



Union Sanitary District

Union City, California

Comprehensive Annual Financial Report



USD 2018

Fiscal Year Ended June 30, 2018

Union Sanitary District

Union City, California

Comprehensive Annual

Financial Report



USD 1964



Fiscal Year Ended June 30, 2018

Prepared by Business Services Work Group

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Introductory Section



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**Directors**

Manny Fernandez
Tom Handley
Pat Kite
Anjali Lathi
Jennifer Toy

Officers

Paul R. Eldredge
*General Manager/
District Engineer*

Karen W. Murphy
Attorney

November 2, 2018

Board of Directors

Union Sanitary District
Union City, California

Subject: Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

We are pleased to present the Union Sanitary District's Comprehensive Annual Financial Report (CAFR) for the fiscal year (FY) ended June 30, 2018. Responsibility for both the accuracy of presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain the maximum understanding of the District's financial activities have been included.

The CAFR is presented in accordance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB).

District Profile**The Reporting Entity**

The Union Sanitary District (District) is an independent Special District, and is accounted for as an enterprise fund type (proprietary fund category). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. As an enterprise fund, the District uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred, regardless of when cash is paid or received. The District has no component units.

The District applies all applicable GASB pronouncements in accounting and reporting for proprietary operations. District policy requires that its financial statements be audited on an annual basis by an independent certified public accounting firm approved by the Board of Directors. The independent auditor's report for the fiscal years ended June 30, 2018 and compared to 2017 are presented in the Financial Section of this report. Please refer to the Management's Discussion and Analysis immediately following the independent auditor's report in the Financial Section for additional information about the financial statements.

District Formation and Organization

The Union Sanitary District was formed in 1918 and subsequently reorganized in 1923 to serve Newark and the Centerville area of what is now Fremont. Between 1949 and 1962, Niles, Decoto, Irvington, and Alvarado Sanitary Districts joined the Union Sanitary District. The District is empowered to own and operate wastewater facilities and the Board of Directors may prescribe, revise and collect fees or charges for services and facilities. The District provides wastewater collection, treatment and disposal services to the residents and businesses of the cities of Fremont, Newark, and Union City, commonly referred to as the Tri-City Area, with a combined population of 355,897. The Cities are located along Interstates 680 and 880, between Oakland and San Jose in southern Alameda County.

The District is governed by a five-member Board of Directors, which is independently and directly elected by voters to staggered four-year terms. The Board appoints the General Manager to manage and oversee the day-to-day operations. The District, which employs 136.45 Full Time Equivalent (FTE) staff, operates in a team-based environment and uses the Balanced Scorecard as a model for its strategic plan and performance measurement tool.

Local Economic Condition and Outlook

Located at the northern end of Silicon Valley, the Tri-City area of Fremont, Newark and Union City has a diverse population, as well as a varied mix of employers including bio-tech, research and development, education, manufacturing and retail. Summary notes of the prevailing economic conditions in the Tri-City area and the District are below, delineated by City.

The City of Fremont*

Located on the southeast side of the San Francisco Bay, Fremont is a city of over 235,000 people and 76,000 households, with an area of 92-square miles. Fremont remains the fourth most populous city in the Bay Area and California's 15th largest city. With its moderate climate and its proximity to major universities, shopping areas, recreation and cultural activities, employment centers, major airports, and the Bay Area Rapid Transit system, Fremont captures metropolitan living at its best. Fremont is home to a broad variety of innovative firms with recent strength evidenced in hardware and advanced manufacturing. Economic development efforts in 2017 focused on next generation workforce, leveraging opportunities in strategic business areas, and facilitating new business development through real estate investment. Residents are attracted to Fremont for its nationally-recognized high-ranking public schools, its numerous well-kept parks, and a variety of recreational amenities, including beautiful Lake Elizabeth, Central Park, and Mission San José (California's 14th mission). To preserve economic diversity, Fremont has accelerated efforts and projects to produce new, affordable housing and adopted the Rent Review Ordinance (RRO) that went into effect in 2017.

The City of Newark*

Newark has an area of 13 square miles, a population of over 47,000. The city continues to maintain their balanced budget through appropriate budgeting practices including conservative estimates for revenue growth. The local economy is heavily influenced by the housing market and spending patterns evidenced throughout the San Francisco (Bay Area). Consumers are spending, home sales and construction are up, and the business community is doing well. Property and Sales taxes represent over 51% of the city's

revenue. Newark also continues to experience increases in revenues from development and building permit fees because of the significant construction activity that is occurring throughout the City. The NewPark Mall continues to transform into a leading retail, entertainment, and dining destination, and several large new industrial and commercial businesses have opened or have plans to open offices or locations in Newark (SAS Automotive Systems, Sprout Farmers Market, Mission Linen, etc.).

The City of Union City*

Union City is 18 square miles in area. Union City's proximity to major highways, bridges, airports, public transportation, colleges and universities, and cultural and recreational areas make it a desirable community in which to live and work. The City is a family-oriented community where the focus is on the enrichment of the quality of life for its citizens. Union City also maintains many wonderful parks, sports fields, community centers, and a variety of recreation programs and social services for residents of all ages. Union City has grown into an ethnically diverse community of over 73,000 residents and is home to the highly regarded New Haven Unified School District. Currently, the creation of the Intermodal Station District, the area surrounding the Union City BART Station, is the City's premier redevelopment project. The former 105-acre brownfield site and under-utilized land is being transformed into a vibrant transit-oriented neighborhood consisting of housing, shopping and offices, focused around a community plaza.

Region-wide, the Tri-City area is continuing to experience significant—residential and commercial development due to the healthy economy. Annual average unemployment rates for the cities of Fremont, Newark and Union City were 2.7%, 3.0%, and 3.4% respectively, compared with 3.1%, 3.4%, and 4.4% one year earlier.

*Sources: Fremont and Newark State of the City addresses and websites 2018; www.fremont.gov, www.newark.org, www.ci.union-city.ca.us, www.labormarketinfo.edd.ca.gov, www.247wallst.com.

Major Projects or Initiatives

During fiscal year 2018, the District continued, completed or initiated several significant projects:

Plant Master Plan - The Master Plan is focused on reviewing and assessing the District's critical projects and recommending the sequence of design and construction implementation based on priorities and schedules; existing and future space needs; process adjacencies; economic feasibility; and other planned capital improvement projects. This major initiative started in FY 2017 and is now expected to be completed in FY 2019, due to a time extension to evaluate additional technologies and solutions. The Master Plan has highlighted the need for an additional project for Secondary Treatment Capacity Improvements. This effort will encompass multiple smaller projects intended to position the treatment plant to continue to meet both current and future treatment and capacity needs. Core process data has been reviewed and analyzed by management, and this project will address aeration, clarification, filtration, equalization (storage), and many other critical elements in our treatment process, including the potential for new technologies to ensure that the District can continue to meet or exceed our National Pollutant Discharge Elimination System (NPDES) permit limits in the future, with a focus on long-term system expansion availability.

Digester 7 - The District previously identified the need for additional digester capacity to ensure appropriate solids handling. An additional anaerobic digester will be built and placed into service with this project. The pre-design phase was completed in FY 2017, but the decision has been made to increase the size of the digester, so the updated design will now be completed in FY 2019. Construction is scheduled to begin in FY 2020.

Standby Power Generation System Upgrade - The District's current emergency power facilities are old and outdated and have questionable reliability if the District were to lose commercial power. The predesign of this project was completed in FY 2017 and the design will conclude in FY 2019, with construction scheduled to begin in FY 2020.

East Bay Discharge Authority (EBDA) Joint Powers Agreement (JPA) contract negotiations - This involves negotiation and formal documentation of a new contractual relationship between the members of the existing JPA, which includes Union Sanitary District, the City of Hayward, City of San Leandro, Oro Loma Sanitary District, and the Castro Valley Sanitary District. Negotiations have been underway and are expected to continue through FY 2019.

Collection Services Preventive Maintenance Schedule Evaluation - This project is intended to review the detailed study and data provided by West Yost on the age and condition of the District's existing collections system infrastructure throughout the service area and to determine the viability of modifying the existing cleaning processes for improved efficiencies moving forward. A pilot program is currently underway based on analyses done to date and we will be implementing associated schedule changes in FY 2019.

Emergency Response - Over the next several years FMC will develop specific emergency response procedures for each remote pump station. This will include writing SOPs, procuring equipment, creating inventory sheets, identifying staging areas, and communicating new information with staff. Progress continues to be made on this important endeavor and the necessary equipment to ensure reliable operations is currently being acquired, with a project completion in FY 2021.

Rebranding Initiative - This project was initiated in late FY 2017 to explore options for rebranding and updating the District's logo to increase customer awareness of the services the District provides to our constituent communities and increase brand recognition for the District. The effort is based on feedback from staff and customers received over time. The multi-disciplinary project team assembled is expected to provide actionable suggestions to management in FY 2020.

Future Projects or Initiatives

Force Main Relocation Project, Phase II - This project will continue work done previously to relocate sections of the force main to allow for development and construction of new residential housing, in conjunction with local area developers.

Dumbarton Transit Oriented Development Project, Phase II - This development requires the relocation of the District force mains in collaboration with local area developers. Phase I of this project was completed in FY 2018 and management will ensure that the District's interests are met, and concerns are mitigated in the Phase II activities of the project in the future.

Financial Information

Accounting System

District financial records are maintained on the accrual basis of accounting as required by GASB Section 1600.125. Accrual basis accounting recognizes transactions, events, and circumstances when they occur, rather than when cash is received or paid.

Internal Controls

While developing and evaluating the District's accounting system, consideration is given to the adequacy of internal accounting controls. Internal controls are designed to give reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of

financial transactions. The District's internal controls include but are not limited to positive pay, fraud protection checks, timely bank reconciliations, segregation of duties wherever possible, dual approvals on wires and investment purchases, an anonymous fraud hotline, and financial system security.

Budgetary Controls

Budgetary controls are maintained by the District to ensure compliance with the annual budget adopted by the Board of Directors. All financial activities for the fiscal year are included in the annual budget, along with a twenty-year capital improvement projects plan. Budgetary control is maintained at the Work Group (department) level for administrative and operating budgets, and at the project level for capital improvements. Monthly budget reports are provided to the Executive Team and Board of Directors, and the Executive Team conducts a detailed quarterly review, as well.

Rate Structure

The District receives its revenue from four primary sources: sewer service charges; capacity fees; other minor operating revenues such as permits, inspections and outside work that is performed in cooperation with other municipalities; and interest earnings on reserve funds.

Sewer Service Charge

The sewer service charge has historically been collected on the annual property tax bill. Sewer service charges to be collected are provided to the County of Alameda in August of each fiscal year. The District receives its primary payments of funds in December (50%) and April (45%), and the remainder in September, and receives all amounts billed as part of the County's "Teeter" plan.

The sewer service charge is divided into four primary categories of customers: residential, commercial, institutional, and industrial. The calculation of the sewer service charge for the commercial, institutional, and industrial customers is based upon their average flow, as well as contribution of their projected suspended solids (SS) and chemical oxygen demand (COD). The District has a sampling program to periodically test the effluent from its industrial customers. Flow for industrial users is based on water use records from the Alameda County Water District. The annual residential fee for 2018 was \$393.35 for a single-family dwelling and \$341.03 for a multi-family dwelling.

Connection Fees

In 2018 the District charged a sewer connection fee of \$7,246.69 for an equivalent dwelling unit (EDU). The charges for commercial, industrial, and office use are based on factors such as square footage, flow, COD, and suspended solids. Revenues from capacity fees are used to fund capital projects and upgrades that preserve or increase the system's capacity. Thus, the collected revenues may not fund operating costs.

Interest Income

The District earns interest on its portfolio of investments, including the Local Agency Investment Fund (LAIF), and the California Asset Management Program (CAMP), which is allocated to the major funds (Capacity and Sewer Service) monthly by percentage of fund balance.

Other Information

Independent Financial Audit – California state statutes require an annual independent audit of the books of accounts and financial records of the District. The firm of Lance, Soll & Lunghard, LLP was contracted to conduct this year's audit (second year). The Board Audit Committee receives and reviews the audited financial statements. The audit opinion is included in the Financial Section of this report.

Financial Policies – In fiscal year 2018, the District reviewed and/or updated the following important financial policies:

Investment, Capital Assets, Surplus Property Disposal, Financial Audit, Project Expenditures, Budget, and Accounts Receivable Write-off policies.

East Bay Dischargers Authority – USD is a member of EBDA. Founded in 1974, EBDA is a five-member Joint Powers Agency formed to plan, design, construct, and operate regional facilities to collect, transport and discharge treated effluent to deep waters of San Francisco Bay. Treated effluent from the District's Alvarado Wastewater Treatment Plant is pumped to the EBDA System and discharged into the Bay southwest of Oakland International Airport. Frequent testing of the treated wastewater confirms compliance with regional permit requirements. The other member agencies are Castro Valley Sanitary District, Oro Loma Sanitary District, City of Hayward, and City of San Leandro.

District Financing Authority – The District is a member of the Alameda County Water District Financing Authority. The Authority was organized to aid the water district in anticipation of financing capital projects over the next several years. The District has one Board member on the governing body of the Authority.

Awards Received

During the past year, the District received the following awards:

- ❖ National Association of Clean Water Agencies (NACWA) - Peak Performance Awards 1993 – 2017; USD's Alvarado Treatment Plant in Union City has been recognized for 25 consecutive years by NACWA (and its predecessor, AMSA) for outstanding performance.
- ❖ National Institute for Government Purchasing (NIGP) – Achievement of Excellence in Procurement
- ❖ Government Finance Officers Association (GFOA) – Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Union Sanitary District for its comprehensive financial report for the fiscal year ended June 30, 2017. To be awarded the Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Respectfully submitted,

Business Services Work Group



VISION/MISSION STATEMENT

April 10, 2017 revision

To safely and responsibly collect and treat wastewater, and to recover resources from process waste streams, while protecting human health and improving the environment in a way that benefits the Tri-Cities and all USD stakeholders.

How we continue to accomplish our Vision:

Commitment to safety:

- Continually reviewing our safety program for opportunities to improve
- Focusing on protecting employees and the community in all our activities
- Allocating resources to ensure safe operations (equipment, training, staff)
- Collaboratively promoting a safe work environment

Responsibility:

- Being accountable for our actions and decisions
- Being fiscally prudent
- Maintaining and upgrading infrastructure
- Anticipating and meeting future District and stakeholder needs
- Compliance with laws and regulations (local, state, federal)
- Effective asset management
- Effective use of technology
- Looking for innovative ways to reduce or reuse our waste streams

Collect, treat, and recover/reuse wastewater:

- Providing capacity in the collection system and plant
- Regulating connections
- Increasing efforts for resource recovery (biogas, biosolids, etc.)
- Exploring ways to maximize water reclamation and reuse potential

Human health and environmental stewardship

- Preventing sewer spills and back-ups
- Limiting health risks through treatment of wastewater
- Responding to emergencies
- Enhancing water quality in the San Francisco Bay estuary
- Meeting or exceeding all water and air quality standards
- Promoting pollution prevention and pretreatment through outreach and educational programs
- Maximizing use of green energy sources when feasible
- Working towards energy neutrality



VISION/MISSION STATEMENT

April 10, 2017 revision

We benefit our stakeholders by:

Community

- Complying with all local, state, and federal regulations, protecting the environment and controlling odors
- Communicating with the public and bringing awareness about wastewater issues
- Responding to emergencies and providing mutual aid
- Participating in community outreach activities
- Contributing to the wastewater treatment profession by participating in professional associations, partnering with other agencies and organizations, and sharing best practices
- Working cooperatively with cities and other government agencies

Customer

- Providing award-winning, reliable service
- Being fiscally responsible and cost effective, and providing value
- Promptly responding to customers' needs
- Being professional and courteous
- Proactively and creatively meeting customer needs
- Supporting businesses through permitting, education and by providing capacity

Employees

- Providing a safe work environment
- Recognizing employee contributions
- Encouraging cooperation and collaboration
- Demonstrating equality and fairness
- Valuing employee input, and offering opportunities for involvement and creativity
- Providing training and resources
- Providing competitive wages and benefits in a stable work environment
- Communicating and sharing information openly and honestly

Board of Directors



Anjali Lathi



Manny Fernandez



Jennifer Toy



Pat Kite



Tom Handley

Principal Officials

As of June 30, 2018

		City Represented	Year Elected	Term Expires
Anjali Lathi	President	Fremont (Ward 3)	2002	2020
Manny Fernandez	Vice President	Union City (Ward 1)	2011 (Appointed)	2020
Jennifer Toy	Secretary	Fremont (Ward 3)	1998	2022
Pat Kite	Board Member	Newark (Ward 2)	1991	2020
Tom Handley	Board Member	Fremont (Ward 3)	2007	2022

Karen W. Murphy

General Counsel

Staff

Paul Eldredge

General Manager/District Engineer

Armando Lopez

Treatment & Disposal Services Manager

Robert Simonich

Fabrication Maintenance & Construction
Manager

Vacant/TBD

Business Services Manager/Chief Financial
Officer

Sami Ghossain

Technical Services Manager

James Schofield

Collection Services Manager

Board of Directors (5)

General Manager (141)

Technical Services Manager (35)

Coach

Capital
Improvements
Projects
Team
(8)

Coach

Customer
Service
Team
(12)

Coach

Environmental
Compliance
Team
(11)

Coach

Maintenance/
TV
Team
(10)

Coach

Support
Team
(8)

Coach

Research &
Support
Team
(6)

Coach
(Day)

Total
Productive
Operations
(10)

Coach
(Night)

Total
Productive
Operations
(7)

Coach

Electrical/
Support
Team
(8)

Coach

Information
Technology
Team
(5)

Coach
/HR Mgr

Organizational
Support
Team
(5)

Coach

Finance &
Acquisition
Services Team
(10)

Collection Services Manager (32)

Treatment & Disposal Services Manager (27)

Fabrication, Maintenance, and Construction Manager (28)

Business Services Manager/CFO (18)

Administrative Specialist I (1)
Assistant Engineer (2)
Associate Engineer (3)
Engineering Technician III (1)
Assistant/Associate Engineer (1)

As-needed Receptionist (1)
Engineer Technician I (1)
Exec. Assistant to the GM/Board Clerk (1)
Associate Engineer (1)
C&G Coordinator (1)
Construction Inspector II (2)
Customer Service Fee Analyst (2)
Engineer Technician II (1)
Receptionist (1)
Limited-term Construction Inspector I (1)

Administrative Specialist II (1)
EC Inspector II (2)
EC Inspector III (4)
EC Inspector IV (1)
EC Outreach Rep (1)
Environmental Program Coordinator (1)

Administrative Specialist II (1)
Fleet Mechanic II (2)
Janitor (2)
Maintenance Assistant (1)
Mechanic II (1)
Planner/Scheduler II (1)

Collection Services Trainer (1)
Collection System Worker II (7)
Lead Collection System Worker (3)

Administrative Specialist II (1)
Chemist II (3)
Lab Director (1)
Sr. Process Engineer (1)

Plant Operator III (5)
POIII Trainee (3)
Plant Operations Trainer (1)
Technical Writer Intern (1)

Adm. Specialist (1)
Instrument Technician/ Electrician (4)
Painter (2)
Planner/ Scheduler II (1)

Sr. GIS DBA (1)
IT Administrator (1)
Sr. Network Administrator (1)
Sr. Developer/ DBA (1)
Sr. IT Analyst (1)

Mechanic I (3)
Mechanic II (9)

Administrative Specialist II (1)
Environmental Health & Safety Program Manager (1)
Human Resources Analyst II (1)
Training and Emergency Response Programs Manager (1)
Org Performance Program Mgr (1)

Accounting & Financial Analyst II (2)
Accounting Technical Specialist (2)
Accounting Technician II (1)
Administrative Specialist I (1)
Buyer (1)
Purchasing Agent (1)
Storekeeper I (1)
Storekeeper II (1)

Vacancy

*141 positions allocated in FY 2018
Full Time Equivalent positions in FY 2018 is 136.45.



**Union Sanitary District
Service Area Location Map**



Government Finance Officers Association

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

Presented to

**Union Sanitary District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

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Financial Section



In Loving Memory of Paul Johnson, 1981-2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Union Sanitary District
City of Union City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Union Sanitary District, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special District. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.





To the Board of Directors
Union Sanitary District
City of Union City, California

Change in Accounting Principle

As described in Note 1 to the financial statements, the district adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of plan contributions, schedule of changes in net OPEB liability and related ratios and schedule of contributions 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplementary schedule of operating expenses before depreciation, schedule of insurance coverage, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedule of operating expenses before depreciation and schedule of insurance coverage is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of operative expenses before depreciation and schedule of insurance coverage is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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.



To the Board of Directors
Union Sanitary District
City of Union City, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.

Brea, California
November 2, 2018

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UNION SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal year ended June 30, 2018. This information is presented in conjunction with the audited financial statements, which follow this section.

The District, which was established in 1918 and subsequently reorganized in 1923, is empowered to own and operate wastewater facilities and the Board of Directors may prescribe, revise and collect fees or charges for services and facilities of the District in connection with its wastewater system.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at June 30, 2018, by \$371.5 million (net position). Net position consists of \$296.4 million invested in capital assets, \$55.4 million restricted net position, and \$19.7 million in unrestricted net position.
- The District's total net position increased by \$28.9 million during the fiscal year ended June 30, 2018. Contributing factors include an increase of \$11 million in connection fees, \$3.8 million in contributed capital, marginal rate increases, inspections and other area development.
- Long-term liabilities increased on the Statement of Net Position by \$10.7 million during the current fiscal year, compared to a \$8.4 million increase last year, largely due to changes in reporting mandated by the existing GASB 68 and new GASB 75 pronouncements.
- The District placed \$11.6 million in capital assets into service compared to \$14.1 million last year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The District's financial statements include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. These provide information about the activities of the District as a whole and present a longer-term view of the District's property, debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure.

- **Statement of Net Position** – Includes all District assets, liabilities, deferred outflows of resources, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return; evaluating the capital structure of the District; and assessing the liquidity and financial flexibility of the District.
- **Statement of Revenues, Expenses and Changes in Net Position** – All of the current year revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of District operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.
- **Statement of Cash Flows** – The primary purpose of this statement is to provide information about District cash receipts, cash disbursements and net changes in cash resulting from operations, investments, and capital and non-capital financing activities. It illustrates the source of revenue, purposes for which it was used, and change in cash balance during the reporting period.

UNION SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Reporting the District as a Whole

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position

DISTRICT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's activities.

The largest portion of the District's Net Position (79.8%) reflects its investment in capital assets (net of accumulated depreciation) less any related outstanding debt that was used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Table 1 – Condensed Statement of Net Position

	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Dollar Change FY18 to FY17	Percent Change FY18 to FY17
Current and other assets	\$ 125,839,386	\$ 94,382,924	\$ 77,881,176	\$ 31,456,462	33.3%
Capital Assets	338,368,202	339,178,722	338,426,172	(810,520)	-0.2%
Total Assets	464,207,588	433,561,646	416,307,348	30,645,942	7.1%
Deferred outflows of resources	11,884,867	8,937,492	7,549,687	2,947,375	33.0%
Current liabilities	11,074,799	8,622,149	10,533,131	2,452,650	28.4%
Long-term liabilities	92,046,419	81,337,732	72,916,067	10,708,687	13.2%
Total liabilities	103,121,218	89,959,881	83,449,198	13,161,337	14.6%
Deferred inflows of resources	1,463,120	804,328	5,962,106	658,792	81.9%
Net Position:					
Net investment in capital assets	296,442,688	294,906,308	295,355,262	1,536,380	0.5%
Restricted	55,373,688	34,360,257	25,075,327	21,013,431	61.2%
Unrestricted	19,691,741	22,468,364	14,015,142	(2,776,623)	-12.4%
Total net position	\$ 371,508,117	\$351,734,929	\$ 334,445,731	\$ 19,773,188	5.6%

Net position of the District's business type activities increased 5.6% to \$371.5 million, of which \$296.4 million is invested in capital assets such as equipment, buildings and infrastructure. Of the remaining total, \$55.4 million is restricted to specifically stipulated spending agreements originated by law, contract or other agreements with external parties. The remaining \$19.7 million is subject to designation for specific purposes as approved by the District Board of Directors and may be used to meet the District's ongoing obligations.

UNION SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Table 2 – Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year	Fiscal Year	Fiscal Year	Dollar Change FY18 to FY17	Percent Change FY18 to FY17
	2018	2017	2016		
Operating Revenues:					
Sewer service charges (SSC)	\$ 54,260,096	\$ 52,384,709	\$ 50,112,564	\$ 1,875,387	3.6%
Other revenues	1,631,870	2,154,364	1,791,782	(522,494)	-24.3%
Total operating revenues	55,891,966	54,539,073	51,904,346	1,352,893	2.5%
Operating Expenses:					
Depreciation	17,003,398	17,036,880	17,379,112	(33,482)	-0.2%
Sewage treatment	18,657,355	16,252,881	15,464,775	2,404,474	14.8%
Sewage collection and engineering	14,173,382	12,462,391	11,296,680	1,710,991	13.7%
General and administration	7,611,460	7,195,269	6,848,244	416,191	5.8%
Total operating expenses	57,445,595	52,947,421	50,988,811	4,498,174	8.5%
Non-operating Revenues (Expenses):					
Investment income and net gains	700,856	482,342	496,439	218,514	45.3%
Loss on retirement of capital assets	-	(432,674)	(30,472)	432,674	-100.0%
East Bay Dischargers Authority loss	(90,325)	(52,458)	(160,540)	(37,867)	72.2%
Interest	(1,479,413)	(860,316)	(916,968)	(619,097)	72.0%
Total Net non-operating revenues (expenses)	(868,882)	(863,106)	(611,541)	(5,776)	0.7%
Income Before Contributed Capital	(2,422,511)	728,546	303,994	(3,151,057)	-432.5%
Capital Contributions					
Connection fees	23,623,947	12,595,637	7,233,338	11,028,310	87.6%
Contributed capital	7,714,351	3,965,015	1,863,035	3,749,336	94.6%
Total Net Capital Contributions	31,338,298	16,560,652	9,096,373	14,777,646	89.2%
Change in Net Position	28,915,787	17,289,198	9,400,367	11,626,589	67.2%
Beginning Net Position	351,734,929	334,445,731	325,045,364	17,289,198	5.2%
Prior period adjustment	(9,142,599)	-	-	(9,142,599)	100.0%
Restated Net Position, Beginning of Year (2018)	342,592,330	334,445,731	325,045,364	8,146,599	2.4%
Ending Net Position	\$ 371,508,117	\$ 351,734,929	\$ 334,445,731	\$ 19,773,188	5.6%

The District's increase in net position of \$19.8 million (net of prior period adjustment) is primarily due to the following:

- A marginal rate increase in sewer service charges and the increase in other revenues such as permit fees.
- An increase of \$14.7 million in connection fees and contributed capital. The District received \$23.6 million in connection fees and \$7.7 million in contributed capital due to ongoing increase in residential development within the service area.

UNION SANITARY DISTRICT

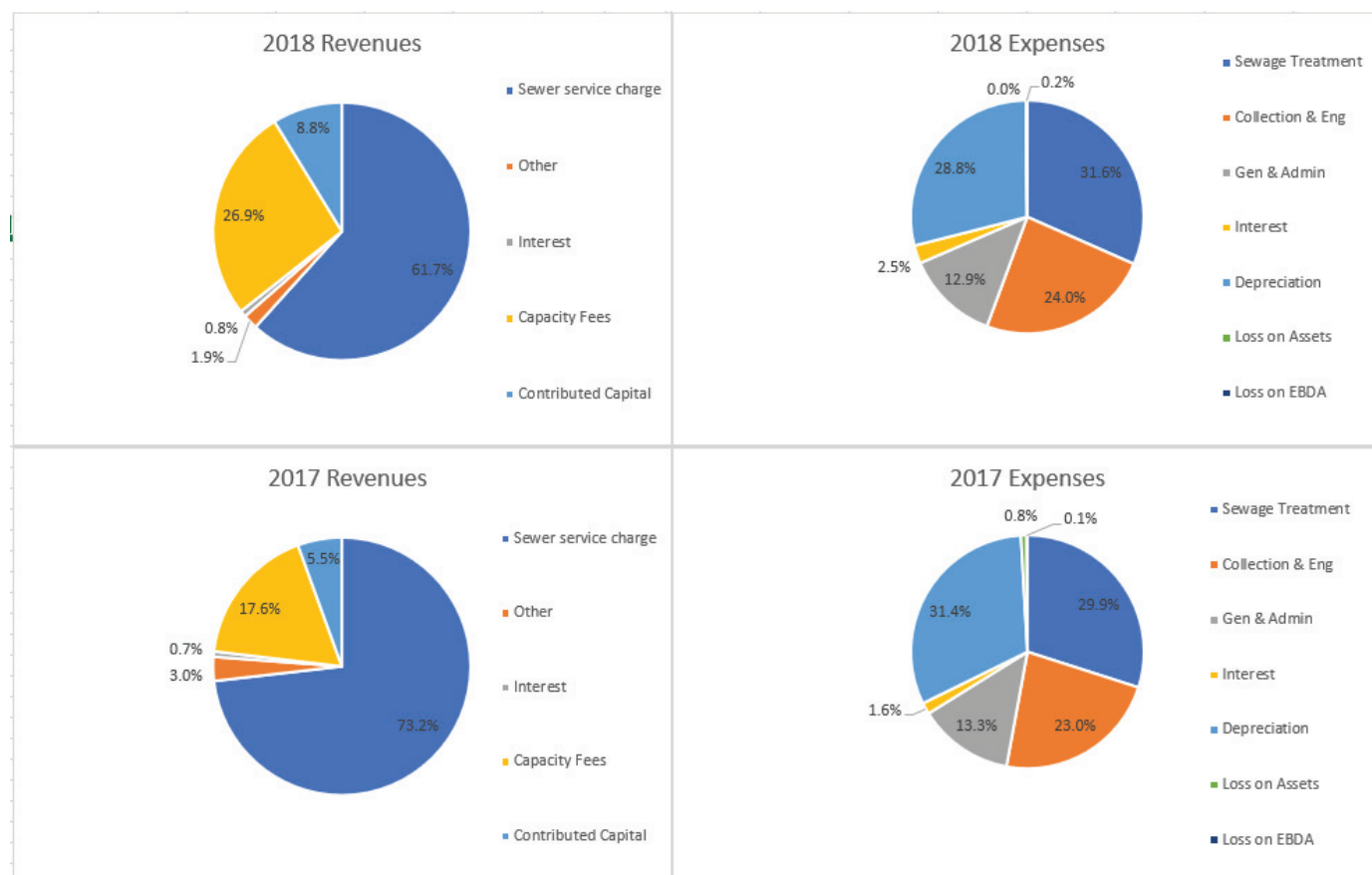
MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Overall the District's revenues increased 2.5% or \$1.4 million from fiscal year FY 2017. The District's sewer service charge rate increased 3.5%. Sewer service revenues for the year increased by 3.6% or \$1.9 million overall. Other operating revenues decreased by (24.3%) or \$0.5 million from prior year as the result of a decrease in permits and compliance fees received from the service area. Due to continued growth in both commercial and residential development, connection fee revenues increased 87.6%, or \$11 million from prior year. Contributed Capital increased 94.6% or \$3.8 million.

Investment income increased by \$0.218 million to \$0.701 million. There was no offset from retirement of assets. The loss on equity investment in East Bay Dischargers Authority (EBDA) was \$0.093 million. Despite instruments in our diversified portfolio maturing and absent new acquisitions, our investment income remained strong in FY 2018. High returns from LAIF and remaining portfolio investments resulted in a higher weighted investment yield at June 30, 2018, of 1.804%, with a weighted average portfolio life of 280 days compared to a weighted investment yield at June 20, 2017, of 1.418%, with a weighted average portfolio life of 649 days. These factors resulted in a net increase in investment income of \$0.061 million in FY 2018 over FY 2017.

The District's operating expenses increased from prior year \$4.5 million or 8.5%. The increase is primarily due to increases in the contribution percentage for employee retirement plans; cost of living salary adjustments; and an increase in expenses for treatment plant chemicals and other services.

In FY 2017, the District's total operating revenues increased by \$2.6 million, or 5.1%. The increase was mainly due to a 1.0% increase in the sewer service charge rate. Contributed capital was \$3.9 million, an increase of \$2.1 million over FY 2016. Most major cost categories increased from FY 2016 resulting in an increase of 3.8% in the total cost of all programs and services, including depreciation.



UNION SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2018, the District had approximately \$338.4 million invested in a broad range of capital assets, including facilities and equipment for the plant, collections, and administrative facilities. This amount represents a net decrease of \$0.811 million compared to last year. Additions to CIP were \$7.6 million in FY 2018 versus \$13.9 million in FY 2017.

Total CIP placed into service was \$3.03 million in FY 2018 versus \$9.8 million in FY 2017.

The District has outstanding construction contract commitments on capital projects approximating \$51.3 million at June 30, 2018. Major projects and related activity included:

Table 3 – Additions to CIP, Net

Digester No. 3 Insp & Rehab	\$ 1,180,690
Primary Digester No. 7	1,114,610
Force Main Corrosion Repairs - West	871,205
Hypo Tanks and Piping Replacement	803,092
3rd Sludge Degritter System	779,921
Newark PS Mod Valve & Boost Line Mods	684,880
Force Main Corrosion Repairs - Plant	653,261
Thickener Control Building Improvements, Phase 2	653,086
Fremont & Paseo Padre LS Improvements	374,850
Headworks Knife Gate Valves Replacement	248,228
Others	210,992
Total	<u>\$ 7,574,816</u>

UNION SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

This year's additions (placed into service) included:

Table 4 – Total CIP Placed into Service

High Speed Aeration Blower	\$ 1,227,563.92
Force Main Corrosion Repairs - West	1,015,374
Headworks Knife Gate Valves Replacement	516,219
ECMS Implementation	188,307
CS GIS Web Application Replacement	40,824
Mobile Project Year 3 FY16	39,178
MCC & PLC Replacement - Phase 3	360
Upper Hetch Hetchy SS Rehabilitation	15
Total	<u>\$ 3,027,841</u>

More detailed information about the District's capital assets is presented in Note 2 to the financial statements.

Debt Administration

At year-end, the District had \$41.9 million in loans outstanding versus \$44.3 million last year. This debt consists of nine State Revolving Fund loans.

Other obligations include accrued vacation pay and sick leave. More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.

New Significant Accounting Standards Implemented

In FY 2018, the following Governmental Accounting Standards Board (GASB) pronouncements impacted the District:

GASB Statement No. 75 – In June 2015, GASB issued statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Statement No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in statement 75 are effective for fiscal years beginning after June 15, 2017. This statement was implemented by the District as of July 1, 2017.

UNION SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

NEXT YEAR'S BUDGET AND RATES

The Board of Directors adopted the FY 2019 Budget with total appropriations of \$56.4 million. Of that amount, \$9.29 million is appropriated for capital projects (both for design and construction) such as the Digester No. 7, Stand-by Power Generation System Upgrade, Headworks 3rd Bar Screen, and Force Main Corrosion Repairs (phase 2). The budget also includes \$1.4 million in special projects such as the Financial Master Plan, Treatment Plant Master Plan, Newark Basin Master Plan, and the IT Master Plan. This budget includes the third year of a five-year sewer service charge rate increase that became effective on July 1, 2016. The FY 2018 rate increase for residential sewer service charges was 3.5%. Total estimated revenues for FY 2019 are \$75.4 million which includes \$57 million in sewer service charges. Connection fee revenues are estimated at \$16.2 million. To stay competitive with the market, the appropriations include a cost of living increase of 3.5% for union employees and an overall cost of living increase for exempt employees of 4.2%. All other appropriations are consistent with FY 2018.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at (510) 477- 7500.

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UNION SANITARY DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

Assets:

Current Assets:

Cash, cash equivalents	\$ 7,223,399
Investments	104,340,800
Receivables:	
Accounts, net	3,179,550
Accrued interest	405,866
Inventories	753,419
Other	33,979

Total Current Assets

115,937,013

Noncurrent Assets:

Capital assets

Non depreciable capital assets	
Land and improvements	5,395,903
Construction in progress	41,610,079
Capacity permits and easements	6,415,898
Depreciable capital assets	
Utility plant in service	680,731,835
Less: Accumulated depreciation	(395,785,513)
Net capital assets	338,368,202

Other Assets

Restricted investments	3,912,080
Investment in East Bay Dischargers Authority	5,990,293
Total other assets	9,902,373

Total Noncurrent Assets

348,270,575

Total Assets

\$ 464,207,588

Deferred Outflows of Resources:

Deferred outflows related to pensions	\$ 11,176,830
Deferred outflows related to OPEB	708,037

Total Deferred Outflows of Resources

\$ 11,884,867

Liabilities:

Current liabilities:

Accounts payable and accrued expenses	\$ 2,567,168
Accrued payroll and related expenses	697,807
Interest payable	504,689
Customer deposits	3,428,951
Accrued compensated absences	1,006,178
Bonds, notes, and capital leases	2,870,006

Total Current Liabilities

11,074,799

Long-term liabilities:

Bonds, notes, and capital leases	39,055,508
Net pension liability	46,751,259
Net OPEB liability	6,239,652

Total Long-Term Liabilities

92,046,419

Total Liabilities

\$ 103,121,218

Deferred Inflows of Resources:

Deferred inflows related to pensions	\$ 185,614
Deferred inflows related to OPEB	1,277,506

Total Deferred Inflows of Resources

\$ 1,463,120

Net Position:

Net investment in capital assets	\$ 296,442,688
Restricted for:	
Capacity purposes	51,471,608
SRF loan contingency reserve	3,902,080
Unrestricted	19,691,741

Total Net Position

\$ 371,508,117

See Notes to Financial Statements

UNION SANITARY DISTRICT

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

Operating Revenues:	
Sewer service charges (SSC)	\$ 54,260,096
Other operating revenues	1,631,870
Total Operating Revenues	55,891,966
Operating Expenses:	
Sewage treatment	18,657,355
Sewage collection and engineering	14,173,382
General and administration	7,611,460
Total Operating Expenses Before Depreciation	40,442,197
Depreciation	17,003,398
Total Operating Expenses	57,445,595
Operating (Loss)	(1,553,629)
Nonoperating Revenues (Expenses):	
Net investment income and net realized gains and losses	700,856
Interest expense	(1,479,413)
Loss on equity investment in East Bay Dischargers Authority	(90,325)
Net Nonoperating Revenues (Expenses)	(868,882)
(Loss) Before Contributed Capital	(2,422,511)
Connection fees and other contributed capital	31,338,298
Changes in Net Position	28,915,787
Net Position:	
Beginning of Fiscal Year	351,734,929
Restatements	(9,142,599)
Beginning of Fiscal Year, as restated	342,592,330
End of Fiscal Year	\$ 371,508,117

UNION SANITARY DISTRICT

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

Cash Flows from Operating Activities:

Receipts from customers and users	\$ 56,113,703
Payments to suppliers for goods and services	(19,428,342)
Payments to employees for services	(16,926,210)
Receipts from (payments to) customer deposits	2,087,695

Net Cash Provided by Operating Activities	21,846,846
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**Cash Flows from Capital
and Related Financing Activities:**

Proceeds from capital debt	455,642
Capital contributions	23,623,947
Acquisition and construction of capital assets	(9,467,412)
Principal paid on capital debt	(2,802,542)
Interest paid on capital debt	(1,451,941)

Net Cash Provided by Capital and Related Financing Activities	10,357,694
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Cash Flows from Investing Activities:

Purchase of investments	(30,294,476)
Interest received	540,288

Net Cash (Used) in Investing Activities	(29,754,188)
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Net Increase in Cash and Cash Equivalents	2,450,352
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Cash and Cash Equivalents at Beginning of Year	4,773,047
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Cash and Cash Equivalents at End of Year	\$ 7,223,399
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**Reconciliation of Operating Income to Net Cash
(Used) by Operating Activities:**

Operating (loss)	\$ (1,553,629)
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**Adjustments to reconcile operating income (loss)
net cash provided (used) by operating activities:**

Depreciation	17,003,398
Increase (decrease) in Pension related items	4,036,743
Increase (decrease) in OPEB related items	(193,230)
(Increase) decrease in accounts receivable	221,737
(Increase) decrease in inventories and other	(14,492)
Increase (decrease) in accounts payable and accrued expenses	40,133
Increase (decrease) in accrued liabilities	114,218
Increase (decrease) in customer deposits	2,087,695
Increase (decrease) in compensated absences	104,273

Total Adjustments	23,400,475
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Net Cash Provided (Used) by Operating Activities	\$ 21,846,846
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Non-Cash Investing, Capital, and Financing Activities:

Contributions of capital assets	\$ 7,714,351
Increase/(Decrease) in equity in East Bay Dischargers Authority	(90,325)

See Notes to Financial Statements

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UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Note 1: Organization and Summary of Significant Accounting Policies

The Organization

Union Sanitary District (the "District") operates pursuant to Division 6 of the Health and Safety Code of the State of California (Sanitary District Act of 1923, as amended). The District, which was established in 1918 and subsequently reorganized in 1923, is empowered to own and operate wastewater facilities, and the Board of Directors may prescribe, revise and collect fees or charges for services and facilities of the District in connection with its wastewater system.

The District is governed by a five-member Board of Directors elected by wards for four-year overlapping terms. The election is at-large and non-partisan. The Board appoints the General Manager to manage and oversee the day-to-day operations.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to enterprise governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. The GASB establishes standards for external financial reporting for all state and local governmental entities, which require a management and discussion and analysis section, a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, restricted, and unrestricted.

The Financial Reporting Entity

For financial reporting purposes component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable, and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District considered all potential component units in determining what organizations should be included in the financial statements. The District has determined that there are no component units that meet these criteria as of, and for the year ended June 30, 2018. The District includes all funds that are controlled by, or dependent upon the Board of Directors of the District.

In addition, the District's share of a Joint Powers Authority (East Bay Dischargers Authority) is reflected based upon the District's proportionate share of its investment in the discharge facilities in the Authority (see Note 5).

a. Basis of Accounting and Measurement Focus

The financial statements of the District are presented as those of an enterprise fund under the broad category of funds called proprietary funds, which also include internal service funds. All proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset utilized.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Enterprise funds account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The acquisition and capital improvement of the physical plant facilities requires that these goods and services be financed from existing cash resources, cash flow from operations, the issuance of debt, and contributed capital.

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

b. Cash and Cash Equivalents

The District considers all highly liquid investments, which are readily convertible into known amounts of cash and have a maturity of three months or less when acquired, to be cash equivalents. As of June 30, 2018, cash equivalents consist of U.S. Treasury funds in a sweep account and money market funds.

Certain cash and cash equivalents have been placed into escrow according to the requirements of ongoing construction contracts. Accordingly, such cash and cash equivalents have been classified as restricted in the accompanying financial statements.

c. Investments

Investments, which consist of short-term, fixed-income securities at June 30, 2018, are recorded at fair value using quoted market prices. The related net realized and unrealized gains (losses) on investments are recognized in the accompanying statement of revenues expenses, and changes in net position.

d. Inventory

Inventory is held for consumption and is recorded at cost using the first-in-first-out (FIFO) basis.

e. Capital Assets

Capital assets, including costs of addition to utility plant and major replacements of property, are capitalized and stated at cost. The District's capitalization threshold is \$10,000. Such capital costs include materials, direct labor, transportation, and such indirect costs as interest and contracted engineering. Contributed property is recorded at acquisition value as of the date of donation. Repairs, maintenance, and minor replacements of property are charges to expense.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

f. Depreciation

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of those assets. The amount charged to depreciation expense each year represents that year's pro rata share of capital asset costs.

Depreciation of all capital assets in service is charged as an expense against operations each year. Accumulated depreciation, the total amount of depreciation taken over the years, is reported on the statement of net position as a reduction in the gross value of the capital assets.

Depreciation of capital assets in service is calculated using the straight line method, dividing the cost of the asset by its expected useful life in years. The result is charged to expense each year until the asset is fully depreciated. It is the District's policy to utilize the half-year convention when calculating depreciation. The District has assigned the following useful lives to capital assets:

Useful Lives

Wastewater collection facilities	50 – 115 years
Wastewater treatment facilities	10 – 50 years
District facilities	10 – 35 years
General equipment	3 – 35 years

The aggregate provision for depreciation was 2.97 percent of average depreciable plant during the year ended June 30, 2018.

g. Compensated Absences

Compensated absences, including accumulated unpaid vacation, sick pay and other employee benefits, are accounted for as expenses in the year earned. The liability for compensated absences includes the vested portions of vacation, sick leave, and compensated time off. The liability for compensated absences is determined annually.

h. New Accounting Pronouncements

GASB Statement No. 75 Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions - improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. This Statement replaces GASB 45 and GASB 57.

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

i. Net Position

Net position is measured on the full accrual basis and is the excess of all the District's assets and deferred outflows over all its liabilities and deferred inflows. Net position is classified into the following components: net investment in capital assets, restricted and unrestricted. Restricted net position describes the portion of net position which is restricted as to use by the terms and conditions of agreement with outside parties, governmental regulations, laws, enabling legislation or other restrictions which the District cannot unilaterally alter. It is the District's policy to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

The following categories of restricted net position are described as follows:

- Net Position Restricted for Capacity Purposes – restricted for activities related to increases in the capacity of the collection and/or treatment systems.
- Net Position Restricted for Debt Purposes – the State requires a contingency reserve for State Revolving Fund loan balances.

j. Classification of Revenues and Expenses

Operating revenues consist primarily of sewer service charges to customers, which are billed and collected on behalf of the District by Alameda County (the County) as a separate component of semiannual property tax billings. Property taxes are levied on March 1 and are due in equal installments on November 1 and February 1. The County remits to the District those charges which are placed on the property tax roll and handles all delinquencies, retaining interest and penalties.

Non-operating revenues consist of investment income and special charges that can be used for either operating or capital purposes.

Capital contributions consist of contributed capital assets, connection, and capacity fees that are legally restricted for capital expenditures by State law or by Board actions that established those charges. Connection and capacity fees represent a one-time contribution of resources to the District, imposed on contractors and developers for the purpose of financing capital improvements.

Operating expenses are those expenses that are essential to the primary operations of the District. Operating expenses include costs related to wastewater collection and treatment, as well as engineering and general and administrative expenses. Other expenses such as investment losses, interest expense, and loss on retirement of capital assets are reported as non-operating expenses.

k. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1: Organization and Summary of Significant Accounting Policies (Continued)**I. Deferred Outflows/Inflows of Resources**

Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period and deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period. A deferred outflows of resources has a positive effect on net position, similar to assets, and a deferred inflows of resources has a negative effect on net position, similar to liabilities. The District has certain items, which qualify for reporting as deferred outflows of resources and deferred inflows of resources.

m. Pensions

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

n. Other Post-Employment Benefit (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan ("OPEB Plan"), the assets of which are held by CalPERS, and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

Recognition of Deferred Outflows and Deferred Inflows of Resources

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

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

Net difference between projected and actual earning on OPEB plan investments	5 years
All other Amounts	Expected average remaining service lifetime (EARSL) (6.42 years at June 30, 2017)

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018

Note 2: Capital Assets

Capital asset activity for the year ended June 30, 2018, is summarized as follows:

	Balance June 30, 2017	Adjustments	Adjusted Balance	Additions	Deletions	Transfers	Balance June 30, 2018
Capital assets, not being depreciated:							
Land and improvements	\$ 5,395,903	\$ -	\$ 5,395,903	\$ -	\$ -	\$ -	\$ 5,395,903
Construction in progress	37,063,104	(689,755)	36,373,349	8,563,701	(299,130)	(3,027,841)	41,610,079
Capacity permits and easements	6,415,898	-	6,415,898	-	-	-	6,415,898
Total capital assets, not being depreciated	48,874,905	(689,755)	48,185,150	8,563,701	(299,130)	(3,027,841)	53,421,880
Capital assets, being depreciated:							
Sewage collection facilities	425,193,528	-	425,193,528	7,767,777	-	1,015,389	433,976,694
Sewage treatment facilities	156,386,809	-	156,386,809	166,196	-	1,744,143	158,297,148
District facilities	73,534,626	-	73,534,626	-	-	-	73,534,626
General equipment	7,322,021	-	7,322,021	142,868	(65,385)	268,309	7,667,813
Fleet	6,714,333	-	6,714,333	541,221	-	-	7,255,554
Total capital assets, being depreciated	669,151,317	-	669,151,317	8,618,062	(65,385)	3,027,841	680,731,835
Less accumulated depreciation for:							
Sewage collection facilities	(242,391,683)	-	(242,391,683)	(8,867,468)	-	-	(251,259,151)
Sewage treatment facilities	(89,083,638)	-	(89,083,638)	(5,026,684)	-	-	(94,110,322)
District facilities	(37,905,246)	-	(37,905,246)	(2,090,032)	-	-	(39,995,278)
General equipment	(5,416,075)	-	(5,416,075)	(536,629)	65,385	-	(5,887,319)
Fleet	(4,050,858)	-	(4,050,858)	(482,585)	-	-	(4,533,443)
Total accumulated depreciation	(378,847,500)	-	(378,847,500)	(17,003,398)	65,385	-	(395,785,513)
Total capital assets being depreciated, net	290,303,817	-	290,303,817	(8,385,336)	-	3,027,841	284,946,322
Total Capital Assets, net	\$ 339,178,722	\$ (689,755)	\$ 338,488,967	\$ 178,365	\$ (299,130)	\$ -	\$ 338,368,202

Construction work in progress consists primarily of the direct construction costs associated with numerous District projects plus related construction overhead. The District has outstanding construction contract commitments on capital projects approximating \$51.3 million at June 30, 2018.

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 3: Cash and Investments

a. Summary of Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments at June 30, 2018, are detailed as follows:

Cash and cash equivalents	\$ 7,223,399
Restricted investments	3,912,080
Investments	<u>104,340,800</u>
Total cash and cash equivalents and investments	<u>\$ 115,476,279</u>

b. Authorized Investments by the District

The District's investment policy and the California Government Code allow the District to invest in the following investments, with certain limiting provisions that address interest rate, risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Remaining Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Obligations (a)	5 years	N/A	None	None
Banker's Acceptances (b)	180 days	A1/P1 (ST) A (LT)	40%	10%
Certificates of Deposit	180 days	N/A	30%	10%
Negotiable Certificates of Deposit	5 years	A1 (ST) A (LT)	30%	10%
Repurchase Agreements (c)	90 days	N/A	10%	10%
Commercial Paper	270 days	"Prime" quality	25%	10%
Local Agency Investment Fund (LAIF)	N/A	N/A	70%	None
Corporate Notes (d)	5 years	A	30%	10%
Mortgage Pass-through and Asset Backed Securities	N/A	AAA or Aaa	20%	10%
Money Market Funds	N/A	AAA or Aaa	20%	10%

- a) Securities issued by agencies sponsored by the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC).
- b) Bankers Acceptances issued by institutions the short term obligations of which are rated at a minimum of "P1" by Moody's Investor Services (Moody's) and A1 by Standard & Poor's, Inc. (S&P); or if the short term obligations are unrated, the long-term obligations of which are rated a minimum of "A" by S&P.
- c) Repurchase agreements must be collateralized with U.S. Treasury Obligation or U.S. Agency Securities, which must maintain a market value of at least 102% of the principal of the repurchase agreement.
- d) Securities shall be issued by corporations rated a minimum of "A" by S&P.

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 3: Cash and Investments (Continued)

c. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2018:

	Maturities of			Total
	12 Months Or Less	12 to 24 Months	25 to 60 Months	
U.S. Treasury Obligations	\$ 2,986,840	\$ -	\$ -	\$ 2,986,840
U.S. Agency Obligations:				
FFCB	2,976,800	1,966,410	969,730	5,912,940
FHLB	1,988,830	-	5,877,670	7,866,500
FHLMC	3,975,370	2,952,810	4,395,500	11,323,680
FNMA	-	-	961,410	961,410
Corporate Notes	999,700	2,473,810	7,920,740	11,394,250
Certificates of Deposit	245,339	1,219,505	2,172,989	3,637,833
LAIF	61,109,474	-	-	61,109,474
Local Government Investment Pool (CAMP)	3,059,953	-	-	3,059,953
Total Investments	77,342,306	8,612,535	22,298,039	108,252,880
Cash in bank	7,223,399	-	-	7,223,399
Total Cash and Investments	\$ 84,565,705	\$ 8,612,535	\$ 22,298,039	\$ 115,476,279

d. LAIF Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based in the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills and corporations. The carrying value of LAIF approximates fair value. At June 30, 2018, these investments mature in an average of 193 days.

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018

Note 3: Cash and Investments (Continued)

e. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the actual rating as of June 30, 2018, for each investment type:

Investment Type	Aaa	Aa3	Aa2	A1	A2	WR	Total
U.S. Agency Obligations							
FFCB	\$ 5,912,940	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,912,940
FHLB	7,866,500	-	-	-	-	-	7,866,500
FHLMC	10,324,860	-	-	-	-	998,820	11,323,680
FNMA	961,410	-	-	-	-	-	961,410
Corporate Notes	1,807,513	973,910	2,612,177	2,061,320	2,939,630	999,700	11,394,250
Totals	<u>\$ 26,873,223</u>	<u>\$ 973,910</u>	<u>\$ 2,612,177</u>	<u>\$ 2,061,320</u>	<u>\$ 2,939,630</u>	<u>\$ 1,998,520</u>	<u>37,458,780</u>
Exempt from credit rate disclosure							
U.S. Treasury Obligations							2,986,840
Not rated							
Certificates of deposit							3,637,833
California Local Agency Investment Fund							61,109,474
Local Government Investment Pool (CAMP)							3,059,953
Cash and cash equivalents							7,223,399
Total Cash, Cash Equivalents and Investments							<u>\$ 115,476,279</u>

f. Concentration of Credit Risk

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer.

As of fiscal year ended June 30, 2018, more than 5 percent of the District's investments were in FFCB, FHLB, and FHLMC. These investments were 5.5 percent, 7.3 percent, and 10.5 percent, respectively, of the District's total investments.

g. Custodial Credit Risk

Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy, as well as the California Government Code, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's total bank balance of \$8,210,117 was either collateralized or insured by the Federal Deposit Insurance Corporation (FDIC). Certificates of Deposit were also collateralized.

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018

Note 3: Cash and Investments (Continued)

Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. However, the District's policy states that all security transactions entered into by the District shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the District by book entry, physical delivery, or by third party custodial agreement as required by CGC Section 53601. The collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under CGC Section 53601(i) (2).

Note 4: Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Local Agency Investment Funds/State Investment Pools are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018

Note 4: Fair Value Measurements (Continued)

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
U.S. Agency Obligations					
FFCB	\$ 5,912,940	\$ -	\$ 5,912,940	\$ -	\$ -
FHLB	7,866,500	-	7,866,500	-	-
FHLMC	11,323,680	-	11,323,680	-	-
FNMA	961,410	-	961,410	-	-
Corporate Notes	11,394,250	-	11,394,250	-	-
Local Government Investment Pool (CAMP)	3,059,953	-	-	-	3,059,953
U.S. Treasury Obligations	2,986,840	-	2,986,840	-	-
Certificates of Deposits	3,637,833	-	3,637,833	-	-
California Local Agency Investment Fund (LAIF)	61,109,474	-	-	-	61,109,474
Totals	<u>\$ 108,252,880</u>	<u>\$ -</u>	<u>\$ 44,083,453</u>	<u>\$ -</u>	<u>\$ 64,169,427</u>

Note 5: Joint Ventures

Alameda County Water District Financing Authority

The Alameda County Water District Financing Authority, a Joint Powers Authority, was established through Joint Exercise of Powers Agreement between the Alameda County Water District (ACWD) and Union Sanitary District (USD) on November 14, 2011 for the purpose of assisting in the financing and refinancing of capital improvement projects of the ACWD and to finance working capital for the ACWD. The assets, debts, liabilities, and obligations of the Authority do not constitute assets, debts, liabilities, and obligations of Union Sanitary District. The Authority is administered by the Board, which consists of one member from Union Sanitary District and five members from the Alameda County Water District.

Investment in East Bay Dischargers Authority

The District has an 18.7 percent interest in East Bay Discharges Authority (EBDA), a Joint Powers Authority established under the Joint Exercise of Powers Act of the State of California. As a separate legal entity, EBDA exercises full power and authority within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of EBDA are not those of the District and the other participating entities.

EBDA constructed and operates an export pumping facility through which all treated wastewater in the area is discharged. The other participants (and their ownership percentages) are the City of Hayward (33 percent), the City of San Leandro (18.6 percent), and the Oro Loma and Castro Valley Sanitary Districts (collectively, 29.7 percent). The District has rights to 18.7 percent of EBDA's capacity.

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018

Note 5: Joint Ventures (Continued)

EBDA is governed by a board of directors consisting of representatives from each member agency. The board controls the operations of EBDA, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on the Board.

Because the District has the ability to exercise influence over operating and financial policies of the EBDA, the District's proportionate share of EBDA's net position, excluding sole use of facilities, and the District's share of its undivided ownership (18.7 percent) in EBDA's total net equity, has been recorded as an investment in EBDA accounted for under the equity method.

Summary financial information for EBDA, as of June 30, 2017, and for the years then ended, the most recent audited information available, is as follows:

	2017
Total assets and deferred outflows	\$ 33,317,359
Total liabilities and deferred inflows	1,283,709
Net position value of EBDA	\$ 32,033,650
District's share at 18.7%	\$ 5,990,293
Net loss on equity investment in EBDA	\$ 52,458

EBDA has no outstanding debt.

During fiscal year ended June 30, 2018, the District was charged \$1,512,573 by EBDA primarily for operating costs. Such costs are included in the wastewater treatment expenses by the District for financial reporting purposes.

The financial statement for EBDA may be obtained from the EBDA, 2651 Grant Avenue, San Lorenzo, CA 94580-1841.

Note 6: Long-Term Obligations

Long-term obligations at June 30, 2018, are summarized as below:

	Maturity Date	Interest Rate	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Current Portion
2003 State Revolving Fund Loan - Irvington	08/30/23	2.4%	\$ 5,788,299	\$ -	\$ 769,245	\$ 5,019,054	\$ 787,707
2008 State Revolving Fund Loan - Willow	11/16/27	2.4%	1,037,007	-	83,496	953,511	85,500
2008 State Revolving Fund Loan - Newark	01/26/30	2.7%	7,431,098	-	484,766	6,946,332	497,854
2008 State Revolving Fund Loan - Hetch Hetchy	11/17/28	2.7%	1,415,137	-	101,424	1,313,713	104,163
2009 State Revolving Fund Loan - Cedar Blvd.	02/26/30	2.5%	1,398,699	-	92,382	1,306,317	94,690
2011 State Revolving Fund Loan - Primary Cl.	01/15/33	2.7%	7,581,124	-	385,093	7,196,031	395,490
2011 State Revolving Fund Loan - Substation 1	02/28/32	2.6%	1,933,675	-	107,052	1,826,623	109,835
2011 State Revolving Fund Loan - Boyce Rd. Lift Station	03/31/33	2.6%	5,590,616	-	265,708	5,324,908	272,616
2014 State Revolving Fund Loan - Thickner Improvement	03/31/37	2.1%	12,096,759	455,642	513,376	12,039,025	522,151
			44,272,414	455,642	2,802,542	41,925,514	2,870,006
Compensated Absences	N/A	N/A	901,905	1,124,778	1,020,505	1,006,178	1,006,178
			\$ 45,174,319	\$ 1,580,420	\$ 3,823,047	\$ 42,931,692	\$ 3,876,184

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 6: Long-Term Obligations (Continued)

2003 State Revolving Fund Loan – Irvington

During 2003, the District entered into a loan agreement with the California State Water Resources Control Board in accordance with the State Revolving Fund Loan Program. As of March 26, 2004, \$14,301,057, the maximum loan amount, had been drawn. The interest rate on the loan is 2.4 percent and is payable in twenty annual installments, beginning on year after initial loan disbursement. The purpose of this loan was to finance the Irvington Equalization Storage Facilities project.

2008 State Revolving Fund Loan – Willow

During 2008, the District entered into a loan agreement with the California State Water Resources Control Board in accordance with the State Revolving Fund Loan Program. The interest rate on the loan is 2.4 percent and is payable in twenty annual installments, beginning one year after initial loan disbursement. The purpose of this loan was to finance the Willow/Central Avenue sanitary sewer rehabilitation project. The maximum amount of this agreement is \$1,749,329 based upon projected costs to be incurred. As of June 30, 2018, \$1,710,471 has been advanced under this agreement.

2008 State Revolving Fund Loan – Newark Pump Station

During 2008, the District entered into a loan agreement with the California State Water Resources Control Board in accordance with the State Revolving Fund Loan Program. The interest rate on the loan is 2.7 percent and is payable in twenty annual installments, beginning in 2011. The purpose of this loan was to finance the Newark Pump Station project. The maximum amount of this agreement is \$10,283,322 based upon projected costs to be incurred. As of June 30, 2018, \$10,283,322, the maximum loan amount, has been advanced under this agreement.

2008 State Revolving Fund Loan – Hetch Hetchy

During 2008, the District entered into a loan agreement with the California State Water Resources Control Board in accordance with the State Revolving Fund Loan Program. The interest rate on the loan is 2.7 percent and will be payable in twenty annual installments beginning one year after initial loan disbursements. The purpose of this loan is to finance the lower Hetch Hetchy sewer rehabilitation project. The maximum amount of this agreement is \$2,212,432 based upon projected costs to be incurred. As of June 30, 2018, \$2,113,379 has been advanced under this agreement.

2009 State Revolving Fund Loan – Cedar Boulevard

During 2009, the District entered into a loan agreement with the California State Water Resources Control Board in accordance with the State Revolving Fund Loan Program. The interest rate on the loan is 2.5 percent and will be payable in twenty annual installments beginning one year after the initial loan disbursements. The purpose of this loan is to finance the Cedar Boulevard Sanitary Sewer Rehabilitation Project. The maximum amount of this agreement is \$2,052,841 based upon projected costs to be incurred. As of June 30, 2018, \$1,998,384 has been advanced under this agreement.

Note 6: Long-Term Obligations (Continued)

2011 State Revolving Fund Loan – Primary Clarifier

During 2011, the District entered into a loan agreement with the California State Water Resources Control Board in accordance with the State Revolving Fund Loan Program. The interest rate on the loan is 2.7 percent and will be payable in twenty annual installments beginning one year after the initial loan disbursements. The purpose of this loan is to finance the rehabilitation of primary clarifiers (Nos. 1 through 4) at the Alvarado Wastewater Treatment Plant. The maximum amount of this agreement is \$8,821,860 based upon projected costs to be incurred. As of June 30, 2018, \$8,821,860, the maximum loan amount, has been advanced under this agreement.

2011 State Revolving Fund Loan – Substation 1

During 2011, the District entered into a loan agreement with the California State Water Resources Control Board in accordance with the State Revolving Fund Loan Program. The interest rate on the loan is 2.6 percent and will be payable in twenty annual installments beginning one year after the initial loan disbursements. The purpose of this loan is to finance the replacement of Substation 1 to ensure its continual operation. The maximum amount of this agreement is \$2,676,485 based upon projected costs to be incurred. As of June 30, 2018, \$2,412,908 has been advanced under this agreement.

2011 State Revolving Fund Loan – Boyce Rd. Lift Station

During 2011, the District entered into a loan agreement with the California State Water Resources Control Board in accordance with the State Revolving Fund Loan Program. The interest rate on the loan is 2.6 percent and will be payable in twenty annual installments beginning one year after the initial loan disbursements. The purpose of this loan is to finance the replacement of Boyce Road Lift Station to ensure its continual operation. The maximum amount of this agreement is \$6,196,671 based upon projected costs to be incurred. As of June 30, 2018, \$6,196,671, the maximum loan amount, has been advanced under this agreement.

2014 State Revolving Fund Loan –Thickener Control Building

During December 2013, the District entered into a loan agreement with the California State Water Resources Control Board in accordance with the State Revolving Fund Loan Program. The interest rate on the loan is 2.1 percent and will be payable in twenty annual installments beginning March 2018. The purpose of this loan is to finance the Thickener Control Building Improvements Project to ensure its continual operation. The maximum amount of this agreement is \$12.2 million based upon projected costs to be incurred. As of June 30, 2018, \$12.2 million, the maximum loan amount, has been advanced under this agreement.

UNION SANITARY DISTRICT**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**
JUNE 30, 2018**Note 6: Long-Term Obligations (Continued)*****Debt Service Requirements***

Future annual repayment requirements as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 2,870,006	\$ 1,032,073	\$ 3,902,079
2020	2,941,174	960,907	3,902,081
2021	3,014,117	887,963	3,902,080
2022	3,088,884	813,196	3,902,080
2023	3,165,519	736,560	3,902,079
2024-2028	13,280,361	2,597,383	15,877,744
2029-2033	10,221,076	1,052,457	11,273,533
2034-2037	3,344,377	166,568	3,510,945
Totals	\$ 41,925,514	\$ 8,247,107	\$ 50,172,621

Note 7: Pension Plan**General Information about the Pension Plans****Plan Descriptions**

All qualified permanent employees are eligible to participate in the District's separate Miscellaneous Plan, agent multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at <https://www.calpers.ca.gov/page/employers/actuarial-services/employer-contributions/public-agency-actuarial-valuation-reports>

Benefits Provided

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

UNION SANITARY DISTRICT**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**
JUNE 30, 2018

Note 7: Pension Plan

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire Date		
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50+	52+
Monthly benefits, as a % of annual salary	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	22.299%	11.835%

Employees Covered

At June 30, 2018, the following employees were covered by the benefit terms of the Plan:

	Miscellaneous
Inactive employees or beneficiaries currently receiving benefits	172
Inactive employees entitled to but not yet receiving benefits	68
Active employees	137
Totals	377

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

For the year ended June 30, 2018 the average employee contribution rate was 8.0 percent of annual payroll, and the District's average rate was 22.299 percent of annual payroll. The total contribution to the plan was \$3,572,132 for the year ended June 30, 2018.

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018

Note 7: Pension Plan (Continued)

Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017.

A summary of principal assumptions used to determine the net pension liability is shown as follows:

Actuarial Assumptions

The total pension liabilities in the June 30, 2016, actuarial valuation were determined using the following actuarial assumptions.

	<u>Miscellaneous</u>
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal cost method
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Projected Salary increases	Varies by Entry Age and Service
Mortality rate table*	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The mortality table used for Miscellaneous Plan was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 Experience Study Report available on CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a December 2017 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website at: <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2017.pdf>

Change in Assumptions

In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018

Note 7: Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

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.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Target Allocation		Real Return
	2016	Years 1-10*	Years 11+ **
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%

* An expected inflation of 2.5% used for this period

**An expected inflation of 3.0% used for this period

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018

Note 7: Pension Plan (Continued)

Changes in the Net Pension Liability

The changes in the Net Pension Liability for the District are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2016	\$ 127,008,243	\$ 87,151,779	\$ 39,856,464
Change in the year:			
Service Cost	2,818,370	-	2,818,370
Interest on total pension liability	9,548,343	-	9,548,343
Differences between expected and actual experience	900,525	-	900,525
Changes in assumptions	7,589,483	-	7,589,483
Plan to plan resource movement	-	-	-
Contribution-employer	-	3,203,124	(3,203,124)
Contribution-employee	-	1,256,350	(1,256,350)
Net investment income	-	9,631,126	(9,631,126)
Administrative Expenses	-	(128,674)	128,674
Benefit payments, including refunds of employee contributions	(6,728,358)	(6,728,358)	-
Net changes	14,128,363	7,233,568	6,894,795
Balance at June 30, 2017	\$ 141,136,606	\$ 94,385,347	\$ 46,751,259

Change in Assumption

The accounting discount rate reduced from 7.65% to 7.15%. The changes in assumption are reflected in the deferred outflows of resources.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the District for the Plan, calculated using the discount rate, as well as what the District'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:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	\$ 64,924,450
Current Discount Rate	7.15%
Net Pension Liability	46,751,259
1% Increase	8.15%
Net Pension Liability	31,618,627

Pension Plan Fiduciary Net Position

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

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 7: Pension Plan (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the District recognized pension expense of \$7,478,110. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,572,132	\$ -
Differences between actual and expected experience	993,175	-
Changes in assumptions	5,357,282	(185,614)
Net differences between projected and actual earnings on plan investments	1,254,241	-
Totals	\$ 11,176,830	\$ (185,614)

The amount of \$3,572,132 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,	
2018	\$ 2,550,947
2019	4,038,269
2020	1,532,896
2021	(703,028)

Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$105,721 for the outstanding amount of contributions to the pension plan.

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018

Note 8: Other Retirement Benefits

a. Post-employment Healthcare Benefit (OPEB)

Plan Description

The District's defined benefit postemployment healthcare plan provides medical benefits to employees who satisfy the requirements for retirement under CalPERS (attained age 50 with five years of service or satisfaction of the requirements for a disability retirement.) The amount of the retiree's medical benefit is dependent upon both years of service with the District and the year the employee retires.

The District contracts with CalPERS to administer its retiree health benefit plan (an agent multiple-employer plan) and to provide an investment vehicle, the California Employers' Retiree Benefit Trust Fund, to prefund future OPEB costs. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. The District chooses among the menu of benefit provisions and adopts certain benefit provisions by Board resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, CA, 95814.

Employees Covered

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	137
Inactive employees or beneficiaries currently receiving benefits	100
Totals	<u><u>237</u></u>

Contributions

The Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the measurement date ended June 30, 2017, the District's cash contributions were \$797,866 in total payments, which were recognized as a reduction to the OPEB liability.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 that was used to determine the June 30, 2018 total OPEB liability, based on the following actuarial methods and assumptions:

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8: Other Retirement Benefits (Continued)

Actuarial funding method	Entry age normal cost, level percent of pay
Asset Valuation Method	Market value of assets
Actuarial assumptions:	
Discount rate	6.73%
Inflation	2.75%
Salary increases	3.25% per year, used only to allocated to cost of benefits between service years
Investment rate of return	6.73%
Mortality Rate*	Derived using CalPERS' membership data for all funds
Pre-Retirement Turnover**	Derived using CalPERS' membership data for all funds
Healthcare Trend Rate	Medical plan premiums are assumed to increase at somewhat higher rates than assumed in the prior valuation, with the assumed medical inflation of 7.5% and ultimate trend of 5.0% per year

Notes:

* Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

** The pre-retirement turnover information was developed based on CalPERS' specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

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

Asset Class	Target Allocation	Long-term expected real rate of return
Global Equity	57.00%	11.10%
Global Debt Securities	27.00%	3.90%
Inflation Assets	5.00%	0.20%
REITs	8.00%	7.60%
Commodities	3.00%	-14.00%
Total	100.00%	

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8: Other Retirement Benefits (Continued)

Change in Assumptions

Mortality improvements were utilized for future rates, healthcare trend increase changed from 4.5% per year to 5.0% per year. Spouse Coverage assumption decrease from 75% to 70% for new married retirees who will cover their spouse and Participation Rate assumption changed from an assumed elect benefit of 70% and 100% to 50% and 90% for MEC only and MOD Benefit, respectively.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.73 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the OPEB Liability

The changes in the net OPEB liability for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2016	\$ 12,247,713	\$ 4,661,591	\$ 7,586,122
Change in the year:			
Service Cost	420,836	-	420,836
Interest on total OPEB liability	832,649	-	832,649
Plan experience	(716,909)	-	(716,909)
Expected investment income		319,533	(319,533)
Changes in assumptions	(761,859)	-	(761,859)
Contribution-employer	-	767,866	(767,866)
Investment experience	-	36,345	(36,345)
Administrative Expenses	-	(2,557)	2,557
Benefit payments, including refunds of employee contributions	(592,698)	(592,698)	-
Net changes	(817,981)	528,489	(1,346,470)
Balance at June 30, 2017	\$ 11,429,732	\$ 5,190,080	\$ 6,239,652

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease (5.73%)	Current Discount Rate (6.73%)	1% Increase (7.73%)
Net OPEB Liability	\$ 7,590,797	\$ 6,239,652	\$ 5,104,839

UNION SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8: Other Retirement Benefits (Continued)

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

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease (6.00%HMO/6.50%PPO decreasing to 3.50%HMO/3.50%PPO)	Current Healthcare Cost Trend Rates (7.00%HMO/7.50%PPO decreasing to 4.50%HMO/4.50%PPO)	1% Increase (8.00%HMO/8.50%PPO decreasing to 5.50%/5.50%PPO)
Net OPEB Liability	\$ 5,454,796	\$ 6,239,652	\$ 7,375,425

OPEB Plan Fiduciary Net Position

CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, California, 95814.

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

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$698,902. As of fiscal year ended June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 708,037	\$ -
Changes of assumptions	-	(643,189)
Differences between expected and actual experience	-	(605,241)
Net difference between projected and actual earnings on OPEB plan investments	-	(29,076)
Total	\$ 708,037	\$ (1,277,506)

The \$708,037 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows/Inflows of Resources
2019	\$ (237,607)
2020	(237,607)
2021	(237,607)
2022	(237,607)
2023	(230,338)
Thereafter	(96,740)
Total	\$ (1,277,506)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8: Other Retirement Benefits (Continued)

b. 401(a) Plans

The District sponsors two internal Revenue Code Section 401(a) money purchase retirement plans for unclassified employees through the ICMA Retirement Corporation. The plans were established and can be amended by Board resolution and, for certain terms, by participant agreement. Eligibility for participation in a particular plan is dependent on job classification. Within each plan, participating employees contribute the same dollar amount of \$3,000 per year for employees under the management plan, and \$1,850 for employees under the professional plan, and the District makes matching contributions on their behalf. The District and the participants each contributed a total of \$15,807 and \$15,807 to the plans for the year ended June 30, 2018.

c. Deferred Compensation Plan

District employees may defer a portion of their compensation under a District sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distribution. Distributions may be made only at termination, retirement, death, or, in an emergency, as defined by the plan.

The laws governing deferred compensation plan assets require plan assets to be held by a trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the District assets and are not subject to District control, they have been excluded from these general purpose financial statements.

Note 9: Risk Management

The District is a member of the California Sanitation Risk Management Authority (CSRMA). CSRMA covers general liability and workers' compensation claims. In addition, commercial insurance is purchased for excess liability, property, and employee dishonesty coverage. The District has a \$500,000 deductible for general liability coverage, and no deductible for workers' compensation coverage.

Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the District has coverage for such claims, but it has retained the risk for the deductible or uninsured portion of these claims. The District's liability for uninsured claims is limited to general liability claims, as discussed above. Settled claims have not exceeded coverage in any of the past three years.

UNION SANITARY DISTRICT**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**
JUNE 30, 2018

Note 10: Commitments and Contingent Liabilities

The District is contingently liable in connection with claims and contracts arising in the normal course of its activities. District management is of the opinion that the ultimate outcome of such matters will not have a significant effect on the financial position of the District.

The following material construction commitments existed at June 30, 2018:

Project Name	Total Committed Amount	Expenses to Date as of June 30, 2018	Remaning Commitment
Cogeneration Project	\$ 15,080,010	\$ 12,542,469	\$ 2,537,541
Standby Power System Upgrade	2,180,841	402,613	1,778,228
Digester No. 3 Insp & Rehab	2,266,373	1,300,685	965,688
Force Main Corrosion Repairs - Phase 2	1,139,132	653,261	485,871
Primary Digester No. 7	1,657,468	1,184,635	472,833

Note 11: Restatement of Prior Year Balances

The various restatements of beginning net position and the reasons for each are as follows:

Beginning Net Position, as Previously Reported	\$ 351,734,929
Restatement (1)- GASB 75	(8,452,843)
Restatement (2)- CIP Deletions	(689,756)
Beginning Net Position, as Restated	<u>\$ 342,592,330</u>

- (1) Beginning net position of the District was restated due to conformance with GASB Statements 75. The District is required to present the accounting results of the District's other post-employment benefit (OPEB) programs required by the Statement.
- (2) Beginning net position of the District was restated due to the removal of prior year additions to construction-in-progress (CIP). These costs have been determined not capitalizable and an adjustment was necessary to properly state capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

UNION SANITARY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

Miscellaneous Plan
Agent Multiple-Employer Defined Benefit Pension Plan
Last 10 Years**
Schedule of Changes in the Net Pension Liability and Related Ratios
During the Measurement Period

Measurement Period	2018 June 30, 2017	2017 June 30, 2016	2016 June 30, 2015	2015 June 30, 2014
Total Pension Liability				
Service Cost	\$ 2,818,370	\$ 2,413,856	\$ 2,285,511	\$ 2,338,837
Interest on total pension liability	9,548,343	9,157,444	8,707,550	8,205,194
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	900,525	621,331	1,118,325	-
Changes in assumptions	7,589,483	-	(2,041,756)	-
Benefit payments, including refunds of employee contributions	(6,728,358)	(6,122,564)	(5,472,643)	(4,871,998)
Net change in total pension liability	14,128,363	6,070,067	4,596,987	5,672,033
Total Pension Liability-beginning	127,008,243	120,938,176	116,341,189	110,669,156
Total Pension Liability-ending (a)	\$ 141,136,606	\$ 127,008,243	\$ 120,938,176	\$ 116,341,189
Plan Fiduciary Net Position				
Contributions-employer	\$ 3,203,124	\$ 2,770,226	\$ 2,536,676	\$ 2,428,874
Contributions-employee	1,256,350	1,206,505	1,187,621	1,356,767
Net investment income	9,631,126	490,693	2,002,533	13,223,974
Benefit payments	(6,728,358)	(6,122,564)	(5,472,643)	(4,871,998)
Plan to plan resource movement	-	-	(8,501)	-
Administrative expense	(128,674)	(54,156)	(100,081)	-
Net change in plan fiduciary net position	7,233,568	(1,709,296)	145,605	12,137,617
Plan Fiduciary Net Position-beginning	87,151,779	88,861,075	88,715,470	76,577,853
Plan Fiduciary Net Position-ending (b)	\$ 94,385,347	\$ 87,151,779	\$ 88,861,075	\$ 88,715,470
Net pension liability-ending (a) - (b)	\$ 46,751,259	\$ 39,856,464	\$ 32,077,101	\$ 27,625,719
Plan fiduciary net position as a percentage of the total pension liability	66.88%	68.62%	73.48%	76.25%
Covered payroll	\$ 15,017,486	\$ 14,229,298	\$ 13,896,353	\$ 13,453,476
Net pension liability as a percentage of covered payroll	311.31%	280.10%	230.83%	205.34%

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amount reported were based on the 7.5 percent discount rate.

**Historical information is required only for measurement periods for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only four years are shown.

UNION SANITARY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Miscellaneous Plan
Agent Multiple-Employer Defined Benefit Pension Plan
Last 10 Years**
Schedule of Plan Contributions

	2018	2017	2016	2015
Actuarial Determined Contribution	\$ 3,572,132	\$ 3,333,889	\$ 3,034,082	\$ 2,973,280
Contribution in relation to the Actuarially Determined Contribution	(3,572,132)	(3,333,889)	(3,034,082)	(2,973,280)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 15,174,379	\$ 15,017,486	\$ 14,229,298	\$ 13,896,353
Contributions as a percentage of covered payroll	23.54%	22.20%	21.32%	21.40%
Notes to Schedule				
Valuation date	6/30/2015	6/30/2014	6/30/2013	6/30/2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method
Amortization method	Direct rate smoothing
Asset valuation method	Market Value
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation.
Retirement age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of Mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using scale AA published by the Society of Actuaries.

**Historical information is required only for measurement periods for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only four years are shown.

UNION SANITARY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 420,836
Interest on the total OPEB liability	832,649
Differences between expected and actual experiences	(716,909)
Changes in assumptions	(761,859)
Changes in benefit terms	-
Benefit payments	(592,698)
Net change in total OPEB liability	(817,981)
Total OPEB liability - beginning	12,247,713
Total OPEB liability - ending (a)	\$ 11,429,732
 Plan Fiduciary Net Position	
Contribution - employer	\$ 767,866
Net investment income	355,878
Benefit payments	(592,698)
Administrative expense	(2,557)
Net change in plan fiduciary net position	528,489
Plan fiduciary net position - beginning	4,661,591
Plan fiduciary net position - ending (b)	\$ 5,190,080
 Net OPEB Liability/(Assets) - ending (a) - (b)	\$ 6,239,652
 Plan fiduciary net position as a percentage of the total OPEB liability	45.41%
 Covered-employee payroll	\$ 15,715,654
 Net OPEB liability as a percentage of covered-employee payroll	39.70%

(1) Historical information is required only for the measurement periods for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation. Future years' information will be displayed up to 10 years as information becomes available.

UNION SANITARY DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

SCHEDULE OF CONTRIBUTIONS

	2018
Actuarially Determined Contribution	\$ 708,037
Contribution in Relation to the Actuarially Determined Contributions	(324,982)
Contribution Deficiency (Excess)	<u>\$ 383,055</u>
Covered-employee payroll	\$ 16,011,213
Contributions as a percentage of covered-employee payroll	4.42%

(1) Historical information is required only for the measurement periods for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation. Future years' information will be displayed up to 10 years as information becomes available.

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contribution for Fiscal Year 2018 were from the June 30, 2016 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal, level percent of pay
Asset Valuation Method	Market value of assets
Discount rate	6.73%
Inflation	2.75%
Salary increases	3.25% per year, used only to allocated to cost of benefits between service years
Investment rate of return	6.73%
Mortality Rate*	Derived using CalPERS' membership data for all funds
Pre-Retirement Turnover**	Derived using CalPERS' membership data for all funds
Healthcare Trend Rate	Medical plan premiums are assumed to increase at somewhat higher rates than assumed in the prior valuation, with the ultimate trend of 5.0% per year.

SUPPLEMENTARY INFORMATION

UNION SANITARY DISTRICT

**SCHEDULE OF OPERATING EXPENSES BEFORE DEPRECIATION
FOR THE YEAR ENDED JUNE 30, 2018**

	Sewage Treatment	Sewage Collection & Engineering	General & Administrative	Total
Salaries and wages	\$ 6,172,860	\$ 7,292,247	\$ 3,013,980	\$ 16,479,087
Employee benefits	4,055,102	4,854,233	2,507,127	11,416,462
Recruitment and development	109,557	92,203	250,294	452,054
Temporary help	37,857	118,606	83,915	240,378
Repairs and maintenance	1,451,687	704,060	11,219	2,166,966
Operating supplies	1,742,199	159,999	-	1,902,198
Office and safety supplies	191,210	314,262	287,085	792,557
Insurance	-	-	226,995	226,995
Contractual services	1,073,512	92,879	-	1,166,391
Professional services	544,275	63,838	764,719	1,372,832
Utilities	1,384,961	81,455	125,285	1,591,701
East Bay Dischargers Authority	1,512,572	-	-	1,512,572
Non-capital projects	318,250	318,250	304,981	941,481
Sewer Service charge administrative fee	35,860	35,860	35,860	107,580
Rents/Leases	27,453	45,490	-	72,943
Total	\$ 18,657,355	\$ 14,173,382	\$ 7,611,460	\$ 40,442,197

UNION SANITARY DISTRICT

**SCHEDULE OF INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2018**

The District's insurance policies and coverages in effect at June 30, 2018, are as follows:

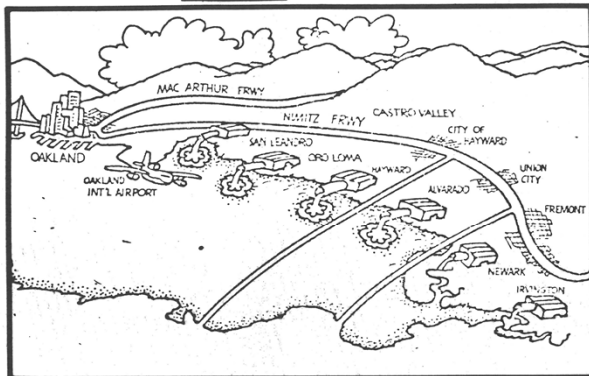
General liability (pooled liability program)

Bodily injury, property damage, and personal injury	\$	25,500,000
Public entity errors and omissions and other related practices		25,500,000
Employment related practices		25,500,000

		Insured Value
Auto physical damage (primary insurance program)	\$	3,873,644
Workers' Compensation		1,750,000
Group Health and Life		Contract
Employee Disability and Salary Continuance		Contract
Property insurance, all property	\$	252,293,393
Accounts receivable		No sublimit
Employee Dishonesty Bond Coverages:		
Public Employee Dishonesty Bond	\$	2,000,000
Forgery and alteration		2,000,000
Computer Fraud		2,000,000

Statistical Section

***** **X** **YES** **ON** **W** *****

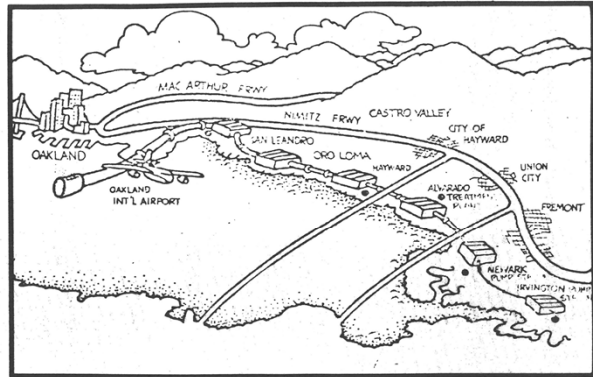


BEFORE

The East Bay Dischargers Authority (EBDA) covers a 180 square mile area, 450,000 people and is composed of two incorporated cities and three sanitary districts. During wet weather, these joint powers currently discharge up to 175 million gallons of treated wastewater a day, directly onto the Bay shoreline.

A MASSIVE INTERCEPTOR PIPELINE

'SUPER SEWER'...NAME FOR WASTE PROPOSAL



AFTER

The proposed project for a "Super Sewer" would essentially connect current facilities and pump treated wastewater three miles off the Oakland Airport. Discharge would be in deep waters of the Bay, providing better natural action for purification.

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The Statistical Section of Union Sanitary District's 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 the District's overall financial health.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

UNION SANITARY DISTRICT

Changes in Net Position and Statement of Net Position by Component

Last Ten Years

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Changes in Net Position										
Operating Revenues										
Sewer Service Charges	\$35,103,885	\$37,217,073	\$38,486,824	\$40,630,578	\$42,339,311	\$45,139,420	\$48,379,254	\$50,112,564	\$52,384,709	\$54,260,096
Other Operating Revenues	809,171	968,475	987,948	1,027,357	1,163,802	1,370,017	1,581,031	1,791,782	2,154,364	1,631,870
Total Operating Revenues	<u>35,913,056</u>	<u>38,185,548</u>	<u>39,474,772</u>	<u>41,657,935</u>	<u>43,503,113</u>	<u>46,509,437</u>	<u>49,960,285</u>	<u>51,904,346</u>	<u>54,539,073</u>	<u>55,891,966</u>
Operating Expenses										
Treatment	12,938,404	13,995,781	14,342,352	14,255,266	16,088,929	15,410,523	14,956,369	15,464,775	16,964,901	18,657,355
Collection and Engineering	8,638,679	9,338,919	10,532,692	9,712,645	11,954,345	10,869,755	10,763,530	11,296,680	12,101,081	14,173,382
General and Administration	5,200,792	5,322,085	5,574,251	5,951,818	6,111,468	6,634,688	6,910,857	6,848,244	6,844,559	7,611,460
Total Operating Expenses Before Depr.	<u>26,797,875</u>	<u>28,656,785</u>	<u>30,449,295</u>	<u>29,919,729</u>	<u>34,154,742</u>	<u>32,914,966</u>	<u>32,630,756</u>	<u>33,609,699</u>	<u>35,910,541</u>	<u>40,442,197</u>
Depreciation	16,380,510	16,243,535	16,323,858	16,790,277	16,776,307	17,219,109	17,899,765	17,379,112	17,036,880	17,003,398
Total Operating Expenses	<u>43,178,385</u>	<u>44,900,320</u>	<u>46,773,153</u>	<u>46,710,006</u>	<u>50,931,049</u>	<u>50,134,075</u>	<u>50,530,521</u>	<u>50,988,811</u>	<u>52,947,421</u>	<u>57,445,595</u>
Operating Loss	<u>(7,265,329)</u>	<u>(6,714,772)</u>	<u>(7,298,381)</u>	<u>(5,052,071)</u>	<u>(7,427,936)</u>	<u>(3,624,638)</u>	<u>(570,236)</u>	<u>915,535</u>	<u>1,591,652</u>	<u>(1,553,629)</u>
Non-operating Revenues (Expenses)										
Investment Income	1,136,138	349,012	274,328	248,337	178,690	180,041	160,790	496,439	482,342	700,856
Interest Expense	(647,171)	(867,781)	(1,114,313)	(858,162)	(1,138,677)	(1,106,609)	(971,695)	(916,968)	(860,316)	(1,479,413)
Loss on Retirement of Utility in Capital Assets	(134,787)	(95,110)	(751,601)	(127,430)	(1,479,254)	(796,735)	(1,165,160)	(30,472)	(52,458)	0
Gain (loss) on Equity Investment in EBDA	(12,946)	(76,498)	(95,011)	(100,827)	(89,170)	(92,180)	(86,652)	(160,540)	(432,674)	(90,325)
Other Non-operating Expenses	0	0	0	0	0	0	0	0	0	0
Net Non-operating Revenues	<u>341,234</u>	<u>(690,377)</u>	<u>(1,686,597)</u>	<u>(838,082)</u>	<u>(2,528,411)</u>	<u>(1,815,483)</u>	<u>(2,062,717)</u>	<u>(611,541)</u>	<u>(863,106)</u>	<u>(868,882)</u>
Loss Before Contributions	<u>(6,924,095)</u>	<u>(7,405,149)</u>	<u>(8,984,978)</u>	<u>(5,890,153)</u>	<u>(9,956,347)</u>	<u>(5,440,121)</u>	<u>(2,632,953)</u>	<u>303,994</u>	<u>728,546</u>	<u>(2,422,511)</u>
Connection Fees and Other Contrib. Capital	2,648,784	3,196,347	7,850,769	4,386,772	7,072,821	4,201,932	9,595,219	9,096,373	16,560,652	31,338,298
Change in Net Position	<u>(4,275,311)</u>	<u>(4,208,802)</u>	<u>(1,134,209)</u>	<u>(1,503,381)</u>	<u>(2,883,526)</u>	<u>(1,238,189)</u>	<u>6,962,266</u>	<u>9,400,367</u>	<u>17,289,198</u>	<u>28,915,787</u>
Net Position, Beginning of Year	364,988,951	360,713,640	356,504,838	355,370,629	353,867,248	350,983,722	349,745,533	325,045,364	334,445,731	351,734,929
Prior period adjustment	0	0	0	0	0	0	(31,662,435)	0	0	(9,142,599) *
Net Position, End of Year	<u>\$360,713,640</u>	<u>\$356,504,838</u>	<u>\$355,370,629</u>	<u>\$353,867,248</u>	<u>\$350,983,722</u>	<u>\$349,745,533</u>	<u>\$325,045,364</u>	<u>\$334,445,731</u>	<u>\$351,734,929</u>	<u>\$371,508,117</u>
Statement of Net Position by Component										
Net investment in capital assets	\$308,753,429	\$302,407,235	\$300,489,831	\$296,939,157	\$294,393,392	\$299,269,526	\$297,462,404	\$295,355,262	\$294,906,308	\$296,442,688
Restricted	14,290,870	14,840,623	16,877,836	19,346,378	20,297,820	17,622,778	19,808,500	25,075,327	34,360,257	55,373,688
Unrestricted	37,669,341	39,256,980	38,002,962	37,581,713	36,292,510	32,853,229	7,774,460	14,015,142	22,468,364	19,691,741
Restricted-Retiree medical benefit plan	0	0	0	0	0	0	0	0	0	0
Unrestricted	0	0	0	0	0	0	0	0	0	0
Total USD net position	<u>\$360,713,640</u>	<u>\$356,504,838</u>	<u>\$355,370,629</u>	<u>\$353,867,248</u>	<u>\$350,983,722</u>	<u>\$349,745,533</u>	<u>\$325,045,364</u>	<u>\$334,445,731</u>	<u>\$351,734,929</u>	<u>\$371,508,117</u>

*GASB 75 and Non-CIP Project Cost Adjustments

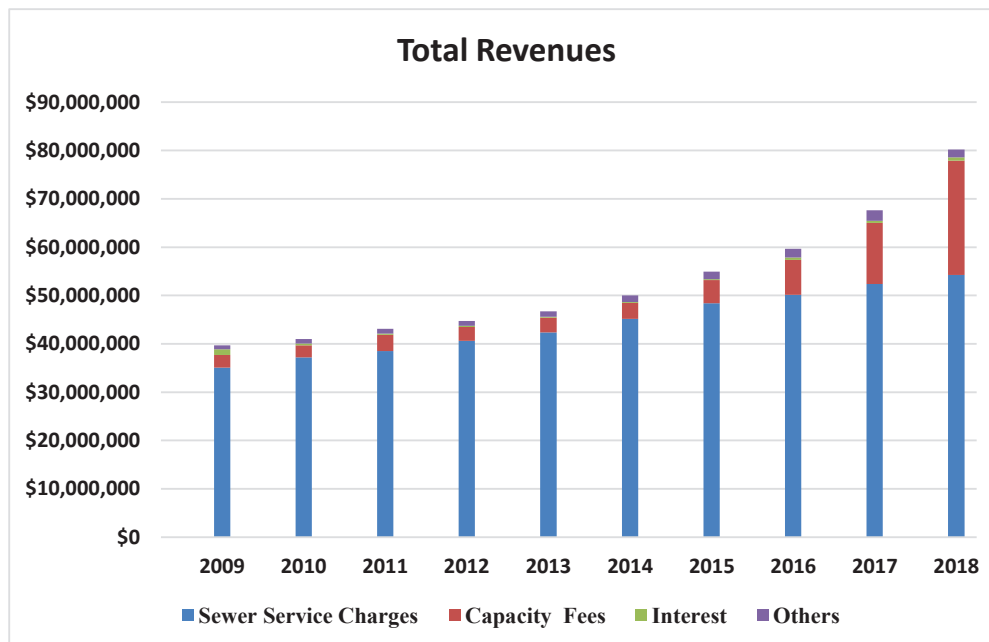
Source: USD Audited Financial Statements

UNION SANITARY DISTRICT

District-Wide Revenues and Other Financing Sources

<u>Fiscal Year</u>	<u>Sewer Service Charges</u>	<u>Capacity Fees</u>	<u>Interest</u>	<u>Others*</u>	<u>Total Revenues</u>
2018	\$54,260,096	\$23,623,947	\$700,856	\$1,631,870	\$80,216,769
2017	52,384,709	12,595,637	482,342	2,154,364	67,617,052
2016	50,112,564	7,233,338	496,439	1,791,782	59,634,123
2015	48,379,254	4,820,637	160,790	1,581,031	54,941,712
2014	45,139,420	3,315,007	180,071	1,370,017	50,004,515
2013	42,339,311	3,062,836	178,690	1,163,802	46,744,639
2012	40,630,578	2,848,488	248,337	1,027,357	44,754,760
2011	38,486,824	3,381,963	274,328	987,948	43,131,063
2010	37,217,073	2,467,083	349,012	968,475	41,001,643
2009	35,103,885	2,621,801	1,136,138	809,171	39,670,995

*Others includes inspection fees, permits, external work orders, discounts, and misc.

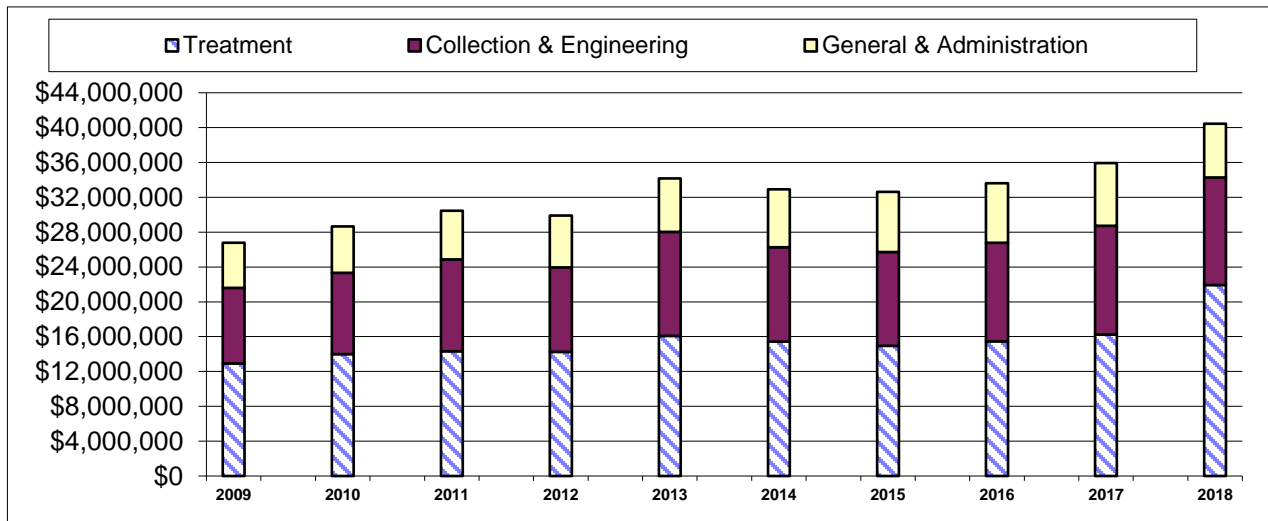


The District's main source of revenue is sewer service charges, which are collected on behalf of the District by Alameda County, on the tax rolls as part of the Teeter Plan.

UNION SANITARY DISTRICT

Operating Expenses By Major Function

<u>Fiscal Year</u>	<u>Treatment</u>	<u>Collection & Engineering</u>	<u>General & Administration</u>	<u>Total Operating Expenses</u>
2018	\$18,657,355	\$14,173,382	\$7,611,460	\$40,442,197
2017	16,252,881	12,462,391	7,195,269	35,910,541
2016	15,464,775	11,296,680	6,848,244	33,609,699
2015	14,956,369	10,763,530	6,910,857	32,630,756
2014	15,410,523	10,869,755	6,634,688	32,914,966
2013	16,088,929	11,954,345	6,111,468	34,154,742
2012	14,255,266	9,712,645	5,951,818	29,919,729
2011	14,342,352	10,532,692	5,574,251	30,449,295
2010	13,995,781	9,338,919	5,322,085	28,656,785
2009	12,938,404	8,658,679	5,200,792	26,797,875



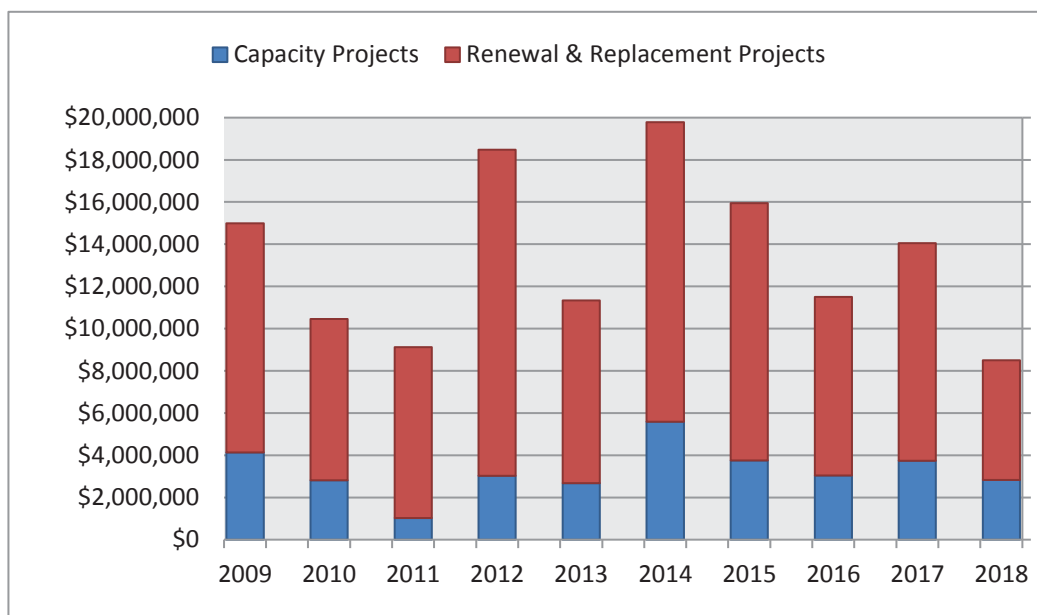
Operating expenses are the day-to-day expenses to run the District, including labor, benefits, chemicals, utilities, parts and materials, and other supplies. Depreciation, a non-cash operating expense, is not included here. Capital expenditures are not included in operating expenses.

General & Administration includes Business Services, Information System Renewal and Replacement, and retiree medical benefits.

UNION SANITARY DISTRICT

Capital Expenditures

<u>Fiscal Year</u>	<u>Capacity Projects</u>	<u>Renewal & Replacement Projects</u>	<u>Total Capital Expenditures</u>
2018	\$2,828,376	\$5,666,366	\$8,494,742 *
2017	3,734,780	10,310,989	14,045,769
2016	3,037,012	8,466,899	11,503,911
2015	3,755,472	12,194,927	15,950,399
2014	5,592,023	14,195,068	19,787,091
2013	2,673,173	8,663,485	11,336,658
2012	3,032,556	15,453,790	18,486,346
2011	1,030,689	8,099,110	9,129,799
2010	2,809,723	7,641,018	10,450,741
2009	4,134,515	10,861,404	14,995,919



Capacity projects provide new or expanded facilities (equipment, processes, buildings, pipelines, etc.) to accommodate increased wastewater flows or to provide reliability in the collection, treatment and disposal systems.

Structural renewal & replacement projects provide rehabilitation, replacement, or upgrade of existing facilities to prolong the useful life of the assets and to maintain the current service level of the facilities.

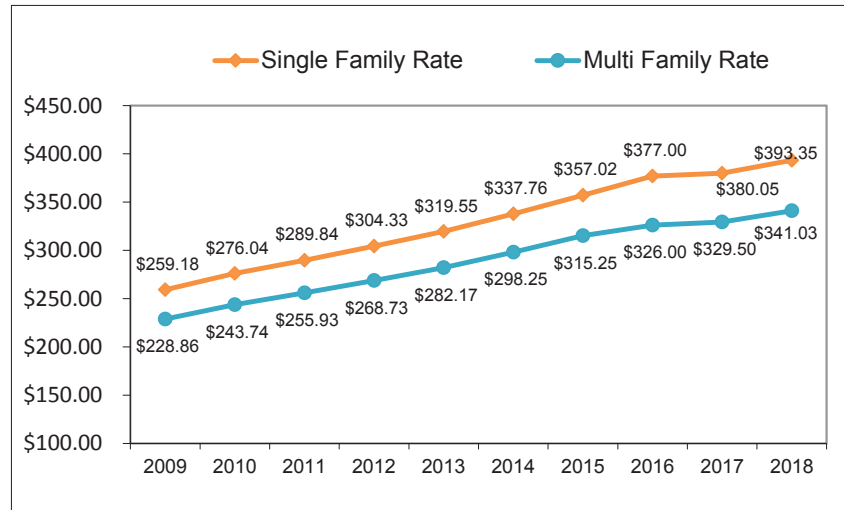
*Does not include Self Generation Incentive Program (SGIP) credit of \$302,970 for the Co-generation project.

UNION SANITARY DISTRICT

Current and Historical Fees As of June 30, 2018 Last Ten Years

Sewer Service Charge Rates

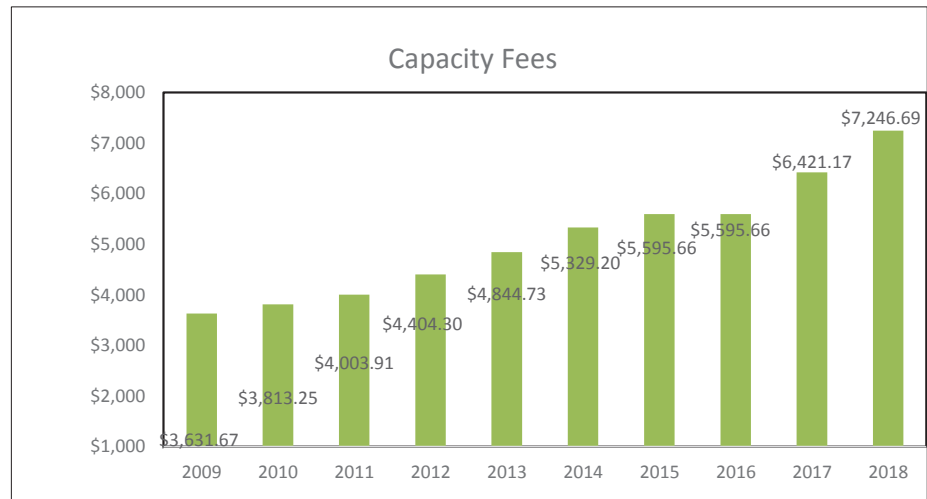
	Single Family Rate	Multi - Family Rate	Single Family Rate Percentage Change
2018	\$393.35	\$341.03	3.5%
2017	380.05	329.50	1.0%
2016	377.00	326.00	5.6%
2015	357.02	315.25	5.7%
2014	337.76	298.25	5.7%
2013	319.55	282.17	5.0%
2012	304.33	268.73	5.0%
2011	289.84	255.93	5.0%
2010	276.04	243.74	6.5%
2009	259.18	228.86	6.5%



The fees above are for residential units. A property with multiple housing units such as an apartment complex is charged \$341.03 for each dwelling unit on the property. Fees for commercial and industrial customers are based on the volume and strength of the wastewater being treated.

Capacity Fee Rates

		Percentage Change
2018	\$7,246.69	12.9%
2017	6,421.17	14.8%
2016	5,595.66	0.0%
2015	5,595.66	5.0%
2014	5,329.20	10.0%
2013	4,844.73	10.0%
2012	4,404.30	10.0%
2011	4,003.91	5.0%
2010	3,813.25	5.0%
2009	3,631.67	5.0%



The capacity fees shown are per dwelling unit. Other categories such as restaurants, warehouses, and mixed-use commercial facilities are based on square footage and other factors as per the Capacity Fee Ordinance.

UNION SANITARY DISTRICT

Ten Principal Industrial Rate Payers by Levy

June 30, 2018

2017-18				2016-17				2015-16			
Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings	Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings	Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings
Tesla	\$817,848		1.51%	Tesla	\$1,141,868		2.18%	Tesla	\$469,466	1	0.94%
Western Digital	141,806		0.26%	Washington Hospital	206,132		0.39%	Western Digital	218,616	2	0.44%
Solar City	172,276		0.32%	Western Digital	176,435		0.34%	Seagate Technology #3	152,100	3	0.30%
US Pipe	135,774		0.25%	Ranch 99/Warm Springs Shoppin	161,772		0.31%	Washington Hospital	147,910	4	0.30%
Seagate Magnetics	156,718		0.29%	Marriott Hotel	142,229		0.27%	U S Pipe	123,218	5	0.25%
Lam Research	122,934		0.23%	Ranch 99/Newark	133,807		0.26%	Marriott Hotel	119,716	6	0.24%
Washington Hospital	173,057		0.32%	U S Pipe	130,685		0.25%	Kaiser Hospital	118,369	7	0.24%
Kaiser Hospital	106,337		0.20%	Kaiser Hospital	125,907		0.24%	Ranch 99/Warm Springs Shc	115,458	8	0.23%
Boehringer Ingeheim	87,678		0.16%	Gateway Plaza	124,269		0.24%	Pacific Commons (Area 4-As	112,498	9	0.22%
Seagate Technology #3	69,384		0.13%	Pacific Commons (Area 4-Asian f	119,920		0.23%	Pacific Commons (Kohls/Old	108,358	10	0.22%
Total annual billing largest ten:	<u>\$1,983,813</u>		<u>3.66%</u>	Total annual billing largest ten:	<u>\$2,463,022</u>		<u>4.70%</u>	Total annual billing largest te	<u>\$1,685,708</u>		<u>3.36%</u>
Total ALL annual billings	<u>\$54,260,096</u>			Total ALL annual billings	<u>\$52,384,709</u>			Total ALL annual billings	<u>\$50,112,564</u>		

2014-15				2013-14				2012-13			
Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings	Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings	Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings
Tesla	\$324,934	1	0.67%	Western Digital	\$260,023	1	0.58%	Western Digital	\$216,919	1	0.51%
Western Digital	235,844	2	0.49%	Washington Hospital	148,743	2	0.33%	Seagate Technology	114,131	2	0.27%
Washington Hospital	153,645	3	0.32%	Seagate Technology	140,016	3	0.31%	Washington Hospital	105,407	3	0.25%
Seagate Technology	116,332	4	0.24%	Tesla	137,788	4	0.31%	Pacific Commons (Kohls/Old	95,188	4	0.22%
Lido Faire Shopping Center	114,536	5	0.24%	Ranch 99 Warm Springs Shoppi	112,329	5	0.25%	Ranch 99 Warm Springs Sh	90,954	5	0.21%
Pacific Commons (Kohls/Old Navy	113,472	6	0.23%	Gateway Plaza	101,416	6	0.22%	The Benton in Fremont	90,859	6	0.21%
Pacific Commons (Area 4-Asian P	108,292	7	0.22%	Kaiser Hospital	99,174	7	0.22%	U S Pipe	90,780	7	0.21%
Ranch 99/Warm Springs Shoppingç	108,163	8	0.22%	Pacific Commons (Area 4)	99,159	8	0.22%	Solyndra	89,164	8	0.21%
Full Bloom	105,805	9	0.22%	The Benton in Fremont	96,037	9	0.21%	Lam Research	88,904	9	0.21%
Kaiser Hospital	102,771	10	0.21%	Pacific Commons (Kohls/Old Nav	90,880	10	0.20%	Kaiser Hospital	83,879	10	0.20%
Total annual billing largest ten:	<u>\$1,483,794</u>		<u>3.07%</u>	Total annual billing largest ten:	<u>\$1,285,565</u>		<u>2.85%</u>	Total annual billing largest te	<u>\$1,066,186</u>		<u>2.52%</u>
Total ALL annual billings	<u>\$48,379,254</u>			Total ALL annual billings	<u>\$45,139,420</u>			Total ALL annual billings	<u>\$42,339,311</u>		

UNION SANITARY DISTRICT

Ten Principal Industrial Rate Payers by Levy (continued)

June 30, 2018

2011-12				2010-11				2009-10			
Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings	Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings	Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings
Western Digital	\$269,619	1	0.66%	NUMMI	\$391,105	1	0.96%	NUMMI	\$549,041	1	1.48%
Solyndra	210,366	2	0.52%	Western Digital	215,190	2	0.53%	Western Digital	227,410	2	0.61%
NUMMI/Tesla	148,978	3	0.37%	Washington Hospital	136,804	3	0.34%	Evergreen Oil	136,078	3	0.37%
Evergreen Oil	133,925	4	0.33%	Evergreen Oil	124,684	4	0.31%	Washington Hospital	128,056	4	0.34%
Washington Hospital	112,361	5	0.28%	Solyndra	120,712	5	0.30%	Full Bloom	122,577	5	0.33%
Caravan Trading Co. & Bakery	103,048	6	0.25%	Full Bloom	109,681	6	0.27%	The Benton in Fremont	78,484	6	0.21%
The Benton in Fremont	86,531	7	0.21%	The Benton in Fremont	82,409	7	0.20%	The Tropics Trailer Park	77,194	7	0.21%
Kaiser Hospital	84,813	8	0.21%	Seagate Technology	82,333	8	0.20%	Solyndra	73,694	8	0.20%
Gateway Plaza	81,681	9	0.20%	Kaiser Hospital	78,993	9	0.19%	Lam Research	73,316	9	0.20%
U S Pipe	76,091	10	0.19%	Amgen	75,741	10	0.19%	Union Square	71,960	10	0.19%
Total annual billing largest ten:	<u>\$1,307,413</u>		<u>3.22%</u>	Total annual billing largest ten:	<u>\$1,417,652</u>		<u>3.49%</u>	Total annual billing largest ten:	<u>\$1,537,810</u>		<u>4.13%</u>
Total ALL annual billings	<u>\$40,630,578</u>			Total ALL annual billings	<u>\$38,486,824</u>			Total ALL annual billings	<u>\$37,217,073</u>		

2008-09			
Rate Payer	Total Annual Billing	Rank	% of Total Annual Billings
NUMMI	\$525,177	1	1.41%
Western Digital	273,113	2	0.73%
Washington Hospital	146,515	3	0.39%
Evergreen Oil	136,727	4	0.37%
Hilton Hotel	77,798	5	0.21%
Full Bloom	75,086	6	0.20%
The Benton in Fremont	73,693	7	0.20%
Union Square	73,546	8	0.20%
The Tropics Trailer Park	72,481	9	0.19%
Kaiser Hospital	67,334	10	0.18%
Total annual billing largest ten:	<u>\$1,521,470</u>		<u>4.09%</u>
Total ALL annual billings	<u>\$35,103,885</u>		

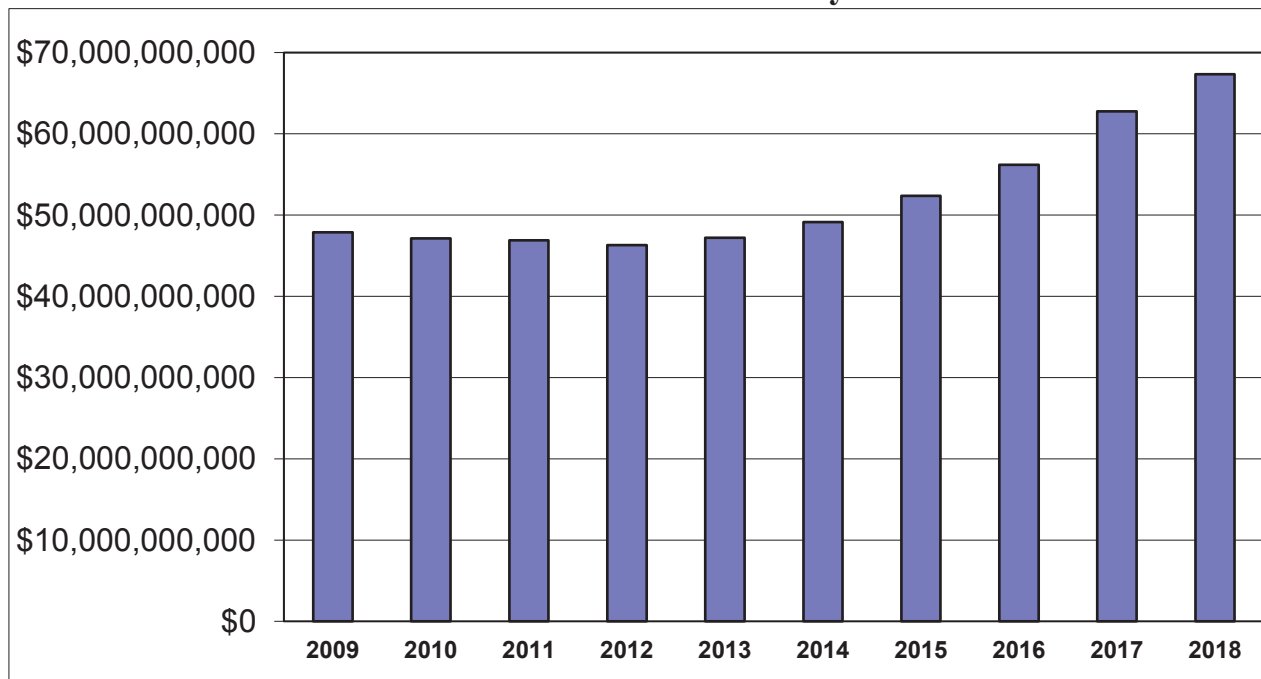
UNION SANITARY DISTRICT

Fiscal Year Assessed Valuation for All Properties in the Tri-City Area

Valuation of taxable property within Union Sanitary District

Fiscal Year	Assessed Values	% Change
2018	\$67,322,355,237	7.29%
2017	62,748,855,394	11.69%
2016	56,180,082,061	7.25%
2015	52,380,183,178	6.64%
2014	49,120,298,326	4.06%
2013	47,205,182,529	1.95%
2012	46,301,581,317	-1.22%
2011	46,871,083,762	-0.54%
2010	47,125,012,456	-1.57%
2009	47,878,943,360	4.55%

Assessed Valuation for Tri-City Area



Includes property in Fremont, Newark, and Union City.

UNION SANITARY DISTRICT

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year	Use Permit (1)	State Revolving Fund Loans	Principal Total	# of Parcels	Total Debt/ Parcel
2018	\$0	\$41,925,514	\$41,925,514	97,183	\$431
2017	0	44,272,413	44,272,413	95,997	461
2016	0	43,070,909	43,070,909	95,254	452
2015	0	41,861,476	41,861,476	94,768	442
2014	0	39,488,115	39,488,115	94,877	416
2013	0	40,648,328	40,648,328	94,640	430
2012	0	39,630,289	39,630,289	94,351	420
2011	471,698	31,985,449	32,457,147	94,231	344
2010	916,696	33,594,457	34,511,153	93,962	367
2009	1,336,506	29,499,150	30,835,656	93,666	329

(1) Union City Use Permit to increase capacity to maximum of 38 mg/d

UNION SANITARY DISTRICT

Pledged Revenue Coverage Last Ten Fiscal Years

Fiscal Year	Gross Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Net Revenue Available for Debt Service	Debt Service Requirements	Debt Coverage % ⁽³⁾
2018	\$80,216,769	\$40,442,197	\$39,774,572	\$3,902,080	1019%
2017	67,617,052	35,910,541	31,706,511	3,127,110	1014%
2016	59,634,122	33,609,699	26,024,423	3,127,110	832%
2015	54,941,712	32,630,756	22,310,956	3,127,110	713%
2014	50,004,485	32,914,966	17,089,519	4,086,647	418%
2013	46,744,639	34,154,742	12,589,897	4,429,320	284%
2012	44,754,760	29,919,730	14,835,030	4,429,320	335%
2011	43,131,063	30,449,295	12,681,768	3,584,000	354%
2010	41,001,643	28,656,785	12,344,858	3,476,933	355%
2009	39,670,995	26,797,875	12,873,120	3,368,548	382%

(1) Includes sewer service charges, connection fees, other operating revenues, and interest.

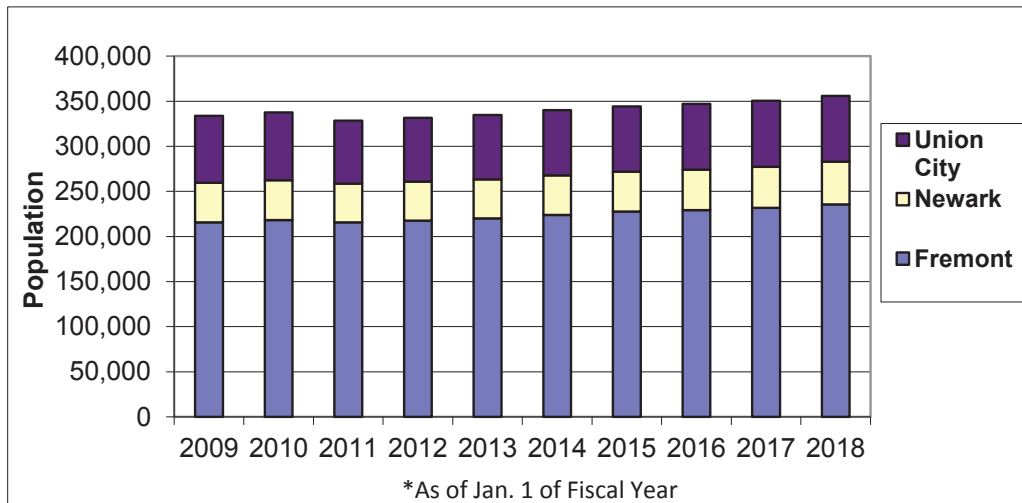
(2) Excludes depreciation; operating expenses do not include capital project expenditures.

(3) According to the District's Debt Management Policy, the targeted minimum debt service coverage ratio is 130%, which is higher than the standard 120% typically used to secure revenue bonds.

UNION SANITARY DISTRICT

Demographics Population of Service Area Served*

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fremont	215,636	218,128	215,711	217,700	219,926	223,972	227,582	229,324	231,664	235,439
Newark	44,035	44,380	42,764	43,041	43,342	43,856	44,284	44,733	45,422	47,467
Union City	73,977	75,054	69,850	70,646	71,329	72,155	72,412	72,952	73,452	72,991
Total	333,648	337,562	328,325	331,387	334,597	339,983	344,278	347,009	350,538	355,897
Total % Change	0.87%	1.17%	-2.74%	0.93%	0.97%	1.61%	1.26%	0.79%	1.02%	1.53%



UNION SANITARY DISTRICT

Demographics Per Capita Income and Unemployment Rate (Calendar Year)

	Per Capita Income	Unemployment Rate
2017 Fremont	\$46,899	3.0%
Newark	N/A	3.6%
Union City	\$68,519	3.4%
2016 Fremont	\$46,899	3.3%
Newark	\$31,358	3.6%
Union City	\$65,884	4.3%
2015 Fremont	\$43,563	3.7%
Newark	\$31,043	4.1%
Union City	\$62,926	4.4%
2014 Fremont	\$40,562	4.5%
Newark	\$30,572	5.0%
Union City	\$58,175	5.9%
2013 Fremont	\$43,504	5.7%
Newark	\$29,390	5.3%
Union City	\$56,365	7.4%
2012 Fremont	\$38,095	6.9%
Newark	\$28,683	6.5%
Union City	\$55,224	9.0%
2011 Fremont	\$37,261	8.0%
Newark	\$28,466	9.7%
Union City	\$51,239	10.3%

County	Income Category	Number of Persons in Household							
		1	2	3	4	5	6	7	8
Alameda County	Extremely Low	24400	27900	31400	34850	37650	40450	43250	46050
4-Person	Very Low Income	40700	46500	52300	58100	62750	67400	72050	76700
Area Median Income:	Low Income	62750	71700	80650	89600	96800	103950	111150	118300
\$104,400	Median Income	73100	83500	93950	104400	112750	121100	129450	137800
	Moderate Income	87700	100250	112750	125300	135300	145350	155350	165400

Sources: CAFR Reports - Fremont, Newark, Union City; Employment Development Department State of California Department of Housing and Community Development (www.hcd.ca.gov).

UNION SANITARY DISTRICT

Demographics Major Employers in District Service Area

Employer Name		Type of Business	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Fremont												
Tesla		Auto Manufacturer	N/A	3.12%	3.12%	2.68%	2.75%	2.81%	1.45%	N/A	N/A	N/A
Fremont Unified School District		Education	N/A	2.61%	2.47%	2.38%	2.75%	2.81%	2.90%	3.27%	3.02%	1.52%
Washington Hospital		Healthcare	N/A	2.68%	2.68%	2.68%	2.75%	1.70%	1.76%	1.98%	1.81%	2.18%
Western Digital		Hard Drives and Electronics	N/A	2.68%	2.68%	2.68%	2.75%	1.22%	1.26%	1.20%	1.81%	0.91%
Lam Research		Technology	N/A	2.68%	2.68%	2.68%	2.75%	1.41%	1.45%	1.00%	0.96%	0.84%
Newark												
Newark Unified School District		Education	N/A	4.00%	4.20%	3.10%	3.20%	3.30%	3.40%	3.40%	3.40%	3.40%
Logitech		Computer Accessories	N/A	2.70%	3.00%	3.00%	3.10%	3.20%	3.00%	N/A	N/A	N/A
Risk Management Solutions		Catastrophe Risk Management	N/A	1.20%	1.40%	1.20%	1.20%	1.30%	1.30%	1.30%	1.30%	1.30%
VM Services Inc		Technology	N/A	1.10%	1.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Amazon Fulfillment Center		Fulfillment and Warehousing	N/A	1.10%	1.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Union City												
New Haven Unified School District		Education	N/A	3.30%	3.10%	3.01%	3.01%	3.07%	3.22%	3.69%	3.76%	3.70%
Southern Glazer's Wine & Spirits		Beverages	N/A	2.06%	3.67%	3.44%	3.44%	3.54%	3.71%	1.13%	1.16%	2.32%
Masonic Home for Adults		Continuing Care Retirement Community	N/A	1.26%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.94%
Abaxis, Inc.		Biotech	N/A	1.10%	1.20%	1.11%	1.11%	1.14%	1.19%	N/A	N/A	N/A
Wal Mart		Retailer	N/A	1.10%	1.20%	2.34%	2.34%	2.40%	2.52%	1.62%	1.65%	1.86%

* Some employers report as of December 31.

N/A = More statistics will be added as the data becomes available.

UNION SANITARY DISTRICT

Full-time Equivalent District Employees by Function/Program
Last Ten Fiscal Years

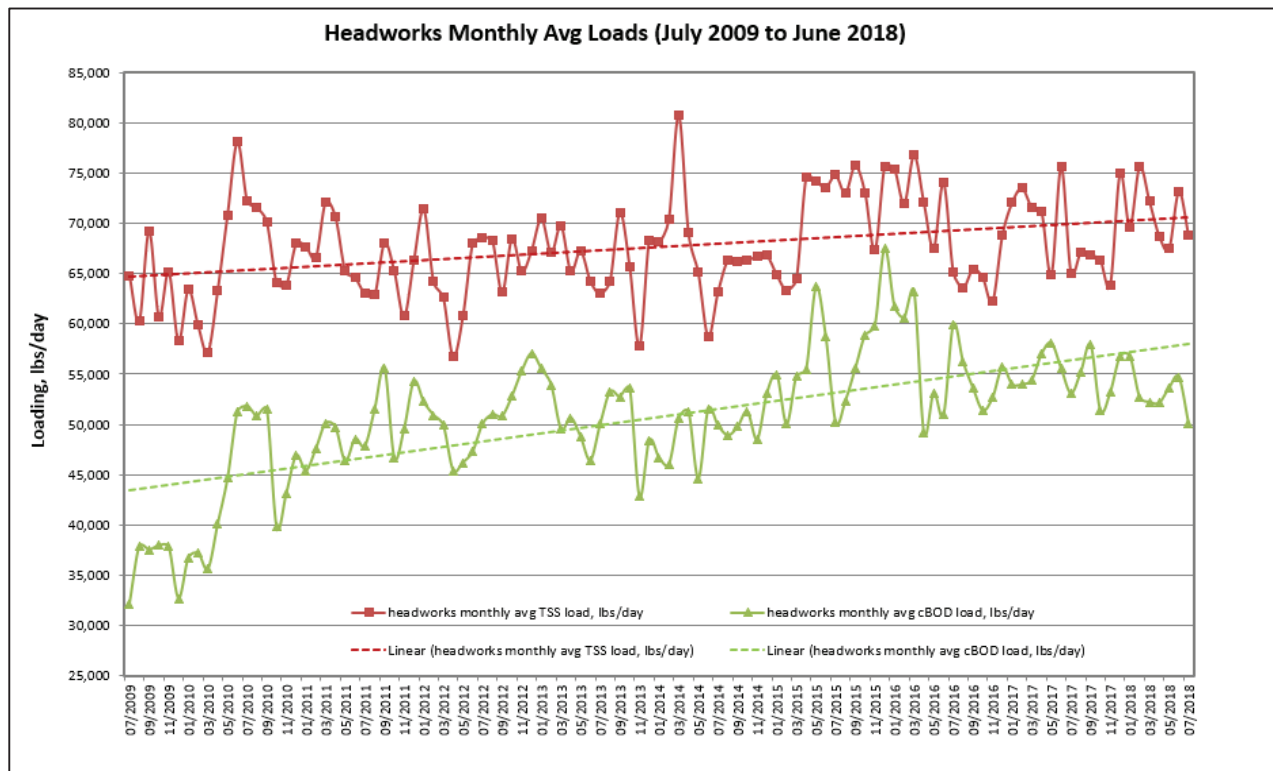
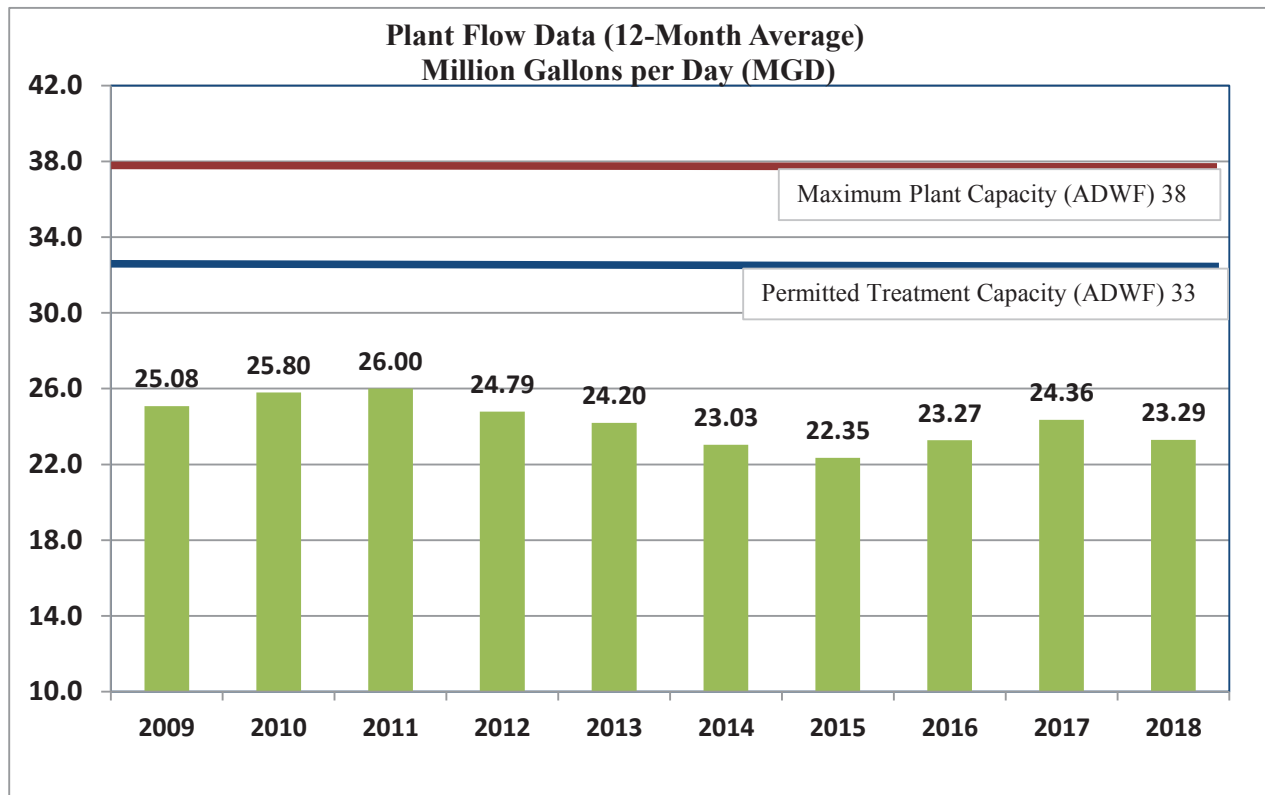
Function/Program	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
System operations and maintenance (CS Support, FMC, T&D, Warehouse)	55.45	52.45	53.45	53.45	50.45	51.45	13.45	11.45	8.45	6.00
Engineering and construction (CIP)	8.00	9.00	10.00	8.00	8.00	7.00	8.00	8.00	6.00	6.00
Collections System Maintenance (CS)	25.00	25.00	25.00	23.00	23.00	24.00	22.00	22.00	22.00	22.00
Office of the General Manager (GM)	2.00	2.00	2.00	3.00	1.00	2.00	3.00	2.00	2.00	2.00
Finance (FIST)	5.00	3.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Information systems (IT)	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.00	5.00	5.00
Administration department (Adm Specialist, MMT, non-HR OST)	13.00	13.00	14.00	13.00	14.00	15.00	14.00	16.00	15.00	15.50
Customer and community services (Rest of TS)	21.00	20.00	20.00	18.00	19.00	19.00	19.00	19.00	19.00	21.00
Human resources (HR)	2.00	2.00	2.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Total # of Employees	136.45	131.45	136.45	131.45	128.45	131.45	92.45	90.45	85.45	85.50
Average years of service of employees as of 6/30/18:	10.15	10.60	10.54	11.25	11.97	11.70	17.28	17.01	17.23	16.35

CIP = Capital Improvements Projects Team
FIST = Finance & Internal Support Team
FMC = Fabrication, Maintenance and Construction
MMT = Materials Management Team
OST = Organizational Support Team
T&D = Treatment & Disposal Work Group
TS = Technical Services Work Group

UNION SANITARY DISTRICT

Operating Indicators by Function/Program

Average Daily Flow



Source: USD Treatment and Disposal Work Group

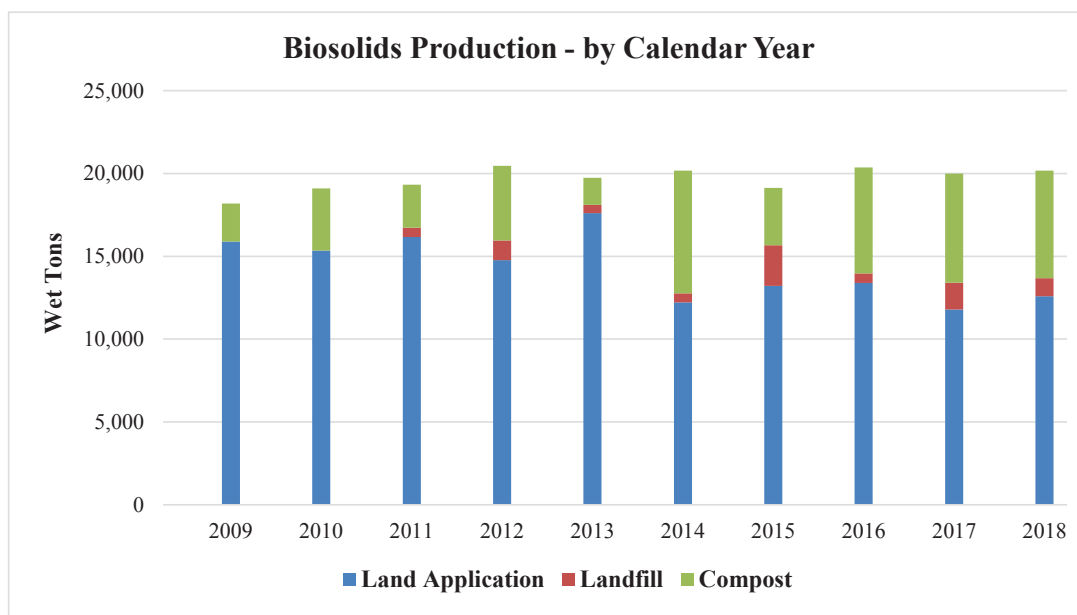
UNION SANITARY DISTRICT

Operating Indicators - Biosolids Last Ten Calendar Years

Function/Program

Biosolids

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Land Application	15,891	15,348	16,160	14,770	17,597	12,212	13,212	13,395	11,784	12,590
Landfill	0	0	571	1,187	501	545	2,450	563	1,624	1,094
Compost	2,291	3,751	2,585	4,501	1,642	7,414	3,470	6,399	6,584	6,491
Total (in Wet Tons)	18,182	19,099	19,315	20,458	19,741	20,171	19,132	20,357	19,992	20,175



UNION SANITARY DISTRICT

Miscellaneous Statistics

6/30/2018

Governing Body:	Elected 5-Member Board of Directors Fremont - 3 Members Newark - 1 Member Union City - 1 Member
Governmental Structure:	Established in 1918 and reorganized in 1923 under the Sanitary District Act
Staff:	136.45 full-time equivalent employees
CEO:	General Manager
CFO:	Business Services Manager (Vacant)
Authority:	California Health and Safety Code Section 4700 et. Seq.
Services:	Wastewater collection, treatment and disposal
Service Area:	60.2 square miles (Annexed areas - Fremont, Newark and Union City)
Total Population Served:	355,897
Number of Parcels	97,183 (87,097 Residential; 3,121 Non-Residential; 6,965 Other (vacant land))
Operations:	Total miles of pipeline - 817, including the force main and all gravity sewers (including trunk mains) Number of pumping stations - 7 Larger: Irvington, Newark, Alvarado Smaller: Fremont, Boyce, Paseo Padre, Cherry Street
Permitted Plant Treatment Capacity (ADWF)	33 million gallons per day (mgd)
Type of Treatment:	Secondary
Sewer Service Charge:	\$393.35 annually per single family residential dwelling unit