Operating and Capital Indicators	66

BOND DISCLOSURE SECTION

Annual Continuing Disclosures	70
-------------------------------------	----

Intentionally Blank



December 19, 2019

Honorable Board of Directors
Sacramento Area Sewer District

The Sacramento Area Sewer District (SASD) hereby submits the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended on June 30, 2019. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with SASD. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported to present fairly the financial position and changes in financial position of SASD. All disclosures necessary to enable the reader to gain an understanding of SASD's financial activities have been included.

The CAFR is divided into four sections: introductory, financial, statistical, and bond disclosure. The introductory section includes this transmittal letter, a listing of the SASD Board of Directors, a listing of officials, an organizational chart, and a Certificate of Achievement for Excellence in Financial Reporting. The financial section includes the independent auditor's report, Management's Discussion and Analysis (MD&A), audited financial statements, and notes to the basic financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The bond disclosure section includes disclosures required by Securities and Exchange Commission Rule 15c2-12(b) (5) for any municipal bond issue closing after July 1, 1995.

An independent auditor audits the financial statements of SASD each year. The firm Macias Gini & O'Connell LLP was selected to perform the independent audit for the fiscal year ended on June 30, 2019. The independent auditor's report is presented as the first component of the financial section of this report. The goal of the independent audit was to provide reasonable assurance that SASD's basic financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an unmodified opinion that SASD's basic financial statements for the fiscal year ended June 30, 2019, is fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. SASD's MD&A can be found immediately following the report of the independent auditors.

Board of Directors

Representing:

County of Sacramento | City of Citrus Heights
City of Elk Grove | City of Folsom
City of Rancho Cordova | City of Sacramento

Prabhakar Somavarapu
District Engineer

Rosemary Clark
Director of Operations

Christoph Dobson
Director of Policy & Planning

David O'Toole
Director of Internal Services

Joseph Maestretti
Chief Financial Officer

Nicole Coleman
Public Affairs Manager

PROFILE OF SASD

SASD is a sanitation district organized under the laws of the State of California, and is also a contributing agency of the Sacramento Regional County Sanitation District (Regional San). SASD was formed in 1978 by consolidating ten smaller districts to provide a common service rate structure for the customers in the affected areas as well as savings gained through efficiencies and economy of scale due to operating one district instead of ten.

The governing body of SASD includes the Sacramento County Board of Supervisors and a member of the city councils of the cities of Sacramento, Folsom, Citrus Heights, Rancho Cordova and Elk Grove.

SASD serves approximately 1.2 million people in its 278-square mile service area made up of the urban, unincorporated areas of Sacramento County; the cities of Citrus Heights, Elk Grove, and Rancho Cordova; portions of the City of Sacramento; and a small area in the City of Folsom. SASD owns and operates approximately 3,100 miles of main line pipes, 1,500 miles of lower lateral pipes, 66,000 manholes, and 105 pump stations.

SASD is staffed by Sacramento County employees (per the existing Master Interagency Agreement) in the Sanitation Districts Agency (SDA). Oversight of personnel matters is provided through the Board of Supervisors and the County Executive's Office.

FACTORS AFFECTING FINANCIAL CONDITION

Regional, state, national, and global economies and financial markets have an impact on the SASD financial condition. Market interest rates also have an impact on SASD's financial condition. Market interest rates have gone from all-time highs in the 1980s to all-time lows in early 2013 and have remained at historically low levels. Low interest rates have both positive and negative effects on SASD's financial outlook. On the positive side, low interest rates reflect the low inflation rates in the economy, which help control operating costs. On the negative side, SASD is unable to earn a good return on invested cash balances. SASD's cash reserves of over \$121 million are invested in the Sacramento County Pooled Investment Fund (Pool). The Pool is limited by State law and local policy to investing in securities with maturities of five years or less. Because of this short-term nature of the Pool, the returns that SASD receives may be below the rate of inflation, which may result in a loss of value over time.

Because SASD is an integral part of the Sacramento regional economy, economic conditions and trends here have an impact on SASD's financial condition and outlook. The regional economy and population growth fuels SASD's customer growth (new connections), which fuels revenue growth by adding new permanent ratepayers. In addition, new customers pay impact fees to cover the cost of added infrastructure necessary to support growth. SASD does not rely on impact fees from growth in order to meet its debt service and capital needs. Although population growth in the Sacramento region has remained steady throughout the past decade, development growth has been volatile.

Despite the slow economic recovery, reduction of impact fees, slow growth, and lower interest earnings, SASD has maintained a strong financial position. SASD continues to meet its financial obligations and its operating goals while maintaining healthy reserves.

BUDGETARY CONTROLS

SASD prepares annual operational and capital budgets that are presented to the Board of Directors for its review and approval. The budget serves as an approved plan to facilitate financial control and operational evaluation. The final budget is prepared and presented to the Board of Directors for approval in late May or early June and becomes effective on July 1st of the corresponding fiscal year. The final budget for fiscal year 2019-20 was approved by SASD's Board of Directors on May 22, 2019.

CRITICAL ISSUES AFFECTING SASD

While SASD has maintained a financially stable position, there are critical issues that have occurred or could occur over the next several years that may impact SASD.

- **Lawsuits and Settlements**—Legal challenges are an ever-present hazard in the wastewater utility business. In 2012, SASD settled a lawsuit brought by the California Sportfishing Protection Alliance that increased planned operations and maintenance costs. The terms of this consent decree were completed in 2018.
- **Regulatory Requirement Changes**—Significant changes in the regulatory requirements that govern SASD operations could cause capital and/or operating costs to rise beyond the projected levels.
- **Aging Infrastructure**—In order to adequately address emerging aging infrastructure issues, SASD is developing and implementing an asset sustainability strategy including a comprehensive condition assessment program for main lines, pump stations, force mains, lower laterals, and reinforced concrete pipe. Estimates of cost increases and appropriate reserve levels associated with the condition assessment program could be significant. In addition, the North Area Corporation Yard is nearing the end of its design life and will require significant renewal costs by the year 2022. A condition assessment for the North Area Corporation Yard is expected by the end of 2019.
- **Natural Disasters or Other Emergencies**-The potential for natural disasters, such as earthquakes, floods, or drought, are always a concern in the SASD service area. A general reserve of 25% of annual operating costs is maintained to cover additional costs that could be incurred during times of emergency.

INTERNAL CONTROLS

The SASD management is responsible for establishing and maintaining internal controls designed to ensure that SASD's assets are protected from loss, theft, or misuse and to ensure that accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. The internal controls are designed to provide a reasonable, but not absolute, assurance that these objectives will be met with the following considerations: (1) the cost of controls should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

LONG-TERM PLANNING

SASD prepares a number of long-term planning documents to assist in achieving its vision and goals while carrying out its mission. Some of these planning documents include the following:

- **Comprehensive Long-Term Financial Plan (CLTFP)**—The CLTFP is comprised of data regarding financial performance measures, critical issues, a 10-year financial forecast and forecast assumptions, a 10-year Capital Funding Projection that serves as the strategic document to estimate SASD's funding needs. The CLTFP is updated annually, and the last update was presented to the SASD Board of Directors in January 2019.
- **2010 Sewer System Capacity Plan (SCP)**—Adopted by the Board of Directors in January 2012, the SCP ensures SASD's sewer collection system continues to serve its customers now and into the future by identifying areas of possible capacity deficiencies. Focused on existing and build-out sewer capacity over the ten-year horizon, the plan identifies potential capacity deficiencies, develops possible solutions to reestablish system performance in relief areas, and updates trunk expansion alternatives from previous planning documents. Modeling of hydraulic performance resulted in capital cost projections of \$911 million in 2010 dollars over the next 100 years. Future customers will pay capital costs via sewer impact fees, and projects benefiting existing customers will be funded through monthly rates. The next update of SASD's SCP is scheduled for 2020.
- **2017 Asset Management Plan**—This Plan projects the lifecycle of SASD's assets and provides an overview of asset maintenance, operation and replacement costs, life expectancies, and long-range projections for sustainability.
- **2019 Capital Funding Ten-Year Projection**—This projects the capital projects that are anticipated over the next ten years. About \$230 million in project costs are anticipated over the next ten years. Other than the first three years of the program, less than \$24 million is needed in any year; therefore, the capital program can be financed with available cash, and debt financing can be avoided. The following are some of the programs that are currently being implemented or are in the planning phase, in order of ten-year projected costs:
 1. Lower Lateral Replacement Projects - \$74 million
 2. Pump Stations & Force Main Rehabs - \$32 million
 3. Vehicles and Equipment - \$26 million
 4. Future Relief Projects - \$22 million

DEBT ADMINISTRATION

In August 2010, on behalf of SASD, the Sacramento County Sanitation Districts Financing Authority (SCSDFA) issued \$110.7 million in Federally Taxable Direct Subsidy Build America Bonds (BABs) (Series 2010A) and Tax-exempt Revenue Bonds for \$15.9 million (Series 2010B). SASD was to originally receive revenue from federal subsidies for the BABs of \$63.8 million over the life of the bonds. Due to the sequestration, the amount may be reduced to approximately \$60 million.

In May 2015, on behalf of SASD, SCSDFA issued \$45.4 million in Revenue Bonds and along with a cash contribution of \$70 million; these funds were used to fully defease the outstanding Revenue Bonds, Series 2005 of approximately \$130 million.

As of June 30, 2019, SASD has approximately \$165 million in outstanding long-term debt and has no plans to issue bonds in the near future.

Bond ratings are an underlying indicator of financial strength and performance. SASD's most recent uninsured bond ratings were Aa2, AA+, and AA+ by Moody's, Standard & Poor's, (S&P) and Fitch, respectively.

AWARDS AND ACKNOWLEDGEMENTS

SASD's Comprehensive Annual Financial Report for the fiscal year ended on June 30, 2018 was awarded the *Certificate of Achievement for Excellence in Financial Reporting* by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. Such a report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. SASD continues to conform to the Certificate of Achievement program requirements, and we will be submitting our current year CAFR to the GFOA for Certificate of Achievement.

I would like to thank Randy Wolff and supporting staff for their conscientious and timely work in preparing this CAFR. This internally generated CAFR represents an important accomplishment for SASD, and we expect to continue to improve upon the award-winning CAFRs that SASD has presented in past years.

SASD would also like to recognize the unwavering support of the Board of Directors. The tangible result of this support is inherent in the high standard of professionalism and fiscal management outlined in this document.

Respectfully submitted,



Joseph T. Maestretti, CPA
Sacramento Area Sewer District Chief Financial Officer

Sacramento Area Sewer District

Board of Directors

Jeannie Bruins	City of Citrus Heights
Larry Carr	City of Sacramento
Sue Frost	County of Sacramento, Vice Chair
Kerri Howell	City of Folsom
Patrick Hume	City of Elk Grove, Chair
Patrick Kennedy	County of Sacramento
Robert McGarvey	City of Rancho Cordova
Don Nottoli	County of Sacramento
Susan Peters	County of Sacramento
Phil Serna	County of Sacramento

SASD Officials

Prabhakar Somavarapu
District Engineer

Rosemary Clark
Director of Operations

Christoph Dobson
Director of Policy and Planning

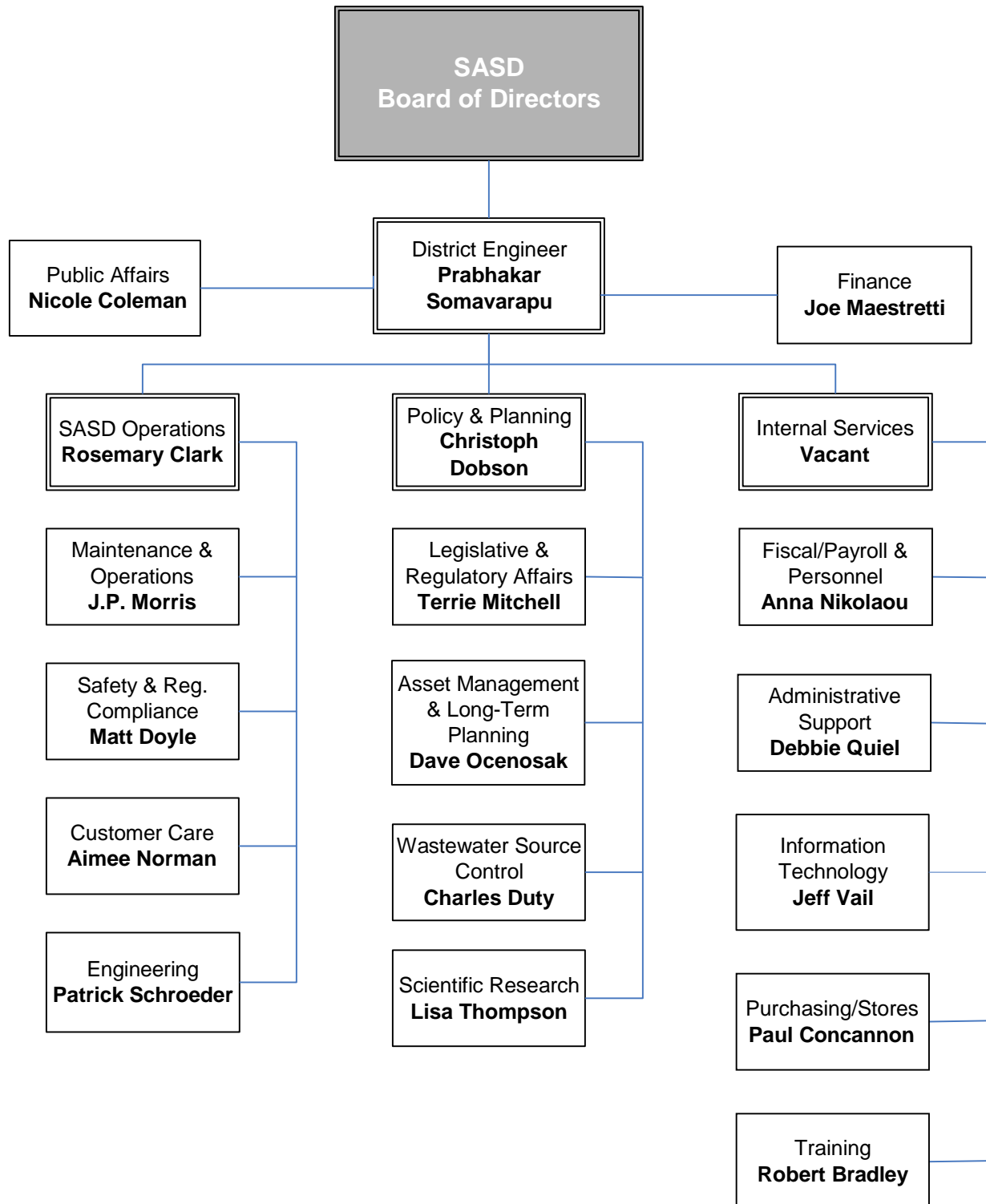
Joseph T. Maestretti, CPA
Chief Financial Officer

Vacant
Director of Internal Services

Nicole Coleman
Public Affairs Manager

SACRAMENTO AREA SEWER DISTRICT

ORGANIZATIONAL CHART



SACRAMENTO AREA SEWER DISTRICT

**CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN
FINANCIAL REPORTING**



Government Finance Officers Association

**Certificate of
Achievement for
Excellence in
Financial
Reporting**

Presented to

**Sacramento Area Sewer District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO





Independent Auditor's Report

Board of Directors
Sacramento Area Sewer District
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sacramento Area Sewer District (SASD), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SASD'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 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 financial position of SASD as of June 30, 2019, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of SASD as of and for the fiscal year ended June 30, 2018 were audited by other auditors, whose report dated November 28, 2018, expressed an unmodified opinion on those 2018 financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of SASD's proportionate share of the County's net pension liability, the schedule of SASD's pension contributions, and schedule of SASD's proportionate share of the County's net OPEB liability, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SASD's basic financial statements. The introductory section, statistical section, and bond disclosure section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019 on our consideration of SASD'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 SASD's internal control over financial reporting and compliance.



Sacramento, California
December 19, 2019

SACRAMENTO AREA SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

This section of SASD's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of SASD's financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the transmittal letter at the front of this report and SASD's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- At June 30, 2019, the assets and deferred outflows of SASD exceeded liabilities and deferred outflows by \$785.8 million (*net position*). Of this amount, \$5.5 million was restricted for specific purposes, \$59.5 million was unrestricted and \$720.8 million was the net investment in capital assets. At June 30, 2018, the assets and deferred outflows of SASD exceeded liabilities and deferred inflows by \$758.9 million (*net position*). Of this amount, \$5.5 million was restricted for specific purposes, \$47.6 million was unrestricted and \$705.7 million was the net investment in capital assets.
- SASD's total net position increased by \$26.9 million and decreased by \$11.9 million during 2018-19 and 2017-18, respectively. In addition, there was a \$242 thousand operating loss, \$6.6 million nonoperating loss, offset by contributed capital of \$33.7 million. The decrease during fiscal year 2017-18 was attributable to \$13.1 million operating loss, \$6.2 million nonoperating loss, offset by contributed capital of \$7.4 million.
- The decrease of \$1.4 million in long-term obligations in 2018-19 was due to scheduled debt service payments. The decrease in long-term obligations of \$1.4 million in 2017-18 was also due to scheduled debt service payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to SASD's basic financial statements. SASD's basic financial statements are comprised of two components: the basic financial statements and notes to the basic financial statements.

Basic Financial Statements are designed to provide readers with a broad overview of SASD's finances.

The *Statements of Net Position* (page 12) presents information on all SASD assets, deferred outflows of resources, liabilities and deferred inflow of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SASD is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Position* (page 13) presents information showing how net position changed during the most recent two fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected service charges).

SACRAMENTO AREA SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The *Statements of Cash Flows* (page 14) presents information about the cash receipts and cash payments of SASD during the two most recent fiscal years. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess SASD's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on SASD's financial position of its cash and its noncash investing, capital, and related financing transactions during the year.

Notes to the Basic Financial Statements (page 16) provide additional information that is essential to a full understanding of the data provided in SASD's basic financial statements. The notes are included immediately following the basic financial statements within this report.

FINANCIAL ANALYSIS

As previously noted, net position may serve over time as a useful indicator of SASD's financial position. As of June 30, 2019 and 2018, total net position was \$785.8 million and \$758.9 million, respectively. During the fiscal years ended June 30, 2019 and 2018, net position increased \$26.9 million and decreased by \$11.9 million, respectively. The increase for the fiscal year ended June 30, 2019, net position is primarily based on operating and nonoperating losses offset by capital contributions.

SACRAMENTO AREA SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The following table summarizes the changes between assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2019, 2018 and 2017:

Condensed Statements of Net Position
(Amounts Expressed in Thousands)

	2019	% Change	2018	% Change	2017
Assets:					
Current assets	\$ 137,796	9.4%	\$ 125,952	1.6%	\$ 123,947
Noncurrent assets	5,523	0.2%	5,514	0.9%	5,464
Capital assets, net	<u>891,628</u>	1.6%	<u>877,911</u>	-0.1%	<u>879,073</u>
Total Assets	<u>1,034,947</u>	2.5%	<u>1,009,377</u>	0.1%	<u>1,008,484</u>
Deferred Outflows of Resources	12,040	-26.0%	16,268	11.9%	14,542
Liabilities:					
Current and other liabilities	12,312	0.9%	12,198	-0.6%	12,272
Long-term obligations	169,356	-0.8%	170,786	-0.8%	172,161
Other noncurrent liabilities	<u>75,845</u>	-7.0%	<u>81,597</u>	29.4%	<u>63,075</u>
Total Liabilities	<u>257,513</u>	-2.7%	<u>264,581</u>	6.9%	<u>247,508</u>
Deferred Inflows of Resources	3,675	68.8%	2,177	-15.9%	2,588
Net Position:					
Net investment in capital assets	720,842	2.1%	705,750	0.0%	705,508
Restricted for debt service	5,523	0.2%	5,514	0.9%	5,464
Unrestricted	<u>59,434</u>	24.8%	<u>47,623</u>	-23.1%	<u>61,958</u>
Total Net Position	<u>\$ 785,799</u>	3.5%	<u>\$ 758,887</u>	-1.8%	<u>\$ 772,930</u>

As of June 30, 2019, the current assets increased by approximately \$12 million. Of those current assets, cash and investments increased by \$10 million. Capital assets also increased by approximately \$13 million. The main reason for this increase is due to higher development in the Sacramento area, in which the number of service connections increased by over \$18 million. The increase in unrestricted net position of \$12 million is mainly due to an increase in cash and investments. During the year, \$5 million was received from the Department of General Services for SASD's purchase of fleet. In the fiscal year ended June 30, 2018, the decrease in unrestricted net position of \$14 million is mainly due to the result of a new accounting change in the recording of allowance for bad debt of \$10 million.

The largest portion of SASD's net position (92% and 93% at June 30, 2019 and 2018, respectively) reflects its net investment in capital assets (e.g., land, structures and improvements, equipment, and construction in progress), less any related debt still outstanding used to acquire those assets. SASD uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although SASD's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

SACRAMENTO AREA SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Another portion of SASD's net position (1% and 1% at June 30, 2019 and 2018, respectively) represent restricted resources that are subject to external restrictions on how they may be used. The remaining amount (7% and 6% at June 30, 2019 and 2018, respectively) may be used to meet SASD's ongoing obligations to customers and creditors.

The following table summarizes the changes in net position for the fiscal years ended June 30, 2019, 2018, and 2017:

Changes in Net Position

(Amounts Expressed in Thousands)

	<u>2019</u>	%		%	
		<u>Change</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>
Operating revenues:					
Sewer service fees	\$ 101,204	2.4%	\$ 98,855	0.6%	\$ 98,245
Other	8,940	536.3%	1,405	-8.3%	1,532
Nonoperating revenues:					
Interest income	2,600	67.2%	1,555	58.8%	979
Intergovernmental revenue	2,231	-1.3%	2,261	0.1%	2,259
Total revenues	<u>114,976</u>	10.5%	<u>104,076</u>	1.0%	<u>103,015</u>
Operating expenses:					
County labor - water quality	45,789	-0.3%	45,936	6.3%	43,214
Depreciation and amortization	36,679	0.1%	36,633	1.5%	36,108
Billing	355	1988.2%	17	-87.7%	138
Other operating expenses	27,564	-10.4%	30,753	0.4%	30,644
Nonoperating expenses:					
Interest expense	9,062	-0.5%	9,112	-0.4%	9,152
Other expense	2,367	154.0%	932	-41.4%	1,590
Total expenses	<u>121,816</u>	-1.3%	<u>123,383</u>	2.1%	<u>120,846</u>
Loss before Capital Contributions	(6,840)	64.6%	(19,307)	-8.3%	(17,831)
Capital Contributions:					
Pipe from developers	28,795	611.3%	4,048	-69.2%	13,145
Sewer impact fees	4,958	48.9%	3,330	-27.5%	4,595
Total Capital Contributions	<u>33,753</u>	357.5%	<u>7,378</u>	-58.4%	<u>17,740</u>
Increase (decrease) in net position	26,912	325.6%	(11,929)	13008.8%	(91)
Net position, beginning of year *	<u>758,887</u>		<u>770,816</u>		<u>773,021</u>
Net position, end of year	<u>\$ 785,799</u>		<u>\$ 758,887</u>		<u>\$ 772,930</u>

*In fiscal year 2018, beginning net position was restated due to the adoption of GASB Statement 75.

SACRAMENTO AREA SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Total operating revenues, which consist of sewer service fees and other revenues increased by \$9.9 million in 2018-19 and \$483 thousand in 2017-18. Most of the increase in the revenues was due to \$5 million being received from the County of Sacramento, Department of General Services for SASD's purchase of fleet vehicles and equipment. In 2018-19, there was no significant growth in the number of customers served and no increase in service fees.

Interest income increased by approximately by \$1.1 million in 2018-19 and \$576 thousand in 2017-18.

Effective July 1, 2018 the amount charged for impact fees increased. Sewer impact fees for the "relief" area increased from \$661 per ESD to \$689 per ESD. Sewer impact fees for "expansion" areas increased from \$2,957 per ESD to \$3,062 per ESD. Sewer impact fees increased by 49% in 2018-19. Sewer impact fees decreased by 28% in 2017-18.

In 2018-19 total expenses decreased by approximately \$1.6 million. The primary reason for this decrease was attributable to a decrease in pipeline maintenance costs of \$4.7 million. The decrease in pipeline maintenance costs were due to the completion of a lower lateral TV inspection program and reduction of corresponding corrective work. This decrease was offset by increases in services and supplies of \$1.1 million and data processing of \$740 thousand. In 2017-18 total expenses increased by approximately \$2.5 million. The main reason for this increase was attributable to an increase in labor costs of \$2.7 million, which was offset by a decrease in pipeline maintenance costs of \$239 thousand.

Total capital contributions increased by approximately \$26.4 million during the 2018-19 year as compared to the prior year. Pipe from developers increased by \$24.8 million and sewer impact fees increased by \$1.6 million. Total capital contributions decreased by approximately \$10.4 million during the 2017-18 year as compared to the prior year. Pipe from developers decreased by \$9.1 million and sewer impact fees decreased by \$1.3 million.

SACRAMENTO AREA SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets, net of accumulated depreciation, totaled \$892 million and \$878 million at June 30, 2019 and 2018, respectively. This corresponded to an increase of \$14 million for the fiscal year ended June 30, 2019 and a decrease of \$1 million for the fiscal year ended June 30, 2018. The following table summarizes the changes in capital assets for the fiscal years ended 2019, 2018, and 2017:

Changes in Capital Assets

(Amounts Expressed in Thousands)

	<u>2019</u>	<u>% Change</u>	<u>2018</u>	<u>% Change</u>	<u>2017</u>
Land	\$ 9,277	0.0%	\$ 9,273	0.0%	\$ 9,273
Software, structures, improvements and equipment	1,353,916	2.8%	1,316,427	0.7%	1,307,193
Construction in progress	111,513	17.2%	95,156	35.9%	70,016
Less accumulated depreciation	<u>(583,078)</u>	7.4%	<u>(542,945)</u>	7.0%	<u>(507,409)</u>
	<u>\$ 891,628</u>	1.6%	<u>\$ 877,911</u>	-0.1%	<u>\$ 879,073</u>

In 2018-19, construction in progress increased by \$16 million due to \$17 million in additions offset by \$1 million in completion of ongoing projects. This increase is mainly due to increases in Lower Lateral Replacement Projects, Root Mitigation Projects, and the Rosemont Pump Station Replacement Project. When completed projects are placed into service, they are transferred to structures, improvements, or equipment. Software, structures, improvements and equipment increased by \$37 million. \$40 million increase was due to contributed capital and the remaining amount of the increase was from current year construction activity. This was offset by \$3 million in disposed capital assets.

In 2017-18, construction in progress increased by \$25 million due to \$30 million in additions offset by \$5 million in completion of ongoing projects. This increase is mainly due to increases in Lower Lateral Replacement Projects and Pump Stations & Force Main Rehabilitation Projects. When completed projects are placed into service, they are transferred to structures, improvements, or equipment. Software, structures, improvements and equipment increased by \$9 million. \$4 million of the increase was due to the completion of projects formerly recorded as construction in progress, \$6 million increase was due to contributed capital and the remaining amount of the increase was from current year construction activity. This was offset by \$1 million in disposed capital assets.

Additional information on capital assets can be found in the Note 3 to the basic financial statements included in this report.

SACRAMENTO AREA SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Long-term obligations totaled \$174 and \$175 million at June 30, 2019 and 2018, respectively. These amounts were comprised of loan payable to financing authority and compensated absences. The following table summarizes the amount of long-term obligations for the fiscal years ended June 30, 2019, 2018, and 2017.

Summary of Outstanding Long-term Obligations

(Amounts Expressed in Thousands)

	Fiscal Years Ended June 30,		
	2019	2018	2017
Loan payable to Financing Authority	\$ 170,786	\$ 172,161	\$ 173,496
Compensated absences	2,771	2,625	2,541
	<u>\$ 173,557</u>	<u>\$ 174,786</u>	<u>\$ 176,037</u>

The decrease in long-term obligations in 2018-19 was primarily due to \$1.03 million in scheduled debt service payments. The decrease in long-term obligations in 2017-18 was primarily due to \$990 thousand in scheduled debt service payments.

Additional information on long-term debt obligations can be found in the Note 4 to the basic financial statements included in this report.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of SASD's finances for all those with an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Joseph T. Maestretti, Chief Financial Officer, Sacramento Area Sewer District, 10060 Goethe Rd, Sacramento, CA 95827, or phone (916) 876-6116.

Intentionally Blank

SACRAMENTO AREA SEWER DISTRICT
Sacramento, California

Basic Financial Statements

For the Fiscal Years Ended June 30, 2019 and 2018

SACRAMENTO AREA SEWER DISTRICT

STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS:		
CURRENT ASSETS:		
Cash and investments	\$ 121,351,439	\$ 111,188,818
Sewer services fees receivable	13,859,999	12,875,969
Due from local governments		
Interest receivable	1,429,818	788,653
Inventories	<u>1,154,847</u>	<u>1,098,136</u>
TOTAL CURRENT ASSETS	<u>137,796,103</u>	<u>125,951,576</u>
NONCURRENT ASSETS:		
Restricted cash and investments	5,472,841	5,433,884
Due from Financing Authority	50,312	80,199
Capital assets:		
Land	9,276,987	9,272,842
Construction in progress	111,513,057	95,156,359
Software	2,814,071	2,814,071
Structures and improvements	1,324,809,601	1,297,290,612
Equipment	<u>26,292,198</u>	<u>16,321,707</u>
Total capital assets	1,474,705,914	1,420,855,591
Less accumulated depreciation	<u>(583,077,592)</u>	<u>(542,944,741)</u>
Total capital assets (net of accumulated depreciation)	<u>891,628,322</u>	<u>877,910,850</u>
TOTAL NONCURRENT ASSETS	<u>897,151,475</u>	<u>883,424,933</u>
TOTAL ASSETS	<u>1,034,947,578</u>	<u>1,009,376,509</u>
 DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension	11,880,717	16,127,220
Deferred outflows related to OPEB	<u>158,902</u>	<u>141,206</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>12,039,618</u>	<u>16,268,426</u>
 LIABILITIES:		
CURRENT LIABILITIES:		
Warrants payable	3,000,788	1,824,197
Accounts and retentions payable	3,547,253	4,666,050
Interest payable	3,917,732	3,939,191
Compensated absences	415,695	393,744
Due to local governments	13	-
Current portion of loan payable	<u>1,430,155</u>	<u>1,375,155</u>
TOTAL CURRENT LIABILITIES	<u>12,311,636</u>	<u>12,198,337</u>
NONCURRENT LIABILITIES:		
Developer reimbursement payable	38,480,836	41,092,918
Compensated absences	2,355,608	2,231,215
Total OPEB Liability	3,908,774	3,753,160
Net Pension Liability	31,100,165	34,519,914
Long-term obligations	<u>169,355,525</u>	<u>170,785,680</u>
TOTAL NONCURRENT LIABILITIES	<u>245,200,908</u>	<u>252,382,887</u>
TOTAL LIABILITIES	<u>257,512,543</u>	<u>264,581,224</u>
 DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension	3,370,796	1,956,552
Deferred amounts related to OPEB	<u>304,502</u>	<u>220,302</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,675,298</u>	<u>2,176,854</u>
 NET POSITION:		
Net investment in capital assets	720,842,643	705,750,015
Restricted for debt service	5,523,153	5,514,083
Unrestricted	<u>59,433,559</u>	<u>47,622,759</u>
TOTAL NET POSITION	<u>\$ 785,799,355</u>	<u>\$ 758,886,857</u>

See accompanying notes to the basic financial statements.

SACRAMENTO AREA SEWER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Sewer service fees	\$ 101,204,376	\$ 98,854,822
Other revenue	8,940,218	1,404,532
Total operating revenues	110,144,594	100,259,354
OPERATING EXPENSES:		
County labor - SDA	45,789,126	45,936,396
Office equipment	708,470	571,353
Depreciation and amortization	36,679,040	36,633,007
Services and supplies	2,328,492	1,266,732
Consultants	4,834,241	5,106,006
County labor - other	1,567,727	1,633,725
Chemicals	264,693	394,341
Billing	355,471	17,453
Pipeline maintenance	11,655,609	16,335,769
Insurance	1,129,680	1,166,271
Utilities	623,484	548,567
Electricity	920,511	940,143
Data processing	3,530,300	2,790,046
Total operating expenses	110,386,844	113,339,809
Operating loss	(242,251)	(13,080,455)
NONOPERATING REVENUES (EXPENSES):		
Interest revenue	2,600,248	1,555,076
Interest expense	(9,061,695)	(9,112,204)
Sewer Incentive program	(367,697)	-
Intergovernmental revenue	2,230,984	2,261,492
Other expense	(1,999,862)	(931,529)
Total nonoperating revenues (expenses)	(6,598,022)	(6,227,165)
Loss before capital contributions	(6,840,273)	(19,307,620)
CAPITAL CONTRIBUTIONS:		
Pipe from developers	28,795,058	4,048,277
Sewer impact fees	4,957,712	3,329,898
Total capital contributions	33,752,770	7,378,175
Change in net position	26,912,498	(11,929,445)
Net position, beginning of year	758,886,857	770,816,302
Net position, end of year	\$ 785,799,355	\$ 758,886,857

See accompanying notes to the basic financial statements.

SACRAMENTO AREA SEWER DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 100,220,346	\$ 98,150,038
Receipts from others	8,882,735	1,386,114
Payments to County for labor force	(44,747,380)	(44,404,867)
Payments to suppliers for goods and services	(25,231,071)	(28,346,061)
Payments to others	<u>(4,116,329)</u>	<u>(2,019,357)</u>
Net cash provided by operating activities	<u>35,008,301</u>	<u>24,765,867</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(23,553,676)	(20,160,422)
Principal payments on long-term loan	(1,030,000)	(990,000)
Interest payments on long-term loan	(9,428,309)	(9,473,859)
Build America Bond interest subsidy	2,288,467	2,279,910
Sewer impact fees collected	<u>4,957,712</u>	<u>3,329,898</u>
Net cash used by capital and related financing activities	<u>(26,765,805)</u>	<u>(25,014,472)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>1,959,083</u>	<u>1,259,171</u>
Net cash provided by investing activities	<u>1,959,083</u>	<u>1,259,171</u>
 Net increase in cash and cash equivalents	10,201,579	1,010,566
 Cash and cash equivalents, beginning of year	<u>116,622,700</u>	<u>115,612,134</u>
 Cash and cash equivalents, end of year	<u>\$ 126,824,279</u>	<u>\$ 116,622,700</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:		
Cash and investments	\$ 121,351,439	\$ 111,188,817
Restricted cash and investments	<u>5,472,841</u>	<u>5,433,884</u>
Total cash and cash equivalents	<u>\$ 126,824,279</u>	<u>\$ 116,622,700</u>

See accompanying notes to the basic financial statements.

SACRAMENTO AREA SEWER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
RECONCILIATION OF NET CASH USED FOR OPERATING		
ACTIVITIES TO OPERATING LOSS:		
Operating loss	\$ (242,251)	\$ (13,080,455)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	36,679,040	36,633,007
Amortization of Pension Expense	2,240,998	2,844,509
Amortization of OPEB Expense	222,118	252,361
Other expense	(3,602,288)	(1,935,287)
Payments for Sewer Incentive Program	(367,697)	-
Intergovernmental expense	(57,483)	(18,418)
Net effect of change in:		
Sewer service fees receivable	(984,030)	(704,783)
Inventories	(56,711)	(52,833)
Warrants payable	1,176,591	843,453
Due to local governments	13	(15,687)
Net cash provided by operating activities	\$ 35,008,301	\$ 24,765,867
 SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Pipe contributed by developers	\$ 28,795,058	\$ 4,048,277
Acquisition of capital assets with accounts and retentions payable	(3,547,253)	(4,666,050)
Acquisition of capital assets with developer reimbursement payable	(2,612,082)	11,093,571

See accompanying notes to the basic financial statements.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Sacramento Area Sewer District (SASD) is a political subdivision of the State of California. SASD is governed by a Board of Directors comprised of the five members of the Sacramento County Board of Supervisors, plus one representative each from the Sacramento, Folsom, Citrus Heights, Elk Grove and Rancho Cordova city councils. Each city representative is selected by their respective city council to serve on the SASD board. The length of appointment is subject to the discretion of each city council, but can be no longer than the individual's term of office.

In October 1993, SASD entered into a Joint Exercise of Powers Agreement organized under Section 6500 et seq. of the California Government Code with the Sacramento Regional County Sanitation District (Regional San) to form the Sacramento County Sanitation Districts Financing Authority (Financing Authority) for the purpose of facilitating the financing of acquisition and/or constructing of real and personal property in and for SASD and Regional San. The Board of Directors of Regional San serves as the Financing Authority's governing board. For financial reporting purposes, the Financing Authority and Regional San have a financial and operational relationship, which requires that the Financing Authority's financial statements be blended into Regional San's financial statements. This includes reporting SASD's portion of debt. SASD makes base payments to the Financing Authority that are at least equal to the required debt service. SASD recognizes its relationship with the Financing Authority as a related entity. Separate financial statements for the Financing Authority are available from SASD at 10060 Goethe Road, Sacramento CA, 95827, upon request.

The accompanying basic financial statements of SASD have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Cash Equivalents and Investments

For purposes of the statement of cash flows, SASD considers all short-term highly liquid investments with an original maturity of three months or less, including restricted cash and investments, to be cash equivalents. Amounts held in the County's investment pool are available on demand to individual entities; thus, they are considered highly liquid and cash equivalents for purposes of the statements of cash flows.

Investments are presented at fair value based on quoted market information obtained from fiscal agents or other sources, except for the money market mutual funds, which are presented at amortized cost.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

SASD uses the accounting principles applicable to enterprise funds. SASD uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

SASD distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with SASD's operations. The principal operating revenues of SASD are customer service charges for sewer services. The principal operating expenses of SASD are county labor, maintenance, services and supplies, and depreciation. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities. The principal nonoperating revenue is intergovernmental revenue, which relates to transactions between the County of Sacramento (the County), the Sacramento County Regional Sanitation District and the federal government for the Build America Bond subsidy. Significant nonoperating expenses include interest expense paid on SASD's outstanding loans with the Financing Authority. When both restricted and unrestricted resources are available for use, it is SASD's policy to use restricted resources first.

Receivables

SASD does not accrue an allowance for doubtful accounts on the sewer service fees as SASD writes off uncollectible accounts and transfers past due amounts to the County to be placed on the property tax roll for collection. In addition, SASD participates in the County's Teeter tax buyout plan whereby the County remits 100% of any delinquent amounts to SASD.

Inventories

Inventory is valued at cost, which approximates fair value, using the weighted average method.

Developer Reimbursement Payable

Under SASD's Trunk Reimbursement Program, developers may elect to enter into a developer reimbursement agreement. Under the agreement, the developer agrees to install trunks and other facilities on behalf of SASD and SASD agrees to reimburse the developer for the agreed upon cost of such facilities; provided that the total reimbursement by SASD to all developers under this program in any year may not exceed funds available for payment of such reimbursements. In lieu of receiving such reimbursement in the form of a payment from SASD, developers may elect to use the reimbursable amount as a credit against sewer impact fees that they would otherwise owe to SASD. Obligations to developers who have elected to apply their reimbursement to future sewer impact fees are reported as developer reimbursement payable on SASD's Statement of Net Position.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are stated at historical cost. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the basic financial statements. Any gain or loss from the retirement or disposal of an asset is reflected in the statements of revenues, expenses, and changes in net position for the period. Depreciation/amortization is provided on each asset using the straight-line method over the following estimated useful lives:

Software	5 years
Equipment	5 to 35 years
Structures and improvements	40 to 100 years

The SASD policy is to capitalize all land and to capitalize all other assets with a cost greater than \$20,000 and a useful life of more than one year. The exception is light vehicles and software, which has a capitalization threshold of \$15,000 and \$100,000 respectively.

Maintenance and repairs are charged to expense as incurred. Significant additions or improvements are capitalized and depreciated/amortized over their estimated useful lives. Costs incurred for major improvements or construction of assets is carried in construction in progress until the project is completed, at which time costs related to the project are capitalized in the appropriate asset account. Contributed capital that are received from developers are recorded at acquisition value.

Pensions

SASD participates in the County of Sacramento’s Cost-Sharing Defined Benefit Pension Plan. For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Sacramento County Employees’ Retirement System (SCERS) and additions to/deductions from the SCERS’s fiduciary net position have been determined on the same basis as they are reported by SCERS. 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.

Deferred Inflows and Outflows of Resources

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

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents 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.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

SASD's labor force are employees of the County. SASD has a contractual obligation to reimburse the County for "all" costs related to SASD's labor force. Employees accrue vacation in varying amounts based on classification and length of service. Additionally, certain employees are allowed compensated time off in lieu of overtime compensation and/or working on holidays. Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to following years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits. Upon retirement, management employees have the option of receiving payment for one-half of accrued sick leave with the balance included in the calculation of retirement benefits. It is the policy of the County not to pay accumulated sick leave to employees who terminate prior to retirement. The liability for compensated absences earned through year-end, but not yet taken, is accrued in the accompanying financial statements. Compensated absences for the fiscal years ended June 30, 2019 and June 30, 2018 can be found in Note 4 on long-term obligations.

Budgetary Process

SASD prepares an annual operating and capital budget, which is approved and adopted by the SASD Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California state law does not require formal adoption of appropriated budgets for enterprise funds.

Risk Management

SASD participates in the County's self-insurance program. Annual premiums are based primarily on claims experience and are charged to expense when paid. During the past three fiscal years, there were no instances of settlements which exceeded insurance coverage and no significant reductions in insurance coverage. The following is a summary of the SASD's coverage:

- General and automobile liability - \$25 million limit per occurrence
- Workers' Compensation and Employer's Liability - \$5 million
- Pollution Liability - \$10 million limit per occurrence
- Property (All Risk) - \$1.5 billion limit per occurrence
- Property (Flood) - \$1.2 million limit per occurrence
- Earthquake - \$25 million limit per occurrence
- Boiler and machinery - \$100 million limit per occurrence
- Crime/Dishonesty/Forgery - \$15 million limit per occurrence
- Cyber Liability - \$5 million limit per occurrence

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. This statement did not have a material effect on the financial statements.

GASB Statement No. 88 - In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The additional disclosures required by this Statement can be found in Note 4 or Long-Term Obligations.

2. CASH EQUIVALENTS AND INVESTMENTS

SASD maintains specific cash deposits and investments with the County of Sacramento and participates in the Sacramento County Pooled Investment Fund. At June 30, 2019 and 2018, the carrying amount of SASD's cash and investments held in the fund was \$121,351,439 and \$111,188,818 respectively. The weighted average maturity of the Treasurer's cash and investment pool was 321 and 309 days at June 30, 2019 and 2018, respectively.

The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Section 27134 of the California Government Code. The pool is not registered with the SEC as an investment company.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

2. CASH EQUIVALENTS AND INVESTMENTS (Continued)

Government Code Section 53601 and the County Investment Policy lists the investments in which the Treasurer may purchase. These include bonds issued by the County; United States Treasury notes, bonds, bills or certificates of indebtedness; registered state warrants, supranational notes, treasury notes, or bonds of the State of California; registered treasury notes or bonds of any of the other 49 states in addition to California; bonds, notes, warrants or other forms of indebtedness of any local agency (Teeter Notes and Local Agency Investment Fund-LAIF) within California; obligations issued by banks for cooperatives, federal land banks, federal home loan banks, the Federal Home Loan Bank Board or other instruments of, or issued by, a federal agency or United States, government sponsored enterprise; money market mutual funds (not to exceed 20 percent of the total portfolio); bankers acceptances (not over 180 days maturity, not to exceed 40 percent of the total portfolio); commercial paper (not to exceed 40 percent of total portfolio) of "prime quality" (the highest ranking provided by either Moody's investor services or Standard and Poor's Corporation) and these investments are further restricted as to capacity and credit rating of the company and are restricted as to a percentage of the whole portfolio and the dollar-weighted average maturity is also restricted; negotiable certificates of deposit issued by approved banks, not to exceed 30 percent of the total portfolio; repurchase and reverse repurchase agreements are permitted investments but are subject to stringent rules regarding term, value and timing, all put in place to minimize risk of loss; medium term notes, carry a maturity of no more than five years and rated "A" or better by a nationally recognized rating service, not to exceed 30 percent of the portfolio; shares of beneficial interest issued by a diversified management company subject certain limitations; notes, bonds and other obligations that are at all times secured by a valid first priority security interest in securities of the types listed in Government Code Section 53651; mortgage pass-through securities and other mortgage and consumer receivable backed bonds, not to exceed maturity of five years, subject to the credit rating of the issuer and not to exceed 20 percent of the portfolio; shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized previously.

In addition to the restrictions and guidelines cited in the Government Code, the County Board of Supervisors annually adopts an "Annual Investment Policy for the Pooled Investment Fund" (Investment Policy). The Investment Policy is prepared by the Department of Finance and is based on criteria cited in the Government Code. The Investment Policy adds further specificity to investments permitted, reducing concentration within most permitted investment types and reducing concentration of investments with any broker, dealer or issuer.

The County was in full compliance with its own more restrictive Investment Policy, and therefore was also in compliance with the above cited Government Code sections.

The District does not have a separate deposit or investment policy that addresses a specific type of risk. Investments held in the County's investment pool are available on demand and are report at amortized cost, which approximates fair value.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

2. CASH EQUIVALENTS AND INVESTMENTS (Continued)

The County of Sacramento, acting in a fiduciary capacity, segregates and invests the Financing Authority's bond proceeds in accordance with long-term obligation covenants.

At June 30, 2019 and 2018, all cash held by fiscal agents was covered by federal depository insurance or by collateral held by the County's financial institutions in the County's name.

Restricted cash and investments consist of the following at June 30, 2019 and 2018:

	2019	2018
Restricted proceeds from debt issues held by:		
County Treasurer's cash and investment pool	\$ 5,472,124	\$ 5,433,724
Investments held by County as Fiscal Agent	717	160
Total restricted cash and investments	\$ 5,472,841	\$ 5,433,884

Investment of debt proceeds held by the bond trustee is governed by provisions of the debt agreements rather than the general provisions of the California Government Code or SASD's investment policy. The following tables identify the investment types that are authorized for investments held by bond trustee, identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
U.S. dollar denominate deposit accounts, federal funds and bankers' acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Fund	None	None	None
Municipal Obligations	None	None	None
County of Sacramento Pooled Investment Fund	None	None	None
Investment Agreements	None	None	None

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

2. CASH EQUIVALENTS AND INVESTMENTS (Continued)

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 its fair value is to changes in market interest rates. SASD's investments held by bond trustees are monitored for interest rate risk by measuring the weighted average maturity.

Investment Type	Amount at June 30, 2019	Weighted Average Maturity (in years)	Amount at June 30, 2018	Weighted Average Maturity (in years)
County Treasurer's cash and investment pool	\$5,472,124	0.88	\$5,433,724	0.85
Held by Bond Trustee:				
Money Market Mutual Funds	<u>717</u>	0.00	<u>160</u>	0.00
Total	<u>\$5,472,841</u>		<u>\$5,433,884</u>	

Credit Risk

This is the risk than an issuer or other counterparty to a debt instrument will not fulfill its obligations. SASD is permitted to hold investments of issuers with a short-term rating of superior capacity and a minimum long-term rating of upper medium grade by the top two nationally recognized statistical rating organizations (rating agencies). For short-term rating, the issuers' rating must be A-1 and P-1 and the long-term rating must be A and A2, respectively, by Standard & Poor's and Moody's rating agencies. In addition, SASD is permitted to invest in the State's Local Agency Investment Fund, collateralized certificate of deposits and notes issued by the County that are not rated.

Investment Type	Amount at June 30, 2019	Ratings as of June 30, 2019	Amount at June 30, 2018	Ratings as of June 30, 2018
Held by Bond Trustee:				
Mutual Funds	<u>\$ 717</u>	Aaa/AAA	<u>\$ 160</u>	Aaa/AAA

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

2. CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk

This is the risk that in the event a financial institution or counterparty fails, SASD would not be able to recover the value of its deposits and investments. As of June 30, 2019 and 2018, one hundred percent of SASD's investments are held in the County's name. SASD does not have a policy for custodial credit risk.

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the SASD has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the SASDs' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the SASDs' own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Deposits and withdrawals in governmental investment pools, such as the County's Investment Pool are made on the basis of \$1 and not fair value. Accordingly, SASD's proportionate share in this type of investment is an uncategorized input not defined as a Level 1, Level 2, or Level 2 input.

SASD's investments in money market mutual funds are carried at amortized costs.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

3. CAPITAL ASSETS

Capital assets activity for the fiscal years ended June 30, 2019 and 2018 were as follows:

	<u>July 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2019</u>
Capital assets not being depreciated:				
Land	\$ 9,272,842	\$ 4,145	\$ -	\$ 9,276,987
Construction in progress	95,156,359	17,406,284	(1,049,586)	111,513,057
Total capital assets not being depreciated	<u>104,429,201</u>	<u>17,410,429</u>	<u>(1,049,586)</u>	<u>120,790,044</u>
Capital assets being depreciated:				
Structures and improvements	1,297,290,612	28,795,058	(1,276,069)	1,324,809,601
Equipment	16,321,707	11,232,044	(1,261,553)	26,292,198
Software	2,814,071	-	-	2,814,071
Total capital assets being depreciated	<u>1,316,426,390</u>	<u>40,027,102</u>	<u>(2,537,622)</u>	<u>1,353,915,870</u>
Less accumulated depreciation:				
Structures and improvements	(533,565,957)	(35,162,877)	1,557,383	(567,171,451)
Equipment	(6,950,653)	(6,487,267)	152,879	(13,285,041)
Software	(2,428,131)	(192,969)	-	(2,621,100)
Total accumulated depreciation	<u>(542,944,741)</u>	<u>(41,843,113)</u>	<u>1,710,262</u>	<u>(583,077,592)</u>
Total capital assets being depreciated, net	<u>773,481,649</u>	<u>(1,816,011)</u>	<u>(827,360)</u>	<u>770,838,278</u>
Net capital assets	<u>\$ 877,910,850</u>	<u>\$ 15,594,418</u>	<u>\$ (1,876,946)</u>	<u>\$ 891,628,322</u>
	<u>July 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2018</u>
Capital assets not being depreciated:				
Land	\$ 9,272,842	\$ -	\$ -	\$ 9,272,842
Construction in progress	70,016,542	29,722,278	(4,582,461)	95,156,359
Total capital assets not being depreciated	<u>79,289,384</u>	<u>29,722,278</u>	<u>(4,582,461)</u>	<u>104,429,201</u>
Capital assets being depreciated:				
Structures and improvements	1,290,440,997	7,893,989	(1,044,374)	1,297,290,612
Equipment	13,937,816	2,573,386	(189,495)	16,321,707
Software	2,814,071	-	-	2,814,071
Total capital assets being depreciated	<u>1,307,192,884</u>	<u>10,467,375</u>	<u>(1,233,869)</u>	<u>1,316,426,390</u>
Less accumulated depreciation:				
Structures and improvements	(499,356,451)	(35,255,048)	1,045,542	(533,565,957)
Equipment	(5,817,859)	(1,184,991)	52,197	(6,950,653)
Software	(2,235,163)	(192,968)	-	(2,428,131)
Total accumulated depreciation	<u>(507,409,473)</u>	<u>(36,633,007)</u>	<u>1,097,739</u>	<u>(542,944,741)</u>
Total capital assets being depreciated, net	<u>799,783,412</u>	<u>(26,165,632)</u>	<u>(136,130)</u>	<u>773,481,649</u>
Net capital assets	<u>\$ 879,072,795</u>	<u>\$ 3,556,646</u>	<u>\$ (4,718,591)</u>	<u>\$ 877,910,850</u>

Depreciation and amortization expense is included in the statements of revenues, expenses, and change in net position for fiscal years ended June 30, 2019, and 2018 totaled \$36,679,040 and \$36,633,007

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

4. LONG-TERM OBLIGATIONS

The Financing Authority issued the 2015 Series Revenue Bonds, 2010 Series Revenue Bonds and the 2005 Series Revenue Bonds which are reported in the Financing Authority's financial statements. SASD and the Financing Authority entered into a master installment agreement. SASD makes loan payments to the Financing Authority on the 2015 Series Refunding Bonds and 2010 Series Revenue Bonds.

2015 Series Revenue Bonds

In May 2015, the Financing Authority issued \$45,435,000 Revenue Bonds, Refunding Series 2015 Bonds. The bonds mature serially from August 2025 through August 2035. Interest rates for the bonds range from 3.125% to 5.000%, principal payments ranging from \$3,260,000 to \$5,115,000 with the first payment starting in 2025 and ending in 2035. Proceeds from this debt issuance along with \$70.3 million paid with cash on hand were used to refund the Authority's outstanding Revenue Bonds Series 2005, and prepay SASD's loan payable due to the Authority totaling \$130,555,000.

2010 Series Revenue Bonds

In August 2010, the Financing Authority issued \$110,690,000 Revenue Bonds, Series 2010A Federally Taxable Direct Subsidy Build America Bonds and \$15,930,000 Revenue Bonds, Series 2010B. The bonds mature serially from August 2011 through August 2040. Interest rates for the Series A Bonds range from 6.125% to 6.325%, principal payments ranging from \$1,440,000 to \$16,175,000 with the first payment starting in 2026 and ending in 2040. Interest rates for the Series B Bonds range from 2.5% to 5.0%, principal payments ranging from \$820,000 to \$1,385,000 with the first payment starting in 2011 and ending in 2025. The proceeds were used to finance improvements to the collection system to reduce or eliminate potential sewer overflows, serve new growth, and to purchase capital improvements completed by Regional San.

The Series 2010 and Series 2015 Bonds are special, limited obligations of the Financing Authority and are not secured by a legal or equitable pledge, or charge or lien upon, any property of the Financing Authority or any of its income or receipts except the Financing Authority revenues. Neither the payment of the interest on or principal of or redemption premiums, if any, on the Series 2010 and 2015 Bonds constitutes a debt, liability or obligation of the Financing Authority or any member of the Financing Authority (including SASD) for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

4. LONG-TERM OBLIGATIONS (Continued)

Maturity Schedule

Future debt service requirements on bonds as of June 30, 2019 are as follows:

Fiscal years ending June 30:	Principal	Interest	Total
2020	\$ 1,085,000	\$ 9,380,859	\$ 10,465,859
2021	1,130,000	9,330,909	10,460,909
2022	1,180,000	9,279,059	10,459,059
2023	1,230,000	9,230,859	10,460,859
2024	1,275,000	9,180,759	10,455,759
2025-2029	21,285,000	43,597,455	64,882,455
2030-2034	40,930,000	36,094,798	77,024,798
2035-2039	64,935,000	20,846,344	85,781,344
2040-2041	31,695,000	2,025,423	33,720,423
	<u>\$ 164,745,000</u>	<u>\$ 148,966,465</u>	<u>\$ 313,711,465</u>

Pursuant to the Indenture with the County and Union Bank of California, N.A., as trustee, and the Master Installment Purchase Contract between the Financing Authority and SASD, SASD is required to faithfully perform and abide by all of the covenants, undertakings, and provisions of the above agreement so long as any of the bonds are outstanding. Specific covenants include the following:

- Punctual payment of interest and principal will be made when due.
- Proceeds of the bonds will be used by SASD, as agent for the Financing Authority, to pay the costs of financing the acquisition and construction (together with the incidental costs and expenses related thereto) of the Projects approved by the Board of Directors.
- Rates, fees, and charges will be fixed and collected at least sufficient to yield adjusted annual net revenues, as defined, equal to at least the amount required by the coverage requirement for the fiscal year.

For the fiscal years ended 2019 and 2018, SASD was in compliance with the preceding covenants.

The debt issued by the Financing Authority are not secured by a legal or equitable pledge, or charge or lien upon, any property of the Financing Authority or any of its income or receipts except the Financing Authority's revenues. Neither the payment of the interest on or principal of or redemption premiums, if any constitutes a debt, liability or obligation of the Financing Authority or any member of the Financing Authority (including SASD) for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

4. LONG-TERM OBLIGATIONS (Continued)

Changes in long-term obligations for the years ended June 30, 2019 and 2018 were as follows:

	Balance July 1, 2018	Increase	Decrease	Balance June 30, 2019	Due Within One Year
Loan Payable to Financing Authority					
Revenue Bonds	\$ 165,775,000	\$ -	\$ (1,030,000)	\$ 164,745,000	\$ 1,085,000
Plus premium	6,385,835	-	(345,155)	6,040,680	345,155
Compensated absences	2,624,959	540,088	(393,744)	2,771,303	415,695
	<u>\$ 174,785,794</u>	<u>\$ 540,088</u>	<u>\$ (1,768,899)</u>	<u>\$ 173,556,983</u>	<u>\$ 1,845,850</u>
	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018	Due Within One Year
Loan Payable to Financing Authority					
Revenue Bonds	\$ 166,765,000	\$ -	\$ (990,000)	\$ 165,775,000	\$ 1,030,000
Plus premium	6,730,990	-	(345,155)	6,385,835	345,155
Compensated absences	2,540,890	465,202	(381,133)	2,624,959	393,744
	<u>\$ 176,036,880</u>	<u>\$ 465,202</u>	<u>\$ (1,716,288)</u>	<u>\$ 174,785,794</u>	<u>\$ 1,768,899</u>

5. RELATED PARTY TRANSACTIONS

For fiscal years 2018-19 and 2017-18, the County paid SASD \$2,516,971 and \$1,502,928, respectively, for interest earned on Treasury deposits. SASD's labor force are employees of the County and SASD uses other County departments for other services, such as risk management, engineering, accounting, utility billing, etc. Expenses paid to the County during fiscal years 2018-19 and 2017-18 were \$55,394,265 and \$54,084,598 respectively.

In addition, for fiscal years 2018-19 and 2017-18, SASD paid the Financing Authority \$10,458,307 and \$10,102,204, respectively for debt service.

6. COMMITMENTS AND CONTINGENCIES

SASD has entered into contracts for the construction of certain projects. At June 30, 2019 and 2018, the unexpended balance of the contract commitments was \$8,822,307 and \$6,577,439, respectively.

SASD is a defendant in various matters of litigation. Of these matters, management and the SASD's legal counsel do not anticipate any material effect on the June 30, 2019 and 2018 basic financial statements.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

7. POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

SASD's labor force are employees of the County, which provides medical and dental insurance, and subsidy/offset payments as authorized by the Board of Supervisors on an annual basis. The County has established a Retiree Healthcare Plan (HC Plan) and participates in a single-employer plan and it does not issue a publicly available report. In September 2018 and September 2017, the Board of Supervisors approved the Retiree Medical and Dental Insurance Program Administrative Policy for calendar years 2019 and 2018, respectively.

The County provides access to group medical insurance and dental insurance, medical and dental offset payments to a specific group of eligible retirees as a result of a settlement. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75. For financial reporting purposes, SASD reports a proportionate share of the County's collective total Other Post-Employment Benefits (OPEB) liability, OPEB expense, and deferred inflows and outflows. Accordingly, the disclosures and required supplementary information have been reported for SASD as a cost sharing participant.

Benefits Provided

All annuitants are eligible to enroll in a retiree medical and/or dental insurance plan in a given calendar year if (1) they began receiving a continuing retirement allowance from SCERS during that calendar year, or (2) they were enrolled in the annual plan previously approved by the County (continuous coverage), or (3) they previously waived coverage but elected to enroll during the County authorized enrollment period with a coverage date effective January of the given calendar year. Total benefits paid by SASD during the year ended June 30, 2019 and 2018 is \$158,902 and \$143,165 respectively.

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

SASD reported a liability of \$3,908,774 and \$3,753,160 for its proportionate share of the total OPEB liability as of June 30, 2019 and 2018, respectively. At June 30, 2019, the total OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the OPEB liability was determined by actuarial valuations as of the same dates. SASD's proportion of the total OPEB liability was based on the total full-time equivalents (FTE) of SASD relative to the total FTEs of the County. At June 30, 2019 and 2018, SASD's proportion was 2.44 and 2.48 percent, respectively.

For the year ended June 30, 2019 and 2018, SASD recognized OPEB expense of \$222,118 and \$252,362 respectively.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

7. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

At June 30, 2019, SASD reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ (259,427)
Changes in proportion	-	(45,075)
Contributions subsequent to the measurement date	158,902	-
Total	<u>\$ 158,902</u>	<u>\$ (304,502)</u>

At June 30, 2018, SASD reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to measurement date	\$ 141,206	\$ -
Changes in assumptions	-	(220,302)
Total	<u>\$ 141,206</u>	<u>\$ (220,302)</u>

For the year ended June 30, 2019, \$158,902 was reported as deferred outflows of resources related to OPEB resulting from amounts paid by SASD subsequent to the measurement date and will be recognized as a reduction of the total OPEB liability during the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30</u>	
2020	\$ (47,868)
2021	(47,868)
2022	(47,868)
2023	(47,868)
2024	(47,868)
2025-2026	<u>(65,162)</u>
Total	<u>\$ (304,502)</u>

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

7. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Valuation Date	June 30, 2018 and 2017
Discount Rate	3.87% at June 30, 2018 (Bond Buyer 20-Bond GO Index) 3.58% at June 30, 2017 (Bond Buyer 20-Bond GO Index)
Inflation	2.75%
Medical Trend	7.50%, decreasing to an ultimate rate of 4.00%
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2017
Salary Increase	3%
Healthcare Participation	45%

Discount Rate

The discount rate used to measure the total OPEB liability was 3.87 and 3.58 percent for the June 30, 2018 and 2017 valuation date, respectively and was based on the Bond Buyer 20-Bond GO Index.

Sensitivity of SASD's Proportionate Share of the County's Net OPEB Liability to Changes in the Discount Rate

The following presents SASD's proportionate share of the total OPEB liability as of June 30, 2019, as well as what SASD's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current discount rate:

	1% Decrease <u>(2.87%)</u>	Discount Rate <u>(3.87%)</u>	1% Increase <u>(4.87%)</u>
Total OPEB Liability	\$ 4,204,943	\$ 3,908,774	\$ 3,628,324

The following presents SASD's proportionate share of the total OPEB liability as of June 30, 2018, as well as what SASD's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current rate at June 30, 2018:

	<u>(2.58%)</u>	<u>(3.58%)</u>	<u>(4.58%)</u>
Total OPEB Liability	\$ 4,036,440	\$ 3,753,160	\$ 3,483,467

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

7. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Sensitivity of SASD’s Proportionate Share of the Total OPEB liability to Changes in the Healthcare Cost Trend Rates

The following presents SASD's proportionate share of the total OPEB liability as of June 30, 2019, as well as what SASD's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.5% decreasing to 3.0% in 2076)	Discount Rate (7.5% decreasing to 4.0% in 2076)	1% Increase (8.5% decreasing to 5.0% in 2076)
Total OPEB Liability	\$ 3,459,423	\$ 3,908,774	\$ 4,436,305

The following presents SASD’s proportionate share of the total OPEB liability as of June 30, 2018, as well as what SASD’s proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.5% decreasing to 3.0% in 2076)	Discount Rate (7.5% decreasing to 4.0% in 2076)	1% Increase (8.5% decreasing to 5.0% in 2076)
Total OPEB Liability	\$ 3,342,807	\$ 3,753,160	\$ 4,233,162

8. NET PENSION LIABILITY

Plan Description

Employees of SASD participate in the County of Sacramento’s (County) cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the Sacramento County Employees Retirement System (SCERS). The Plan is governed by the Sacramento Board of Retirement (Board) under the California County Employees’ Retirement Law of 1937 (CERL) and the California Public Employees’ Pension Reform Act of 2013 (PEPRA). The Plan’s authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of Sacramento Board of Supervisors and/or the SCERS Board. SCERS issues a stand-alone financial report, which may be obtained by contacting Sacramento County Employees’ Retirement System, 980 9th Street, Suite 1900 Sacramento, CA 95814.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

8. NET PENSION LIABILITY (Continued)

Benefits Provided

SCERS provides service retirement, disability, death and survivor benefits to eligible employees. All permanent full-time or part-time employees of the County of Sacramento or contracting districts become members of SCERS upon employment. There are separate retirement cost pools for Safety and Miscellaneous member employees. Safety membership is extended to those involved in active law enforcement, fire suppression, and certain other classifications. All other employees, including SASD's employees, are classified as Miscellaneous members. There are five tiers applicable to Miscellaneous members. Those hired prior to September 27, 1981 are included in Tier 1. Those hired after September 27, 1981 but prior to January 1, 2012 are included in Tier 2 or Tier 3 depending on date of hire and bargaining unit. County members hired after January 1, 2012 but prior to January 1, 2013 are included in Tier 4. New members hired on or after January 1, 2013 are designated as PEPRA Miscellaneous (Tier 5) and are subject to the provisions of California Government Code 7522 et seq. and AB 197.

Miscellaneous members hired prior to January 1, 2013, are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. Miscellaneous members who are first hired on or after January 1, 2013, are eligible to retire once they have attained the age of 52, and have acquired five years of retirement service credit.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

Miscellaneous member benefits for Tier 1, Tier 2 and Tier 3 are calculated pursuant to the provisions of California Government Code Section 31676.14. Miscellaneous member benefits for Tier 4 are calculated pursuant to the provisions of California Government Code Section 31676.1. The monthly allowance is equal to 1/90th of the first \$350 of final compensation, plus 1/60th of the excess final compensation times years of accrued retirement service credit times age factor from either Section 31676.14 (Tier 1, Tier 2 and Tier 3) or Section 31676.1 (Tier 4). Miscellaneous member benefits for those who are first hired on or after January 1, 2013, are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

For members with membership dates before January 1, 2013, the maximum monthly retirement allowance is 100% of final compensation. There is no maximum for members with membership dates on or after January 1, 2013. Final average compensation consists of the highest 12 consecutive months for a Tier 1 Safety or Tier 1 Miscellaneous member and the highest 36 consecutive months for a Tier 2, Tier 3, Tier 4 or Tier 5 member.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

8. NET PENSION LIABILITY (Continued)

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse. An eligible surviving spouse is one married to the member one year prior to the effective retirement date. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse or named beneficiary having an insurable interest in the life of the member.

SCERS provides an annual cost-of-living benefit to Safety Tier 1, Tier 2, Tier 3 and Tier 4 member retirees and Miscellaneous Tier 1, Tier 3, Tier 4 and Tier 5 member retirees. The cost-of-living adjustment, based upon the Consumer Price Index for the San Francisco-Oakland-San Jose area, is capped at 4% for Tier 1 members and 2% for all other members eligible for a cost-of-living adjustment.

Contributions

Participating employers and active members (i.e. County), including SASD, are required by statute to contribute a percentage of covered salary to the Plan. Contributions to the Plan are made pursuant to Section 31584 of the County Employees Retirement Law of 1937. The Plan's funding policy provides for periodic contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when legally due. Each employer of the Plan is obligated by state law to make all required contributions to the plan and depending on the participating employer and their employees' tiers. The average contribution rate was 17.42% of covered payroll for the year ending June 30, 2019 and 14.95% of covered payroll for the year ending June 30, 2018. SASD's proportionate share of the County's contribution to the Plan was \$4,045,247 and \$3,386,565 for the years ended June 30, 2019 and June 30, 2018, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

SASD reported a liability of \$31,100,165 and \$34,519,914 for its proportionate share of the County's net pension liability at June 30, 2019 and June 30, 2018 respectively. The net pension liability was measured as of June 30, 2018 and June 30, 2017 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. SASD's proportion of the County's net pension liability was based on SASD's fiscal year 2018 and 2017 actual contributions to the County's pension plan relative to the total contributions of the County as a whole. At June 30, 2018, SASD's proportion was 1.59 percent which was a decrease of 0.06 from its proportionate share measured as of June 30, 2017. At June 30, 2017, SASD's proportion was 1.65 percent.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

8. NET PENSION LIABILITY (Continued)

SASD recognized pension expense of \$6,289,261 and \$6,200,821 for the year ended June 30, 2019 and June 30 2018 respectively. At June 30, 2019, SASD reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 6,866	\$ 687,161
Changes in assumptions	7,664,353	216,982
Net differences between projected and actual earnings on plan investments	-	2,112,858
Changes in proportion and differences between employer contributions and proportionate share of contributions	164,251	353,795
Employer contributions paid by the District to County subsequent to the measurement date	4,045,247	-
Total	\$ 11,880,717	\$ 3,370,796

The \$4,045,247 reported as deferred outflows of resources related to pension, resulting from SASD's contributions to the County's plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

At June 30, 2018, SASD reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 1,453,324
Changes in assumptions	10,689,135	184,222
Net differences between projected and actual earnings on plan investments	1,766,920	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	284,600	319,006
Employer contributions paid by the District to County subsequent to the measurement date	3,386,565	-
Total	\$ 16,127,220	\$ 1,956,552

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

8. NET PENSION LIABILITY (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to SASD’s proportion of the County’s pension plan will be recognized in pension expense as follows:

<u>Year ended June 30</u>	
2020	\$ 1,150,689
2021	1,150,689
2022	1,150,689
2023	<u>1,012,607</u>
Total	<u>\$ 4,464,674</u>

Actuarial Assumptions – SASD’s proportion of the County’s total pension liability in the June 30, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions applied to all periods included in the measurement:

June 30, 2019	
Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry-Age actuarial cost method
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Inflation	3.00%
Projected Salary increases	Miscellaneous: 4.50% to 8.25%
Cost of Living Adjustments	See below
June 30, 2018	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry-Age actuarial cost method
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Inflation	3.00%
Projected Salary increases	Miscellaneous: 4.50% to 11.50%.
Cost of Living Adjustments	See below

Cost of living adjustments for Miscellaneous Tier 1 benefits are assumed to increase at 3.00% per year, Miscellaneous Tier 3, Tier 4, and Tier 5 benefits are assumed to increase at 2.00% per year and Miscellaneous Tier 2 receives no COLA increase for the actuarial valuation dated June 30, 2019 and 2018.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

8. NET PENSION LIABILITY (Continued)

Mortality rates used in the actuarial valuation dated June 30, 2018 are based on Headcount-Weighted RP-2014 with the two-dimensional scale MP-2016. For healthy Miscellaneous members, the ages are set forward one year for males and no age adjustment for females. For Miscellaneous members that are disabled, the ages are set forward seven years for males and set forward eight years for females. Mortality rates used in the actuarial valuation dated June 30, 2017 are based on the RP-2000 Combined Healthy mortality table projected with Scale BB to 2022. For healthy Miscellaneous members, no adjustments are made. For Miscellaneous members that are disabled, the ages are set forward three years for females.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the three-year period of July 1, 2013 through June 30, 2016. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the three-year period of July 1, 2010 through June 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

8. NET PENSION LIABILITY (Continued)

The target allocation and projected arithmetic real rates of return for each major asset class used in the derivation of the long-term expected investment rate of return assumption, measured as of June 30, 2018 are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
U.S. Large Cap Equity	17.00%	5.61%
U.S. Small Cap Equity	4.00%	6.37%
International Developed Equity	16.00%	6.96%
Emerging Markets Equity	4.00%	9.28%
High Yield Bonds	1.00%	3.65%
Bank Loans	1.00%	2.96%
Growth Oriented Abs. Return	3.00%	4.97%
Private Equity	9.00%	8.70%
Private Credit/Private Debt	4.00%	5.10%
Core/Core Plus Bonds	10.00%	1.06%
Global Bonds	3.00%	0.07%
U.S. Treasury	5.00%	0.16%
Diversifying Abs. Return	7.00%	3.04%
Private Real Estate	7.00%	4.37%
Private Assets	7.00%	7.74%
Commodities	2.00%	3.76%
Total	<u>100.00%</u>	

Change of Assumptions

For the measurement period ended June 30, 2017, the discount rate was reduced from 7.5 percent to 7.0 percent.

Discount Rate – The discount rates used to measure the total pension liability (TPL) was 7.00% as of June 30, 2018 and 2017, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension Plan’s Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2018 and 2017.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

8. NET PENSION LIABILITY (Continued)

Sensitivity of SASD’s Proportionate Share of the County’s Net Pension Liability to Changes in the Discount Rate

The following table presents SASD’s proportionate share of the County’s net pension liability calculated using the discount rate of 7.00% for the year ending June 30, 2019 and 2018 respectively, as well as what SASD’s proportionate share of the County’s 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 at June 30, 2019 and 2018.

SASD’s proportionate share of the County’s net pension liability

Year Ending June 30	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% increase (8.00%)
2019	\$55,989,389	\$31,100,165	\$ 10,767,558
2018	\$59,451,142	\$34,519,914	\$ 14,169,754

Pension Plan Fiduciary Net Position

Detailed information about the County’s collective net pension liability is available in the County’s separately issued Comprehensive Annual Financial Report (CAFR). The County of Sacramento’s financial statements may be obtained on the internet at <http://www.finance.saccounty.net/AuditorController/Pages/AcctGeneral.aspx>.

Detailed information about the SCERS's fiduciary net position is available in a separately issued SCERS comprehensive annual financial report. That report may be obtained on the Internet at www.retirement.saccounty.net/Pages/FinancialInformation.aspx.

9. FUTURE 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 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. SASD is currently evaluating the effect of this standard on the financial statements.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

9. FUTURE GASB PRONOUNCEMENTS (Continued)

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 by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. SASD is currently evaluating the effect of this standard on the financial statements.

GASB Statement No 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statement No. 14 and No. 61*. The primary 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. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. SASD is currently evaluating the effect of this standard on the financial statements.

GASB Statement No 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. SASD is currently evaluating the effect of this standard on the financial statements.

SACRAMENTO AREA SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018

10. SUBSEQUENT EVENTS

Sale of Bond-Waterman Road Property

In August 2019, the Bond-Waterman Road property was sold for \$7,670,671. This property was a parcel of land owned by SASD (approximately 226 acres) located northwest from the intersection of Bond Road and Waterman Road and within the city limits of Elk Grove. The property has been owned by a sanitation district since 1944, when it was purchased for the newly formed Elk Grove Sanitation District.

SACRAMENTO AREA SEWER DISTRICT
Sacramento, California

Required Supplementary Information

For the Fiscal Years Ended June 30, 2019 and 2018

SACRAMENTO AREA SEWER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the County's Net Pension Liability

	Last Ten Years ^(1, 2)				
	Fiscal Year				
	2019	2018	2017	2016	2015
SASD's proportion of the County's net pension liability	1.59%	1.65%	1.82%	1.68%	1.52%
SASD's proportionate share of the County's net pension liability	\$ 31,100,165	\$ 34,519,914	\$ 29,458,678	\$ 18,033,285	\$ 10,967,925
SASD's covered payroll	\$ 22,658,201	\$ 22,094,720	\$ 21,248,598	\$ 20,449,918	\$ 19,736,202
SASD's proportionate share of the net pension liability as a percentage of its covered payroll	137.26%	156.24%	138.71%	88.18%	55.57%
Plan's fiduciary net position as a percentage of the total pension liability	82.51%	80.37%	81.40%	87.26%	89.82%
Measurement date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014

Notes to Schedule:

(1) Fiscal year 2015 was the first year of implementation; therefore, only five years are shown.

(2) Changes in assumptions: In the measurement period ended June 30, 2017, the discount rate changed from 7.5% to 7.0%

SACRAMENTO AREA SEWER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Pension Contributions					
	Last Ten Years ⁽¹⁾				
	Fiscal Year				
	2019	2018	2017	2016	2015
Actuarially determined contributions	\$ 4,045,247	\$ 3,386,565	\$ 3,533,121	\$ 3,721,700	\$ 4,266,231
Contributions in relation to the actuarially determined contribution	<u>(4,045,247)</u>	<u>(3,386,565)</u>	<u>(3,533,121)</u>	<u>(3,721,700)</u>	<u>(4,266,231)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SASD's covered payroll	\$ 23,225,878	\$ 22,658,201	\$ 22,094,720	\$ 21,248,598	\$ 20,449,918
Contributions as a percentage of covered payroll	17.42%	14.95%	15.99%	17.52%	20.86%

Notes to Schedule:

(1) Fiscal year 2015 was the first year of implementation; therefore, only five years are shown.

SACRAMENTO AREA SEWER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the County's OPEB Liability		
Last Ten Years ⁽¹⁾		
	Fiscal Year	
	2019	2018
SASD's proportion of the County's OPEB liability	2.44%	2.48%
SASD's proportionate share of the County's OPEB liability	\$ 3,908,774	\$ 3,753,160
SASD's covered payroll	\$ 26,271,593	\$ 25,904,577
SASD's proportionate share of the OPEB liability as a percentage of its covered employee payroll	14.88%	14.49%
Measurement date	June 30, 2018	June 30, 2017

Notes to Schedule:

(1) Fiscal year 2018 was the first year of implementation; therefore, only two years are shown.

SACRAMENTO AREA SEWER DISTRICT
Sacramento, California

Statistical Section

For the Fiscal Years Ended June 30, 2019 and 2018



Intentionally Blank

SACRAMENTO AREA SEWER DISTRICT

Index to Statistical Section

This part of the Sacramento Area Sewer District's (SASD) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about SASD's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how SASD's financial performance has changed over time:

- Net Position by Component – Fiscal Years 2009-2010 through 2018-2019
- Changes in Net Position - Fiscal Years 2009-2010 through 2018-2019
- Operating Revenues by Source - Fiscal Years 2009-2010 through 2018-2019
- Operating Expenses - Fiscal Years 2009-2010 through 2018-2019
- Nonoperating Revenues and Expenses - Fiscal Years 2009-2010 through 2018-2019
- Capital Contributions - Fiscal Years 2009-2010 through 2018-2019

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting SASD's ability to generate its sewer service fees:

- Wastewater Collected and Conveyed - Fiscal Years 2009-2010 through 2018-2019
- Number of Customers by Type - Fiscal Years 2009-2010 through 2018-2019
- Sewer Rates - Fiscal Years 2009-2010 through 2018-2019
- Ten Largest Customers – Current Year and Nine Years ago

Debt Capacity

These schedules present information to help the reader assess the affordability of the SASD's current level of outstanding debt and its ability to issue additional debt in the future:

- Pledged Revenue Coverage - Fiscal Years 2009-2010 through 2018-2019
- Net Ratios of Outstanding Debt by Type - Fiscal Years 2009-2010 through 2018-2019

Demographic and Economic Information

These schedules present demographic and economic indicators to help the reader understand the environment within which SASD's financial activities take place:

- Demographic and Economic Statistics - Fiscal Years 2009-2010 through 2018-2019
- Private Sector Principal Employers – Current Year and Nine Years ago

Operating Information

These schedules contain service and infrastructure information to help the reader understand how the information in the financial report relates to the services that SASD provides and the activities it performs:

- Number of Employees by Identifiable Activity - Fiscal Years 2009-2010 through 2018-2019
- Operating and Capital Indicators - Fiscal Years 2009-2010 through 2018-2019

SACRAMENTO AREA SEWER DISTRICT

Net Position by Component

Fiscal Years 2009-2010 through 2018-2019
Schedule 1

Fiscal Year	Net Investment in Capital Assets	Restricted		Unrestricted	Total Net Position
		Capital Construction	Debt Service		
2019	\$ 720,842,643	\$ -	\$ 5,523,153	\$ 59,433,559	\$ 785,799,355
2018 ³	705,750,015	-	5,514,083	47,622,759	758,886,857
2017	705,507,970	-	5,464,307	61,958,162	772,930,439
2016	709,835,026	-	4,859,404	58,326,786	773,021,216
2015 ²	703,208,279	-	4,616,224	46,534,443	754,358,946
2014	635,140,183	-	10,531,501	123,749,911	769,421,595
2013	624,118,669	999,589	10,917,186	115,392,862	751,428,306
2012 ¹	632,622,714	1,100,748	10,661,071	98,326,197	742,710,730
2011 ¹	669,164,254	372,573	10,730,881	46,777,902	727,045,610
2010	651,455,187	2,911,431	14,186,289	15,466,826	684,019,733

Note¹: Fiscal Year 2011 and 2012 have been revised in accordance with the implementation guidance in GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Prior years have not been restated as permitted by the standard.

Note²: Fiscal year 2015 beginning net position has been revised in accordance with the implementation guidance in GASB Statement No. 68, *Financial Reporting for Pensions*. Prior years have not been restated as permitted by the standard.

Note³: Fiscal year 2018 beginning net position has been revised in accordance with the implementation guidance in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Prior years have not been restated as permitted by the standard.

SACRAMENTO AREA SEWER DISTRICT

Changes in Net Position

Fiscal Years 2009-2010 through 2018-2019 Schedule 2

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income (Loss)	Nonoperating Revenues (Expenses)	Capital Contributions	Change in Net Position	Beginning Net Position	Ending Net Position
2019	\$ 110,144,594	\$ 110,386,844	\$ (242,251)	\$ (6,598,022)	\$ 33,752,770	\$ 26,912,498	\$ 758,886,857	\$ 785,799,355
2018 ³	100,259,354	113,339,809	(13,080,455)	(6,227,165)	7,378,175	(11,929,445)	770,816,302	758,886,857
2017	99,776,680	110,104,391	(10,327,711)	(7,503,056)	17,739,990	(90,777)	773,021,216	772,930,439
2016	99,161,661	101,857,897	(2,696,236)	(6,711,407)	28,069,913	18,662,270	754,358,946	773,021,216
2015 ²	98,855,635	100,686,145	(1,830,510)	(1,980,159)	9,771,212	5,960,543	748,398,403	754,358,946
2014	99,970,054	103,860,654	(3,890,600)	(12,044,643)	33,928,532	17,993,289	751,428,306	769,421,595
2013	99,826,864	92,275,929	7,550,935	(13,455,675)	14,622,316	8,717,576	742,710,730	751,428,306
2012 ¹	99,801,183	85,491,988	14,309,195	(13,262,552)	14,618,477	15,665,120	727,045,610	742,710,730
2011 ¹	98,313,027	85,476,487	12,836,540	(4,445,112)	41,002,327	49,393,755	677,651,855	727,045,610
2010	90,296,524	82,912,961	7,383,563	(691,345)	8,852,070	15,544,288	668,475,445	684,019,733

Note¹: Fiscal year 2011 and 2012 have been revised in accordance with the implementation guidance in GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Prior years have not been restated as permitted by the standard.

Note²: Fiscal year 2015 Beginning Net Position have been revised in accordance with the implementation guidance in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Prior years have not been restated as permitted by the standard.

Note³: Fiscal year 2018 beginning net position has been revised in accordance with the implementation guidance in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Prior years have not been restated as permitted by the standard.

SACRAMENTO AREA SEWER DISTRICT

Operating Revenues by Source

Fiscal Years 2009-2010 through 2018-2019
Schedule 3

<u>Fiscal Year</u>	<u>Sewer Service Fees</u>	<u>Other Revenue</u>	<u>Total Operating Revenues</u>
2019	\$ 101,204,376	\$ 8,940,218	\$ 110,144,594
2018	98,854,822	1,404,532	100,259,354
2017	98,245,042	1,531,638	99,776,680
2016	97,120,333	2,041,328	99,161,661
2015	97,082,529	1,773,106	98,855,635
2014	96,565,734	3,404,320	99,970,054
2013	95,825,402	4,001,462	99,826,864
2012	95,988,816	3,812,367	99,801,183
2011	94,813,872	3,499,155	98,313,027
2010	83,516,003	6,780,521	90,296,524

SACRAMENTO AREA SEWER DISTRICT

Operating Expenses

**Fiscal Years 2009-2010 through 2018-2019
Schedule 4**

Fiscal Year	Labor Force			Depreciation and Amortization	Utilities			Services and Supplies
	Water Quality	Other	Total		Electricity	Other	Total	
2019	\$ 45,789,126	\$ 1,567,727	\$ 47,356,853	\$ 36,679,040	\$ 920,511	\$ 623,484	\$ 1,543,995	\$ 2,328,492
2018	45,936,396	1,633,725	47,570,121	36,633,007	940,143	548,567	1,488,710	1,266,732
2017	43,213,984	1,549,492	44,763,476	36,108,426	951,368	501,264	1,452,632	998,892
2016	39,447,381	1,686,268	41,133,649	35,405,208	882,059	507,438	1,389,497	770,597
2015	37,063,712	1,473,783	38,537,495	35,315,196	800,282	520,533	1,320,815	1,258,653
2014	36,834,704	2,271,463	39,106,167	34,180,869	869,707	481,150	1,350,857	1,491,555
2013	35,215,521	1,793,871	37,009,392	33,481,261	855,075	416,589	1,271,664	1,246,479
2012 ¹	33,203,007	1,760,272	34,963,279	30,797,283	799,864	450,815	1,250,679	1,476,071
2011 ¹	33,648,768	1,760,526	35,409,294	29,331,096	899,408	499,617	1,399,025	1,328,513
2010	30,587,779	2,195,639	32,783,418	27,408,014	717,571	539,142	1,256,713	2,667,492

Note ¹: Fiscal year 2012 and 2011 has been revised in accordance with the implementation guidance in GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Prior years have not been restated as permitted by the standard.

SACRAMENTO AREA SEWER DISTRICT

Operating Expenses (Continued)

**Fiscal Years 2009-2010 through 2018-2019
Schedule 4**

Billing	Pipeline Maintenance	Data Processing	Office Equipment	Consultants	Chemicals	Insurance	Total Operating Expenses
\$ 355,471	\$ 11,655,609	\$ 3,530,300	\$ 708,470	\$ 4,834,241	\$ 264,693	\$ 1,129,680	\$ 110,386,844
17,453	16,335,769	2,790,046	571,353	5,106,006	394,341	1,166,271	113,339,809
137,713	16,574,669	2,721,382	517,905	5,157,029	364,662	1,307,605	110,104,391
251,038	13,758,609	2,279,231	620,170	4,508,899	339,322	1,401,677	101,857,897
395,428	13,235,161	2,531,191	725,602	5,401,703	431,658	1,533,243	100,686,145
1,146,188	15,564,139	3,308,135	660,261	5,399,106	426,672	1,226,705	103,860,654
-	12,075,207	1,963,129	503,494	2,834,498	256,370	1,634,435	92,275,929
429,177	9,979,224	1,587,138	482,019	2,837,442	167,501	1,522,175	85,491,988
1,414,128	9,215,748	2,084,978	548,004	3,473,699	34,920	1,237,082	85,476,487
2,023,470	8,905,808	1,325,874	273,865	3,974,067	313,310	1,980,930	82,912,961

SACRAMENTO AREA SEWER DISTRICT

Nonoperating Revenues and Expenses

**Fiscal Years 2009-2010 through 2018-2019
Schedule 5**

Fiscal Year	Interest Expense	Interest Revenue	Inter-governmental Revenue (Expense)	Other Expenses	Gain on extinguishment of debt	Gain on disposal of assets	Total Nonoperating Revenues (Expenses) ¹
2019	\$ (9,061,695)	\$ 2,600,248	\$ 2,230,984	\$ (2,367,559)	\$ -	\$ -	\$ (6,598,022)
2018	(9,112,204)	1,555,076	2,261,492	(931,529)	-	-	(6,227,165)
2017	(9,151,671)	979,343	2,258,911	(1,589,639)	-	-	(7,503,056)
2016	(7,471,784)	133,184	2,220,225	(1,589,532)	-	(3,500)	(6,711,407)
2015	(14,951,737)	291,833	2,251,022	(234,799)	6,256,021	4,407,501	(1,980,159)
2014	(13,840,761)	510,982	2,208,248	(923,112)	-	-	(12,044,643)
2013	(16,011,407)	789,443	2,411,714	(645,425)	-	-	(13,455,675)
2012	(16,010,762)	1,743,221	2,402,439	(1,397,450)	-	-	(13,262,552)
2011	(8,860,822)	1,249,327	3,471,743	(305,360)	-	-	(4,445,112)
2010	(2,369)	454,205	356,611	(1,499,792)	-	-	(691,345)

Note ¹: "Other revenues" for all years have been reclassified to operating revenues to conform to 2006 presentation.

SACRAMENTO AREA SEWER DISTRICT

Capital Contributions

Fiscal Years 2009-2010 through 2018-2019
Schedule 6

<u>Fiscal Year</u>	<u>Pipe From Developers</u>	<u>Sewer Impact Fees</u>	<u>Other Capital Contributions</u>	<u>Total Capital Contributions</u>
2019	\$ 28,795,058	\$ 4,957,712	\$ -	\$ 33,752,770
2018	4,048,277	3,329,898	-	7,378,175
2017	13,145,126	4,594,864	-	17,739,990
2016	26,184,807	1,885,106	-	28,069,913
2015	8,726,704	1,044,508	-	9,771,212
2014	31,632,360	2,296,172	-	33,928,532
2013	14,369,952	252,364	-	14,622,316
2012	10,494,903	4,123,574	-	14,618,477
2011	21,890,680	1,059,508	18,052,139	41,002,327
2010	8,200,178	651,892	-	8,852,070

SACRAMENTO AREA SEWER DISTRICT

Wastewater Collected and Conveyed

Fiscal Years 2009-2010 through 2018-2019
Schedule 7

<u>Fiscal Year</u>	<u>Connected Equivalent Single-Family Dwelling Units (ESD)</u>	<u>Monthly Sewer Rate per ESD</u>
2019	417,027	\$ 19.85
2018	413,809	\$ 19.85
2017	410,689	\$ 19.85
2016	407,502	\$ 19.85
2015	405,596	\$ 19.85
2014	404,647	\$ 19.85
2013	402,705	\$ 19.85
2012	401,405	\$ 19.85
2011	400,178	\$ 19.85
2010	399,298	\$ 17.50

Source: ESD - Chief Financial Officer's Billing Report
District Sewer Rate Ordinances

SACRAMENTO AREA SEWER DISTRICT

Number of Customers by Type

Fiscal Years 2009-2010 through 2018-2019

Schedule 8

Fiscal Year	Residential ESD's	Commercial ¹ ESD's	Total ESD's ²	Industrial Flow Customers	Total
2019	361,384	55,644	417,027	64	417,091
2018	358,730	55,079	413,809	68	413,877
2017	356,191	54,498	410,689	67	410,756
2016	363,125	44,376	407,502	66	407,568
2015	361,004	44,593	405,597	68	405,665
2014	360,111	44,536	404,647	64	404,711
2013	358,650	44,055	402,705	62	402,767
2012	357,721	43,584	401,305	66	401,371
2011	356,158	44,020	400,178	54	400,232
2010	399,298	-	399,298	59	399,357

Source: Customer billing records

Note ¹: FY2009 - FY2010 Commercial is incorporated with the Residential totals, therefore, Commercial data is unavailable for these fiscal years

Note ²: Total ESD's for Residential and Commercial is not the total number of customers by type since many Commercial customers have multiple ESD's, and there are three different classes of Residential customers

SACRAMENTO AREA SEWER DISTRICT

Sewer Rates

Fiscal Years 2009-2010 through 2018-2019

Schedule 9

	Fiscal Year									
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Residential Rates ¹ :										
Operations and										
Maintenance	\$16.00	\$16.00	\$16.00	\$16.00	\$14.65	\$15.56	\$13.46	\$13.15	\$13.15	\$13.30
Rehabilitation	3.85	3.85	3.85	3.85	5.20	4.29	6.39	6.70	6.70	4.20
Total	<u>\$19.85</u>	<u>\$19.85</u>	<u>\$19.85</u>	<u>\$19.85</u>	<u>\$19.85</u>	<u>\$19.85</u>	<u>\$19.85</u>	<u>\$19.85</u>	<u>\$19.85</u>	<u>\$17.50</u>
Industrial Rates ³ :										
Fixed Amount ⁴	\$0.00	\$0.00	\$0.00	\$7.16	\$7.16	\$7.16	\$7.16	\$7.16	\$7.16	\$7.16
Per Million Gallons	72.73	72.73	72.73	72.73	72.73	72.73	72.73	72.73	72.73	72.73
Per Thousand Lbs SS ²	5.10	5.10	5.10	5.10	5.10	5.10	5.10	5.10	5.10	5.10

Source: District ordinances

Notes ¹: Monthly rate at June 30 per equivalent single-family dwelling (ESD).

Notes ²: SS=Suspended Solids.

Notes ³: Industrial rates are based on flow (millions of gallons) per thousands of pounds of BOD (Biochemical Oxygen Demand) and SS.

Notes ⁴: The \$7.16 admin cost for industrial users was removed from the SASD Sewer Ordinance adopted on 1/13/2016.

SACRAMENTO AREA SEWER DISTRICT

Ten Largest Customers

Current Year and Nine Years Ago Schedule 10

Fiscal Year 2019

<u>Customer</u>	<u>Service Fees</u> ¹	<u>%</u>
Sacramento County Airport System - SIA	\$ 168,595	0.17%
Procter and Gamble Manufacturing	30,489	0.03%
H.P. Hood, LLC	23,430	0.02%
Huhtamaki, Inc.	16,519	0.02%
Aerojet Commercial	15,871	0.02%
Rio Cosumnes Correctional Center	7,467	0.01%
Mission Linen Supply	5,463	0.01%
Cintas Corporation	5,358	0.01%
Raging Waters, Sacramento	5,272	0.01%
Sacramento Cogeneration Authority	4,252	0.00%
Subtotal (10 largest)	282,717	0.28%
Balance from other customers	100,921,659	99.72%
Grand totals	<u>\$ 101,204,376</u>	<u>100.00%</u>

Fiscal Year 2010

<u>Customer</u>	<u>Service Fees</u> ¹	<u>%</u>
Campbell Soup Supply Company	\$ 43,895	0.05%
Procter and Gamble Manufacturing	32,501	0.04%
Huhtamaki Food Service, Inc.	19,373	0.02%
Aerojet General Corp	13,025	0.02%
Pepsi-Cola Bottling Group LLC	10,833	0.01%
Rio Cosumnes Correctional Center	7,066	0.01%
Crystal Cream and Butter Co.	5,828	0.01%
Mission Industries	4,999	0.01%
Sacramento County Water Resources	4,549	0.01%
Sacramento Cogeneration Authority	4,231	0.01%
Subtotal (10 largest)	146,300	0.18%
Balance from other customers	83,369,703	99.82%
Grand totals	<u>\$ 83,516,003</u>	<u>100.00%</u>

Note ¹: Amount includes base rate charges, as well as multiple meters on various accounts.

Source : Annual customer billing records, from Wastewater Control Section.

SACRAMENTO AREA SEWER DISTRICT

Pledged Revenue Coverage

Fiscal Years 2009-2010 through 2018-2019
Schedule 11

Fiscal Year	Operating Revenues	Sewer Impact Fees	Interest Revenue	Other Revenue ¹	Gross Revenues
2019	\$ 110,144,594	\$ 4,957,712	\$ 2,600,248	\$ 2,230,984	\$ 119,933,538
2018	100,259,354	3,329,898	1,555,076	2,261,492	107,405,820
2017	99,776,680	4,594,864	979,343	2,258,911	107,609,798
2016	99,161,661	1,885,106	133,184	2,220,225	103,400,176
2015	98,855,635	1,044,508	291,833	2,267,685	102,459,661
2014	99,970,054	2,296,172	510,982	2,250,570	105,027,778
2013	99,826,864	252,364	789,443	2,444,943	103,313,614
2012	99,801,182	4,123,574	1,743,221	2,444,943	108,112,920
2011	98,313,027	1,059,508	1,249,327	1,154,557	101,776,419
2010	90,296,524	651,892	454,205	-	91,402,621

Note¹: Other Revenue mainly consists of the Build America Bond subsidy

Note²: During the Fiscal Year 2015, the 2005 Revenue Bonds were refunded. The principal and interest payment of the schedule reflect the original amount that was paid before the refunding. See Note 4 in the Notes to the Basic Financial Statements for more detail.

SACRAMENTO AREA SEWER DISTRICT

Pledged Revenue Coverage (Continued)

Fiscal Years 2009-2010 through 2018-2019
Schedule 11

Less Operating Expenses (excluding depreciation)	Net Available Revenues	Revenue Bonds Debt Service			Coverage Ratio
		Principal ²	Interest ²	Total	
\$ 73,707,804	\$ 46,225,734	\$ 1,030,000	\$ 9,428,309	\$ 10,458,309	4.42
76,706,802	30,699,018	990,000	9,473,859	10,463,859	2.93
73,995,965	33,613,833	950,000	9,512,660	10,462,660	3.21
66,452,689	36,947,487	920,000	9,005,526	9,925,526	3.72
65,370,949	37,088,712	4,820,000	14,130,778	18,950,778	1.96
69,679,785	35,347,993	4,635,000	14,316,609	18,951,609	1.87
58,794,668	44,518,946	4,460,000	14,491,841	18,951,841	2.35
54,694,704	53,418,216	4,285,000	14,663,728	18,948,728	2.82
56,145,391	45,631,028	3,325,000	10,814,162	14,139,162	3.23
55,504,947	35,897,674	3,165,000	7,389,013	10,554,013	3.40

SACRAMENTO AREA SEWER DISTRICT

Net Ratios of Outstanding Debt by Type

Fiscal Years 2009-2010 through 2018-2019
Schedule 12

Fiscal Year	Outstanding Debt ¹		Total Debt Outstanding	Debt Per Equivalent Single-Family Dwelling ²	Percentage of Personal Income ³
	Net Revenue Bonds	Capital Lease			
2019	\$ 170,785,680	\$ -	\$ 170,785,680	\$ 409.53	N/A
2018	172,160,835	-	172,160,835	416.04	0.22%
2017	173,495,990	-	173,495,990	422.25	0.23%
2016	174,791,145	-	174,791,145	428.93	0.25%
2015	176,056,300	-	176,056,300	434.07	0.27%
2014	267,480,273	-	267,480,273	661.02	0.42%
2013	272,529,262	-	272,529,262	676.75	0.45%
2012	273,659,030	59,239,521	332,898,551	829.33	0.61%
2011	278,160,954	60,086,436	338,247,390	845.24	0.63%
2010	153,910,022	-	153,910,022	385.45	0.29%

Note¹: Details regarding the District's outstanding debt can be found in the notes to the financial statements.

Note²: Equivalent single-family dwelling data is shown at schedule 7.

Note³: Per capita personal income data is shown at Schedule 13. Personal income for 2018 not yet available.

SACRAMENTO AREA SEWER DISTRICT

Demographic and Economic Statistics

Fiscal Years 2009-2010 through 2018-2019 Schedule 13

Fiscal Year	County Population	Personal Income <i>(in thousands)</i>	Per Capita Personal Income	County Unemployment Rate	School Enrollment	County Labor Force ¹
2019	1,540,975	NA	NA	3.8%	247,000	706,900
2018	1,530,615	\$ 76,832,420	\$ 50,197	4.6%	246,000	703,500
2017	1,514,460	72,878,458	48,122	5.4%	244,000	697,600
2016	1,501,335	69,870,482	46,539	6.0%	243,000	693,000
2015	1,482,000	65,126,187	43,944	7.3%	241,000	689,800
2014	1,462,000	63,512,541	43,438	8.8%	240,000	679,300
2013	1,450,000	60,668,975	41,837	10.5%	238,000	684,000
2012	1,436,000	54,861,602	38,202	12.1%	237,000	685,400
2011	1,422,000	53,612,730	37,700	12.6%	237,000	677,400
2010	1,409,000	52,377,247	37,184	11.3%	238,000	682,000

Note: NA = Not available until April 2020. Information will be updated next fiscal year.

Note ¹: County Labor Force numbers from California Employment Department were historically updated March 2019 from FY2010 thru FY2018.

Source: Sacramento County Comprehensive Financial Report
County Labor Force from California Employment Department

SACRAMENTO AREA SEWER DISTRICT

Private Sector Principal Employers

Current Year and Nine Years Ago Schedule 14

<u>Employer</u>	<u>Number of</u> <u>Employees</u> ^a	<u>Percent of</u> <u>County Labor</u> <u>Force</u> ^{1 c}
	<u>2019</u>	<u>2019</u>
UC Davis Health System	12,840	1.88%
Kaiser Permanente	11,005	1.61%
Sutter / California Health Services	8,177	1.20%
Dignity /Mercy Healthcare	7,000	1.02%
Intel Corporation	6,000	0.88%
Apple Inc.	5,000	0.73%
Raley's Inc. / Bel Air	3,374	0.49%
Health Net of California Inc.	3,000	0.44%
VSP Global	2,700	0.40%
Amazon - Sacramento Fulfillment Center	2,000	0.29%
	<u>2010</u> ^b	<u>2010</u> ^c
Kaiser Permanente	10,081	1.65%
CHW / Mercy Health Care	8,279	1.36%
Sutter/California Health Services	7,314	1.20%
Intel Corporation	6,000	0.98%
Wells Fargo & Co.	3,690	0.61%
Raley's Inc./Bel Air	3,401	0.56%
PRIDE Industries	2,841	0.47%
HealthNet of CA	2,512	0.41%
Cashe Creek Casino Resort	2,460	0.40%
Pacific Gas and Electric Co.	2,169	0.36%

Note¹: County labor force is shown in schedule 13

Source^a: Sacramento Business Journal Annual Book of Lists

Source^b: Sacramento Area Commerce and Trade Organization

Source^c: California Employment Development Department, Labor Market Information

SACRAMENTO AREA SEWER DISTRICT

Number of Employees by Identifiable Activity

Fiscal Years 2009-2010 through 2018-2019
Schedule 15

	Full-time-Equivalent Employees as of June 30									
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015⁽¹⁾</u>	<u>2014</u>	<u>2013</u>	<u>2012⁽²⁾</u>	<u>2011</u>	<u>2010</u>
Maintenance and Operations	190	189	186	184	185	181	187	178	169	167
Engineering	76	76	74	86	85	66	46	48	44	46
Administration	35	35	37	26	26	44	43	47	96	100
Total Employees	301	300	297	296	296	291	276	273	309	313

Note: The District's labor force are employees of the County

(1) In 2015, 19 FTE positions were moved from the Data Management Section (classified as Administration in the schedule) to the Engineering Section.

(2) In 2012 the Sanitation District Agency went through re-organization; 33 FTE positions were moved from Sacramento Area Sewer District to Sacramento Regional County Sanitation District.

Source: SASD Operations budget documents.

SACRAMENTO AREA SEWER DISTRICT

Operating and Capital Indicators

Fiscal Years 2009-2010 through 2018-19
Schedule 16

	Fiscal Year					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Pump Stations	106	106	105	106	106	108
Service Connections	297,555	294,311	293,655	296,400	291,150	290,446
Miles of Service line	1,521	1,491	1,446	1,408	1,390	1,384
Miles of Pipe	3,143	3,034	3,027	3,022	3,005	2,995
Manholes	66,458	65,846	65,636	65,461	65,001	64,816
Area of SASD (square miles)	278	278	278	277	273	273

Note: NA = Information not available

Source: SASD Geographic Information System report

SACRAMENTO AREA SEWER DISTRICT

Operating and Capital Indicators (Continued)

Fiscal Years 2009-2010 through 2018-19
Schedule 16

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
107	106	104	103
286,259	284,241	282,862	281,593
1,358	1,348	1,339	1,333
2,991	2,984	3,019	2,977
65,093	64,998	65,021	64,840
270	270	270	270

Intentionally Blank



SACRAMENTO AREA SEWER DISTRICT
Sacramento, California

Bond Disclosure Section

For the Fiscal Years Ended June 30, 2019 and 2018

**ANNUAL CONTINUING DISCLOSURES FOR THE SACRAMENTO COUNTY
SANITATION DISTRICT FINANCING AUTHORITY AND
SACRAMENTO AREA SEWER DISTRICT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

On October 1, 1993, SASD entered into a Joint Exercise of Powers Agreement with the Sacramento Regional County Sanitation District (Regional San) to form the Sacramento County Sanitation Districts Financing Authority (the Authority) for the purpose of facilitating the financing of acquisition and/or construction of real and personal property in and for SASD and Regional San. The Board of Directors of the Regional San serves as the Authority's governing board.

This section is provided in accordance with the requirements of the:

"Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Revenue Bonds, Series 2010A Federally Taxable Direct Subsidy Build America Bonds and Series 2010B (2010 Bonds)"

"Continuing Disclosure Certificate for the Sacramento County Sanitation Districts Financing Authority of its Revenue Bonds, Refunding Series 2015)"

The material provided under the Certificates is intended to meet or exceed the requirements of Securities and Exchange Commission Rule 15c2-12(b) (5) (the Rule). The data tables provided herein apply to the Series 2010 Revenue Bond issue and the Series 2015 Refunding Bond.

This Bond Disclosure Section included within SASD's Comprehensive Annual Financial Report (CAFR) provides the information required by the Continuing Disclosure Certificate. The CAFR, in turn, will be filed with the MSRB's Electronic Municipal Market Access (EMMA) which transmits it to the National Repositories. The CAFR may also be found at www.sacsewer.com.

ANNUAL REPORT

As required by the Certificates, this annual report is incorporated into the CAFR and thus, includes by reference, the audited financial statements of the SASD for the prior fiscal year.

The annual report also contains the following six (6) sections as required in the Certificate:

- (1) A table indicating the number of residential and commercial customer accounts (by equivalent single family dwellings or other appropriate measure) and the percentage of service charge revenues for the immediately preceding five (5) fiscal years.
- (2) A table listing the ten (10) largest industrial customers and the total service charge revenues received from each of such customers for the immediately preceding fiscal year.
- (3) A table providing a comparison of sewer service rates and impact fees for single-family residences for SASD.
- (4) A table providing the amount of delinquent service charges which were added to the tax rolls for the immediately preceding five (5) fiscal years.
- (5) A table setting forth the collection rates for charges imposed by SASD on its customers for the immediately preceding five (5) fiscal years.
- (6) A table showing the Revenues, Maintenance and Operation Costs, and Net Revenues (as these three terms are defined in the Installment Purchase Contract), debt service coverage, and certain fund balances of SASD for the immediately preceding five (5) fiscal years.

**ANNUAL CONTINUING DISCLOSURES FOR THE SACRAMENTO COUNTY
SANITATION DISTRICT FINANCING AUTHORITY AND
SACRAMENTO AREA SEWER DISTRICT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

REPORTING OF SIGNIFICANT EVENTS

As of June 30, 2019, none of the events listed in Section 5 of the Certificates have occurred for the Series 2010 and Series 2015 Bonds issued by the Financing Authority. As of June 30, 2019, there is no knowledge on the part of the Board of Directors, officers, or employees of Sacramento Area Sewer District of any impending significant event that would require disclosure under the provisions of the Certificate.

ADDITIONAL INFORMATION

The District collects service charges for SASD and Regional San per the Master Interagency Agreement. The bimonthly invoices sent to customers list an amount for “Local Sewer” (to recover charges for the wastewater collection systems operated by the District), and a separate amount for “Regional Sewer” (to recover the charges imposed by Regional San for treatment services).

Section (1) A table indicating the number of residential and commercial customer accounts (by equivalent single-family dwelling) and the percentage of service charge revenues for the immediately preceding five (5) fiscal years.

Fiscal Year Ended June 30,	Residential/Commercial	
	Number of Equivalent Single-Family Dwelling Units (ESD)	Percentage of Service Charge Revenues
2015	405,597	99.0%
2016	407,502	99.0%
2017	410,689	99.0%
2018	413,809	99.0%
2019	417,027	99.0%

**ANNUAL CONTINUING DISCLOSURES FOR THE SACRAMENTO COUNTY
SANITATION DISTRICT FINANCING AUTHORITY AND
SACRAMENTO AREA SEWER DISTRICT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Section (2) A table listing the ten (10) largest industrial customers and the total service charge revenues received from each of such customers for the immediately preceding fiscal year.

<u>Largest Industrial Customers</u>	<u>Revenues Received</u>
Sacramento County Airport System	\$ 168,595
Procter and Gamble Manufacturing	30,489
H.P. Hood, LLC	23,430
Huhtamaki, Inc.	16,519
Aerojet Commercial	15,871
Rio Consumnes Correctional Center	7,467
Mission Linen Supply	5,463
Cintas Corporation	5,358
Raging Waters, Sacramento	5,272
Sacramento Cogeneration Authority	4,252
TOTAL	<u>\$ 282,717</u>

Section (3) A table providing a comparison of sewer service rates and impact fees for single-family residences for SASD.

	<u>SRCS</u>	<u>SASD</u>	<u>TOTAL</u>
Monthly Services Charges	\$ 37.00	\$ 19.85	\$ 56.85
Sewer Impact Fees (a)	\$ 6,146	\$ 3,062	\$ 9,208

(a) Regional San impact fee is based on new area fee. Infill area impact fee is \$3,359. SASD fee is based on expansion area. Relief area impact fee is \$689.

**ANNUAL CONTINUING DISCLOSURES FOR THE SACRAMENTO COUNTY
SANITATION DISTRICT FINANCING AUTHORITY AND
SACRAMENTO AREA SEWER DISTRICT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Section (4) A table providing the amount of delinquent service charges which were added to the tax rolls for the immediately preceding five (5) fiscal years.

<u>Fiscal Year Ended June 30</u>	<u>Number of Delinquent Accounts</u>	<u>Percent of Accounts Delinquent</u>	<u>Delinquent Amounts Placed on Tax Rolls</u>
2015	14,742	4.87%	\$ 11,071,732
2016	14,003	4.60%	10,916,118
2017	13,679	4.46%	11,271,701
2018	13,636	4.41%	11,225,397
2019	13,788	4.42%	11,759,117

Section (5) A table setting forth the collection rates for charges imposed by SASD on its customers for the immediately preceding five (5) fiscal years.

<u>Fiscal Year Ended June 30</u>	<u>Total Amount of Service Charges</u>	<u>Total Amount Collected</u>	<u>Amount Assigned from County under Teeter Plan</u>
2015	\$ 97,082,529	\$ 96,112,856	\$ 969,673
2016	91,720,333	90,899,126	821,207
2017	98,245,042	97,426,992	818,050
2018	98,854,822	98,039,744	815,078
2019	101,204,376	100,368,698	835,678

**ANNUAL CONTINUING DISCLOSURES FOR THE SACRAMENTO COUNTY
SANITATION DISTRICT FINANCING AUTHORITY AND
SACRAMENTO AREA SEWER DISTRICT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Section (6) A table showing the Revenues, maintenance and Operation Costs, Net Revenues, debt service coverage (as these three term are defined in the Installment Purchase Contract), and certain fund balances of SASD for the immediately preceding five (5) fiscal years.

**Revenues, Maintenance and Operations Costs,
Net Revenues, Debt Service Coverage and Certain Fund Balances of the
District for the Fiscal Years Ended June 30
(amounts expressed in thousands)**

Revenues:	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Operating revenues:					
Sewer service fees	\$ 97,083	\$ 97,120	\$ 98,245	\$ 98,855	\$ 101,204
Sewer Impact fees	1,045	1,885	4,595	3,330	4,958
Other	<u>1,773</u>	<u>2,041</u>	<u>1,532</u>	<u>1,405</u>	<u>8,940</u>
	<u>99,901</u>	<u>101,046</u>	<u>104,372</u>	<u>103,590</u>	<u>115,102</u>
Non-operating revenues:					
Interest income	292	133	979	1,555	2,600
Build America Bond subsidy	<u>2,268</u>	<u>2,220</u>	<u>2,259</u>	<u>2,261</u>	<u>2,231</u>
	<u>2,560</u>	<u>2,353</u>	<u>3,238</u>	<u>3,816</u>	<u>4,831</u>
Total revenue	<u>102,461</u>	<u>103,399</u>	<u>107,610</u>	<u>107,406</u>	<u>119,933</u>
M&O Expenses:					
Total operating expense	100,686	101,858	110,104	113,340	110,387
Less depreciation and amortization	<u>(35,315)</u>	<u>(35,405)</u>	<u>(36,108)</u>	<u>(36,633)</u>	<u>(36,679)</u>
	<u>65,371</u>	<u>66,453</u>	<u>73,996</u>	<u>76,707</u>	<u>73,708</u>
Net revenue, including impact fees	<u>\$ 37,090</u>	<u>\$ 36,946</u>	<u>\$ 33,614</u>	<u>\$ 30,699</u>	<u>\$ 46,225</u>
Senior lien debt service	\$ 18,951	\$ 9,926	\$ 10,463	\$ 10,464	\$ 10,458
Net revenue coverage	1.96	3.72	3.21	2.93	4.42
Reserve balances, end of year	\$ 42,126	\$ 47,355	\$ 52,001	\$ 52,543	\$ 49,771



ACKNOWLEDGEMENTS

This Comprehensive Annual Financial Report was prepared by the Sacramento Area Sewer District Finance Section

Prabhakar Somavarapu
District Engineer
Sacramento Area Sewer District

Joseph T. Maestretti
Chief Financial Administrative Officer
Sacramento Area Sewer District

Randy Wolff
Accounting Manager
Sacramento Area Sewer District



