

**SOUTH SUBURBAN SANITARY DISTRICT**  
Klamath Falls, Oregon

Annual Financial Report

Fiscal Year Ended June 30, 2016

Prepared by Administration Office  
Cindy Oden  
Director of Administrative Services

SOUTH SUBURBAN SANITARY DISTRICT  
**TABLE OF CONTENTS**  
JUNE 30, 2016

	<u>Page</u>
Board of Directors	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-8
 <b>FINANCIAL STATEMENTS</b>	
Statement of Net Position	9-10
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12-13
Notes to the Financial Statements	14-39
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Funding Progress Post Employment Health Care Plan	40
Schedule of Contributions	41
Schedule of the Proportionate Share of the Net Pension Liability	42
Notes to Required Supplementary Information	43
 <b>OTHER SCHEDULES</b>	
Schedule of Revenues, Expenses, and Changes in Net Position Budget and Actual	44-45
Schedule of Delinquent Lien Collections with Tax Collector	46
<b>Independent Auditors' Report Required by Oregon State Regulations</b>	47-48

SOUTH SUBURBAN SANITARY DISTRICT  
JUNE 30, 2016

BOARD OF DIRECTORS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
James L. Hainline 4510 Onyx Avenue Klamath Falls, OR 97603	Chairman	June 30, 2017
Michael G. Griffith 1045 Thomas Klamath Falls, OR 97603	Director	June 30, 2019
Charles R. Dehlinger 3650 Hilyard Ave Klamath Falls, OR 97603	Director	June 30, 2017

MANAGEMENT

General Manager	Michael Fritschi
Director of Administrative Services	Cindy Oden

ADMINISTRATIVE OFFICE

2201 Laverne Avenue  
Klamath Falls, OR 97603  
(541) 882-5744

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
South Suburban Sanitary District  
Klamath Falls, Oregon

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

We have audited the accompanying financial statements of South Suburban Sanitary District as of and for the year ended June 30, 2016, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Suburban Sanitary District as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the management's discussion and analysis, schedule of funding progress post employment health care plan, schedule of contributions, and schedule of the proportionate share of the net pension liability 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 South Suburban Sanitary District's basic financial statements. The board of directors listing and other schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 other schedules as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The board of directors listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **Report on Other Legal and Regulatory Requirements**

In accordance with the Minimum Standards for Audits of Oregon Municipal corporations, we have issued our report dated November 9, 2016 on our consideration of South Suburban Sanitary District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. the purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

RUSTH SPIRES & ASSOC., LLP



Dianne E. Spires, Partner  
Klamath Falls, Oregon  
November 9, 2016



2201 Laverne Avenue  
Klamath Falls, OR 97603  
Phone 541.882.5744 Fax 541.882.5013  
www.sssd.org

Board of Directors  
Position 1 - Michael Griffith  
Position 2 - James L. Hainline  
Position 3 - Charles R. Dehlinger

General Manager/Secretary  
Michael Fritschi

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### INTRODUCTION

This section of the South Suburban Sanitary District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2016. This analysis focuses on current activities and should be read in conjunction with the District's financial statements.

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District is a self-supporting special-purpose government engaged only in the business-type activities of collection and treatment of sewage. The District's basic financial statements consist of the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. In addition, the notes to the financial statements are essential to a full understanding of the information included in the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2016

- The assets and deferred outflows of resources of the District exceed liabilities and deferred inflow of resources at June 30, 2016 by \$38,344,331. Of this amount \$26,687,050 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$2,001,270.
- Net service fee revenue increased by \$179,633, due to a rate increase of 5%. System development revenue decreased by \$23,988, decrease in development within the District Refunds and miscellaneous revenue increased by \$15,274, due to a change in reporting of how merchandise returned of \$15,004, was recorded during the fiscal year.
- Investment income was down by \$35,958, due to an decrease in market value of investments of \$2,366 and an decrease of interest received and accrued of \$33,592, due to four bonds being called throughout the year.
- Total operating expenses increased by \$650,542; with \$714,564 increase in personnel services. Personnel services increase of \$742,870 was caused by the implementation of GASB No. 68 and 71, additional information can be found in Note 8. Without this implementation personnel services would have decreased by \$28,306. Material and services decreased by \$35,090 and depreciation expense decreased by \$28,932.

## Basic Financial Statements

The District uses a sole proprietary fund to account for its operations. Accordingly, the financial statements are presented using the accrual basis of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position presents information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Position identify the District's revenues and expenses for the fiscal year ended June 30, 2016. This statement provides information on the District's operation over the past fiscal year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on source and use of cash and the change in the cash and cash equivalents balance for the last fiscal year.

## Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information.

## FINANCIAL ANALYSIS OF THE DISTRICT

### Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's combined net position was \$38,344,331 at June 30, 2016. (See Table 1)

The largest portion of the District's net position (72.1%) are cash, cash equivalents and investments in securities. A large portion of the District's assets (28.1%) reflects its investment in capital assets (e.g. land, buildings, treatment system, and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining assets consist mainly of cash, cash equivalents, investments, accounts receivable, and prepaid expenses, which are used to meet the District's ongoing obligations to its citizens.

**Table 1:**

Condensed Statement of Net Position

June 30, (Amounts in Thousands)	2016	2015
Current and Other Assets	28,370.2	26,330.8
Capital Assets, net	10,690.8	10,439.2
<b>Total Assets</b>	<b>39,061.0</b>	<b>36,770.0</b>
Deferred Outflows	128.2	72.9
Current liabilities	93.8	95.4
Non Current liabilities	29.2	37.9
<b>Total Liabilities</b>	<b>123.0</b>	<b>133.3</b>
Deferred Inflows	722.0	465.6
Investment in capital assets	10,690.8	10,439.2
Restricted net position	966.5	923.8
Unrestricted net position	26,687.0	24,881.1
<b>Total Net Position</b>	<b>38,344.3</b>	<b>36,244.1</b>

## Analysis of the District's Operations

The following table provides a summary of the District's operations for the years ended June 30, 2016 and 2015. Operating income increased the District's net position by \$1,631,058, accounting for 77.7% of the total growth in net position.

**Table 2:**

Condensed Statement of Revenues, Expenses  
and Changes in Net Position

For year ending June 30, (Amounts in Thousands)	2016	2015
Operating Revenues	3,826.4	3,622.7
Operating Expenses	1,713.2	1,033.7
Depreciation Expense	482.2	511.1
<b>Operating Income</b>	<b>1,631.0</b>	<b>2,077.9</b>
Nonoperating Revenues (expenses)	200.6	228.5
<b>Income before contributions</b>	<b>1,831.6</b>	<b>2,306.4</b>
Capital Contributions	268.6	66.6
Increase in Net Position	2,100.2	2,373.0
Beginning Net Position	36,244.1	33,871.1
<b>Ending Net Position</b>	<b>38,344.3</b>	<b>36,244.1</b>

## CAPITAL ASSETS

The District's investment in capital assets includes land and improvements, buildings and improvements, infrastructure, treatment plant, and equipment. As of June 30, 2016, the District had invested \$10,690,829 in capital assets, net of depreciation.

During the year, the District's investment in capital assets increased by \$251,652. The District had no current year capital asset disposals. The major capital asset investments included repair of our outflow structure, donation of collection system infrastructure, a new equipment building, reprogramming of the Henley pump station, system development study and the facility plan.

**Table 3:**

Capital assets,  
net of accumulated depreciation

For year ending June 30, (Amounts in Thousands)	2016	2015
Easements and right of ways	5.0	5.0
Construction in progress	802.7	474.0
Land	321.3	321.3
Infrastructure	6,561.2	6,291.4
Infrastructure - Henley	1,911.5	1,904.7
Treatment plant	8,558.7	8,509.6
Headquarters compound	673.7	637.9
Equipment	1,811.1	1,767.6
Less accumulated depreciation	(9,954.4)	(9,472.3)
<b>Total capital assets, net of accumulated depreciation</b>	<b>10,690.8</b>	<b>10,439.2</b>



## BUDGETARY HIGHLIGHTS

The District did revise the budget during fiscal year 2015-2016, increasing budgeted expense by \$106,486.65. The following amounts were revised:

**Table 4:**

	Original Budget	Revised Budget	Net Change
Personnel services	1,120.5	1,120.5	0.0
Material and services	495.5	495.5	0.0
Capital outlay	709.9	816.4	106.5
Operating contingency	348.9	242.4	-106.5
	<u>2,674.8</u>	<u>2,674.8</u>	<u>0.0</u>

The District corrected a clerical error on Resolution #168 where Total Unappropriated and Reserve were misstated as \$26,093,803, by adopting Resolution #174 and correctly stating it as \$25,945,994.

Actual revenues were over budget by \$336,396, due to an unexpected donation of infrastructure of \$225,940. Personal services were over budget by \$154,727, after adjusting for the Districts Unfunded PERS expense. Material and services were under budget by \$57,604 and Capital Outlay were under budget by \$73,119 after the increase in the budget amounts.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District changed from the accrual basis of budgeting to the cash basis of budgeting for the 2016-2017 fiscal year budget. The District provided a balanced budget for the fiscal year 2016-2017 and has been able to save many budget dollars for future development.

Because of the present depressed economic factors in the Klamath Basin and the future monetary needs to meet Government Regulations, the District is operating on a tight budget. Personnel Services budget for 2016/2017 has decreased from \$1,120,517 to \$944,201. Material and Supplies in the 2016/2017 budget decreased from \$1,005,799 to \$658,059. Capital Outlay in the 2016/2017 budget has increased from \$816,398 to \$1,238,479.

On September 10, 2015 the General Manager and Board President met with the Department of Environmental Quality (DEQ) with respect to the Total Maximum Daily Loads (TMDL's) reconsideration process. DEQ plans to move forward with finalization of the Klamath River TMDL, with the exception of the natural temperature standard, which will likely be rescinded. The reconsideration process will move forward and it is estimated that the District may be ordered to apply for a new National Pollutant Discharge Elimination System (NPDES) permit as early as spring of 2017. Based on this information the District will need to finish the treatment plant facility plan and may need to have new treatment facilities online as early as 2023. At the current time the cost for modifications to meet NPDES permit cannot be reasonably estimated at this time.

These Government Regulations will be the major factors that drive the District's rates. Currently, the District's rates increased 5% on July 1, 2016 and will increase by 5% per annum thereafter.

The District has planned a rehabilitation project in 2016/2017 consisting of moving laterals, new connection stubs, and installing clean-outs along Altamont Drive. As well as, the continued development of GIS Map, pump re-programming and replacement of slide gate valve and installation of wet well wash system at our main pump station, Pond #4 performance study. The District has also budgeted for a web based flow meter data system for our collection system.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of South Suburban Sanitary District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager, South Suburban Sanitary District, 2201 Laverne Avenue, Klamath Falls, OR 97603.

## **FINANCIAL STATEMENTS**

SOUTH SUBURBAN SANITARY DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2016

**ASSETS**

**CURRENT ASSETS**

Cash, cash equivalents and investments	\$ 15,881,871
Accounts receivable	604,546
Interest receivable	51,701
Inventory	53,466
Prepaid expenses	<u>23,329</u>
Total current assets	<u>16,614,913</u>

**NONCURRENT ASSETS**

Cash and cash equivalents restricted for system development	966,452
Investments	10,788,765
Capital assets, Non-depreciated:	
Easements & right of ways	4,984
Construction in progress	802,742
Land	321,319
Capital assets, Net of depreciation:	
Infrastructure	2,990,866
Infrastructure - Henley	1,682,019
Treatment plant	4,157,996
Headquarters compound	284,956
Equipment	<u>445,947</u>
Total noncurrent assets	<u>22,446,046</u>

Total assets	<u>39,060,959</u>
--------------	-------------------

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflow of resources - pension related	<u>128,197</u>
Total deferred outflows of resources	<u>128,197</u>

The accompanying notes are an integral part of this financial statement.

SOUTH SUBURBAN SANITARY DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2016

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	\$	29,726
Service accounts payable		35,330
Capital Lease		1,972
Accrued compensation		11,695
Accrued payroll taxes payable		2,347
Unearned lease income		1,132
Compensated absences payable		<u>11,552</u>
 Total current liabilities		 93,754

**NONCURRENT LIABILITIES**

Net pension liability		553,584
Net other post employment benefits obligation		25,204
Capital Lease		<u>4,019</u>
 Total noncurrent liabilities		 <u>582,807</u>

Total liabilities		<u>676,561</u>
-------------------	--	----------------

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources - pension related		<u>168,264</u>
 Total deferred inflows of resources		 <u>168,264</u>

**NET POSITION**

Net investment in capital assets		10,690,829
Restricted for system development		966,452
Unrestricted		<u>26,687,050</u>
 Total net position		 <u><u>\$ 38,344,331</u></u>

The accompanying notes are an integral part of this financial statement.

SOUTH SUBURBAN SANITARY DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year ended June 30, 2016

**OPERATING REVENUES**

Sewer service charges, net of returns and allowances of \$155,692	\$ 3,598,247
Texum	18,612
Henley School Service	25,955
Interest and penalties (late charges)	161,809
Refunds and miscellaneous	<u>21,780</u>
Total operating revenues	<u>3,826,403</u>

**OPERATING EXPENSES**

Personal Services	1,275,244
Materials and Services	437,940
Depreciation	<u>482,161</u>
Total operating expenses	<u>2,195,345</u>
Operating income	<u>1,631,058</u>

**NON-OPERATING REVENUE (EXPENSES)**

Selling expenses on disposal of assets	(1,059)
Lease income	1,664
Interest expense	(235)
Investment income	<u>200,248</u>
Total non-operating revenue (expenses)	<u>200,618</u>

**CAPITAL CONTRIBUTIONS**

Donated Capital Assets	225,940
System development fees	<u>42,654</u>
Total capital contributions	<u>268,594</u>
Increase in net position	2,100,270

<b>Net position - beginning of year</b>	<u>36,244,061</u>
-----------------------------------------	-------------------

<b>Total net position, end of year</b>	<u><u>\$ 38,344,331</u></u>
----------------------------------------	-----------------------------

The accompanying notes are an integral part of this financial statement.

SOUTH SUBURBAN SANITARY DISTRICT  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 3,814,053
Cash payments to suppliers for goods and services	(432,152)
Cash payments to employees for services	<u>(836,426)</u>
Net cash provided by operating activities	<u>2,545,475</u>

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:

Cash received from lease	1,697
Proceeds from system development fees	42,654
Proceeds from grant	-
Selling expenses on disposal of assets	(1,059)
Principal paid on capital lease	(1,716)
Interest paid on capital lease	(235)
Capital asset additions	<u>(507,860)</u>
Net cash used by capital & related financing activities	<u>(466,519)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(2,998,880)
Proceeds from the sale of investments	4,005,000
Interest received	<u>256,513</u>
Net cash provided by investing activities	<u>1,262,633</u>
Net change in cash and cash equivalents	3,341,589
Cash and cash equivalents, beginning of year	<u>13,506,734</u>
Cash and cash equivalents, end of year	<u><u>\$ 16,848,323</u></u>

The accompanying notes are an integral part of this financial statement.

SOUTH SUBURBAN SANITARY DISTRICT  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2016

Reconciliation of operating income to  
net cash provided by operating activities:

Operating income	\$ 1,631,058
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	482,161
(Increase) decrease in assets and deferred outflows of resources:	
Accounts receivable	(12,350)
Inventory	(1,500)
Prepaid expenses	22,099
Net pension asset	231,643
Deferred outflows related to pension	(55,219)
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable	(14,811)
Accrued expenses	13,132
Net other post employment benefits obligations	(7,006)
Deferred inflows related to pensions	(297,316)
Net pension liability	553,584
Net cash provided by operating activities	\$ 2,545,475

The accompanying notes are an integral part of this financial statement.



SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The South Suburban Sanitary District (the District) is a special service district created by the Court of Klamath County, Oregon, on July 12, 1957, operating under the provisions of ORS chapter 450, and numerous other applicable statutes for purposes of providing sewer collection and treatment services. The District's geographical boundaries encompass approximately 10 square miles in the south suburbs of the City of Klamath Falls, Klamath County. The District also provides some services to Henley Schools, which is located outside of the District's geographical boundaries. These services are provided through an intergovernmental agreement with Klamath County School District.

The District is governed by an elected Board of Directors that is comprised of three members. The daily management of the District is under the supervision of the General Manager, who is appointed by the Board of Directors.

**Measurement focus, basis of accounting, and financial statement presentation**

For financial reporting purposes, the District reports its operations in a sole enterprise fund. Enterprise funds (a proprietary fund type) are prepared on the accrual basis of accounting using the "economic resources measurement focus". Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred, regardless of the timing of the related cash flow. Accordingly, all assets and liabilities are reflected within the Statement of Net Position with the equity section representing "total net position."

The accounting and reporting policies of the District conform to generally accepted accounting principles as applicable to the proprietary funds of local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals. The District's more significant accounting policies are described below.

**Operating and Non-Operating Revenues and Expenses**

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily the provision of services related to the collection and treatment of wastewater.

The principal operating revenues of the District are sewer service charges and related fees. Sewer service revenue is recorded when the service is rendered. Operating expenses include all necessary costs related to the performance and administration of the District's ongoing activities as well as depreciation expense on the District's capital assets.

Non-operating revenues and expenses include lease income, interest income or expense, and income or loss derived from the disposal of capital assets. Capital contributions include system

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Operating and Non-Operating Revenues and Expenses – (continued)**

development fees and related items associated with new connections to the District's collection and treatment facilities. Capital contributions also include capital grant contribution, and non-exchange transactions, in which the District receives value without giving equal value in exchange.

**Cash and Cash Equivalents**

The cash and cash equivalents reported on the statement of cash flows includes petty cash, checking, savings, and investments in local government investment pools since these funds can be withdrawn without prior notice or penalty. All highly liquid investments with a maturity of three months or less are also considered to be cash equivalents.

**Investments**

Investments are reported at fair value based on quoted market prices for securities purchased by the District. All investments held have readily available market prices. The unrealized increase or decrease in fair value of investments during the year, are reported in the statement of revenues, expenses and changes in net position as investment income. Interest income is recognized when earned and includes amortization of discounts and premiums on interest-bearing instruments that were purchased at a discount or premium.

**Accounts Receivable**

Sanitary sewer charges are billed in advance each year in July for the entire fiscal year to residential, commercial, and industrial customers. Customers paying their entire annual bill before the end of September may take a 4% discount on the annual charge. Otherwise, one-quarter of the annual bill is due by the end of September, December, March and June. Sewer charges not paid by the end of each quarter are subject to an interest penalty of 6% of the unpaid quarterly balance each quarter.

The District uses its' authority given under Oregon Revised Statutes (ORS) 454.225 to collect delinquent service charges through a special assessment against property owner's real estate. In June, each year, accounts with balances exceeding \$10 are certified to the Klamath County's Assessor under authority provided by ORS 454.225 and placed on the property tax roll as a special assessment. In addition to the sewer charges and accrued interest penalties, accounts certified are assessed an 18% certification fee to help defray administrative expenses.

Property taxes become a lien against the property, as of July 1, in the year in which they are due and are assessed in October through billing by the county to the property owner. Payments are due in three equal installments on November 15, February 15 and May 15 with a three percent discount available for payment in full on November 15. Taxes unpaid and outstanding on May 16 are considered delinquent and are subject to lien, and penalties and interest are

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Accounts Receivable – (continued)**

assessed. The District considers all receivables collectible, and therefore, no allowance for uncollectible receivables is provided.

The amount due from property owners for delinquent service billings that the District certified with the County Assessor was \$599,086 as of June 30, 2016. This amount has been aggregated with the accounts receivable.

**Inventory and Prepaid Expenses**

Inventory, which consists of operating materials and supplies, is reported at cost using the first-in, first-out pricing convention, and is charged against operations when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

**Capital Assets**

Capital assets include property (including right of way easements), treatment plant, equipment (including computer software), infrastructure assets (collection system & mainlines). Purchased capital assets are stated at cost where historical records are available and at estimated historical cost where no historical records exist. Major additions, improvements and replacements are capitalized. The District reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported on the financial statement regardless of their amount.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Donated capital assets are stated at estimated fair market value at the date of donation. Gains and losses realized from the sale or other disposition of capital assets are reflected in the statement of revenues, expenses and changes in net position.

The District defines a capital asset as an asset with an initial cost of more than \$5,000, subject to certain exceptions and an expected useful life greater than one year. The cost of capital assets acquired and/or constructed includes all expenses incurred in the acquisition or construction of the asset, including capital project master planning, engineering design, legal services, and interest accrued during construction. All property right of way easements and vehicles (rolling stock) are capitalized regardless of cost.

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Capital Assets – (continued)**

Property, plant and equipment are depreciated using the straight-line method over their estimated lives as follows:

Infrastructure	10-50 years
Treatment plant	5-50 years
Headquarters compound	5-30 years
Equipment	3-10 years

**Construction in Progress**

Construction in progress represents cost accumulated for rehabilitation on the District's infrastructure of \$221,674, Geographic Information System \$199,993, System Development Study \$58,815 and facility plan of \$322,260 that has not been completed at year end.

**Restricted Assets**

Assets whose use is restricted to specific purposes by state statute, bond indenture or otherwise are segregated on the statement of net position. These assets are restricted for system development purposes, which have state mandated uses.

When an expense is incurred for purposes for which both restricted and non-restricted net position are available, the policy of the District is to expend restricted net position before non-restricted.

**Contribution of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**Equity Classification**

Equity is classified as net position, which represents the difference between assets and liabilities. Net position is displayed in three components:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.

Restricted net position – consists of net position with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Equity Classification (continued)**

Unrestricted net position – all other assets that do not meet the definition of “restricted” or “net investment in capital assets”.

**Deferred Outflows of Resources**

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

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**Compensated Absences**

The District’s Board of Directors adopted the District’s Employee Policies with Resolution #151 on October 15, 2014. Under the terms of the District’s employee policy, employees are granted vacation, personal business leave and sick leave.

Vacation leave is credited to each employee’s account on their anniversary date and employees must be employed on their anniversary date to receive vacation credits. No vacation leave will be credited during the initial employee orientation period. Because leave is advanced to the employee each year, the District will only pay a pro-rated amount of credited vacation hours, less any amount taken for the current year, to the employee upon separation of employment with the District. Employees are allowed to carry over up to a maximum of 40 hours of unused vacation time from one employment year to the next. Any unused vacation time over 40 hours, shall be forfeited by the employee.

Employees are credited with twenty hours of personal business leave each year on their employment anniversary date. Any personal business leave not taken by the next employment anniversary date will be forfeited and no cash out shall be allowed for unused personal business leave. The District has calculated the applicable personal business leave benefit, but has not recorded this amount in the financial statements. The amount is estimated at \$9,304.

Sick leave accrues at four hours a pay period or 8 hours a month, with a maximum accumulation of 960 hours. Sick can be taken in the event of illness and will not be paid upon separation from employment. The District has calculated the applicable sick pay benefit, but has not recorded this amount in the financial statements. The amount is estimated at \$64,658.

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Pensions**

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS's fiduciary net position have been determined on the same basis as they are reported by OPERS. 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.

**Postemployment Benefits Obligation**

The District's net OPEB obligation is recognized as a long-term liability, the amount of which is actuarially determined. More information on the District's postemployment benefits can be found in Note 9.

**Use of Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles in the United States of America, 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.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

For financial reporting and operating purposes, the District considers its activities as those of a unitary enterprise operation (proprietary fund). Therefore, these activities are reported in a single enterprise fund. However, for legal requirements as set forth in the Oregon Local Budget Law, the District prepares and adopts a budget on the accrual basis for its individual fund type. The resolution authorizing appropriations for this fund sets the level by which expenditures cannot legally exceed appropriations. The District has established the level of control by expenditure category. These categories include: personal services, materials and services, capital outlay, general operating contingency, and reserve and special payments. The detail budget document, however, is required to contain more specific, detailed information for the above-mentioned expense categories. All appropriations lapse at the end of each fiscal year.

Unexpected additional resources or appropriations may be added to the budget through the use of a supplemental budget. Original and supplemental budgets require budget hearings before the public, publications in newspapers, and approval by the District. Original and supplemental

SOUTH SUBURBAN SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information** – (continued)

budgets may be modified during the fiscal year by the use of appropriations transfers between the levels of control. Such transfers required approval by passing a District resolution authorizing the transfer. All budget amendments are subject to the limitations put forth in the Oregon Revised Statutes Chapters 294.305 through 294.565 (Oregon Budget Law).

Personal services were over budget by \$154,727, after adjusting for the District’s unfunded PERS expense. The District has corrected this by changing from accrual basis to cash basis for budget purposes only.

**NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash, cash equivalents and investments at June 30, 2016 consisted of the following:

Petty Cash	\$ 275
Deposits with financial institutions	101,714
Deposits with Klamath County	7,462
Deposit in LGIP	<u>16,738,872</u>
Total cash, cash equivalents and investments	\$ 16,848,323
Less: Restricted investments (system development)	<u>( 966,452)</u>
Total unrestricted cash, cash equivalents and investments	<u>\$ 15,881,871</u>

Noncurrent investments at June 30, 2016 consisted of the following:

Investment Type	Fair Value	Investment Maturities		Rating
		1<3 Years	3<4 Years	
US Agency Securities	8,787,800	8,787,800	-	AAA
US Agency Securities *	2,000,965	1,000,286	1,000,679	AAA
Total	<u>\$10,788,765</u>	<u>\$ 9,788,086</u>	<u>\$ 1,000,679</u>	

\*These securities are callable.

The District has a total of 7.46% in callable securities. The District’s Investment Policy limits the maximum percent of callable securities to 20% of the total portfolio. Four of the District’s callable bonds were called, two in October 2015; one in May 2016; and one in June 2016.

The weighted average maturity of the portfolio is 0.5 years. The District’s Investment Policy states the maximum portfolio weighted average maturity (measured with stated final maturity) shall be 2.5 years.

State statutes and the District’s investment policy govern the District’s cash management policies and authorize the District to invest in U.S. Government Treasury obligations, and

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS – (continued)**

obligations of the United States and its agencies and instrumentalities, collateralized repurchase agreements, collateralized certificates of deposit and government pools.

**INTEREST RATE RISK** – In accordance with its investment policy, the District will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter-term securities or short-term investment pools.

**CREDIT RISK** – In accordance with its investment policy, the District will minimize the credit risk, the risk of loss due to the financial failure of the security issuer or backer, by limiting exposure to poor credits and concentrating the investments in the safest types of securities; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the District will do business; diversifying the investment portfolio so potential losses on individual securities will be minimized; and actively monitor the investment portfolio holdings for ratings changes and changing economic/market conditions.

**CONCENTRATION OF CREDIT RISK** – The District diversifies its investments by security type, maturity, issuance, issuer and institution.

- 100% of the portfolio may be invested in US Treasury Obligations and US Agency Securities (33% per agency).
- 100% of the portfolio may be invested in the Oregon Short Term Fund up to the maximum allowed per ORS 294.810.
- 25% of the portfolio may be invested in bankers' acceptance, bank time deposits/savings, and certificate of deposits (25% per issuer).
- 15% of the portfolio may be invested in commercial paper (2.5% per issuer)
- 10% of the portfolio may be invested in corporate bonds (2.5% per issuer), and municipal debt.

At year end, more than five percent of the District's investments were held in the Federal Home Loan Bank, the Federal National Mortgage Association, and in the Federal Home Loan Mortgage Corporation. Such concentration is permitted by the District's Investment policy.

**CUSTODIAL CREDIT RISK** – For an investment, this is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. All investments were held by the District in its own name. The District does not have a policy addressing custodial credit risk.

Investments by the District in the State of Oregon Local Government Investment Pool (LGIP) are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form. The fair value of the LGIP investment is determined annually based upon market value. The carrying value and fair value of the LGIP is \$16,738,871.



SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS – (continued)**

The LGIP is an external investment pool as defined in GASB Statement No. 31. The LGIP is governed by the Oregon Revised Statutes and the Oregon Investment Council and is not registered as an investment company with the U.S. Securities and Exchange Commission. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. The fair value of the LGIP is the same amount as the value of the LGIP shares.

The LGIP holds certain derivatives to enhance return while managing the overall risk of the fund. These derivatives include asset-backed securities and floating rate notes of U.S. government securities. Securities held by the LGIP are not specifically identified to the District and are not categorized for risk purposes. The LGIP does not include any involuntary contributions. The LGIP is unrated.

**Deposit Insurance and Collateral**

Cash includes cash on hand, petty cash, and bank deposits. Cash is covered by federal depository insurance (FDIC) or by Oregon Public Funds Collateralization Program (PFCP). ORS Chapter 295 governs the collateralization of Oregon public funds and provides the statutory requirements for the PFCP. State statutes require banks holding public funds to become members of the PFCP, a multiple financial institution collateral pool created by the

Office of the State Treasurer (OST). To qualify, participating banks must pledge collateral against any public fund deposits in excess of deposit insurance. The amount and type of collateral is set by statute, between 10% and 110% of each bank's public fund deposits based on their net worth and level of capitalization. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

The financial institutions that the District utilizes participate in the FDIC. All other accounts including interest-bearing deposits are insured up to \$250,000.

At June 30, 2016, bank balances up to \$250,000 were insured by the FDIC. Cash on deposit with Klamath County Treasurer is covered by a collateral pool managed by Klamath County. Cash on deposit with LGIP is covered by a collateral pool managed by the Office of the State Treasurer.

**CUSTODIAL CREDIT RISK** – For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. On June 30, 2016, all District deposits were fully insured.

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable are certified each July to the Klamath County Assessors for collection that results in a lien on the property involved. Each month the District receives a portion of the total taxes received. This percentage is calculated annually by taking the total amount the District certified and dividing this by the total amount on the Klamath County property tax rolls

SOUTH SUBURBAN SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 4 – ACCOUNTS RECEIVABLE – (continued)**

for the year. Individuals are eligible to receive up to a 3% discount if they pay their tax bill by certain dates. This discount given reduces the amount due to the District. If an individual does not pay their tax bill by certain dates, they are charged interest. A portion of this interest goes to the State of Oregon to offset administrative fees. Of the remaining balance, the District will receive their percentage for that respective year.

When the taxes are collected, they are placed into a holding account and invested until they are distributed at the end of the month. The interest earned during this period is distributed in the same way as the interest charged on past-due payments.

Other accounts receivable are amounts due from other agencies that were billed on June 30, 2016 for services provided for the month of June 2016. These amounts are currently not certified with Klamath County.

Accounts receivable at June 30, 2016 consisted of the following:

Accounts receivable at Klamath County	\$599,086
Other accounts receivable	3,319
Special District Insurance Services	<u>2,141</u>
	<u>\$604,546</u>

**NOTE 5 – CONTRACT COMMITMENTS**

The District has active construction and professional service contracts as of June 30, 2016. The construction contracts include a joint venture with Klamath County to raise manholes along Laverne Avenue and with the City of Klamath Falls for utility relocation along Altamont Drive. The professional service contracts include West Yost Associates for a Wastewater Facility Plan and Adkins Engineering for engineering services to build a GIS System. At year-end the District's contract commitments were as follows:

<u>Project</u>	<u>Remaining</u>	<u>Cost to date</u>	<u>Commitment</u>
West Laverne		142,398	1,178
Altamont Street Phase V		7,822	261,524
Wastewater professional service contract		<u>196,952</u>	<u>178,333</u>
		<u>\$ 347,172</u>	<u>\$ 441,035</u>

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 6 – CHANGES IN CAPITAL ASSETS**

The District has an extensive investment in capital assets consisting of 1) Infrastructure - collection system and sewer mains, 2) the treatment plant with pumping stations, stabilization ponds and chlorination facility, 3) the headquarters office and shop and 4) office, pond, communication and construction equipment.

Following is a summary of changes in the capital assets and depreciation for the current fiscal year.

	Beginning Balance 6/30/2015	Additions & Transfers In	Deletions & Transfers Out	Ending Balance 6/30/2016
<b>Capital assets not being depreciated:</b>				
Easements & Right of ways	4,984			4,984
Construction in progress	473,997	354,374	(25,629)	802,742
Land	321,319			321,319
<b>Totals</b>	<b>800,300</b>	<b>354,374</b>	<b>(25,629)</b>	<b>1,129,045</b>
<b>Capital assets being depreciated:</b>				
Infrastructure	6,291,409	269,789		6,561,198
Infrastructure - Henley	1,904,661	6,876		1,911,537
Treatment plant	8,509,592	49,138		8,558,730
Headquarters compound	637,913	35,732		673,645
Equipment	1,767,590	43,533		1,811,123
<b>Totals</b>	<b>19,111,165</b>	<b>405,068</b>	<b>-</b>	<b>19,516,233</b>
<b>Accumulated Depreciation</b>				
Infrastructure	(3,462,713)	(107,619)		(3,570,332)
Infrastructure-Henley	( 167,473)	( 62,045)		( 229,518)
Treatment plant	(4,179,491)	(221,243)		(4,400,734)
Headquarters compound	( 368,077)	( 20,612)		( 388,689)
Equipment	(1,294,534)	( 70,642)		(1,365,176)
<b>Totals</b>	<b>(9,472,288)</b>	<b>( 482,161)</b>	<b>-</b>	<b>(9,954,449)</b>
<b>Capital assets being depreciated, net</b>	<b>9,638,877</b>	<b>( 77,093)</b>	<b>-</b>	<b>9,561,784</b>
<b>Total net capital assets</b>	<b>\$10,439,177</b>	<b>\$ 277,281</b>	<b>\$ (25,629)</b>	<b>\$10,690,829</b>

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 7 – LONG-TERM LIABILITY**

The following is a summary of long-term liability transactions for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Amounts Due Within One Year
Net other post employment benefits obligation (Note 9)	\$ 32,210	\$ 25,204	\$ 32,210	\$ 25,204	\$ -
Capital Lease Obligations (Note 12)	7,707	-	1,716	5,991	1,972
Compensated Absences	5,760	11,552	5,760	11,552	11,552
	<u>\$ 45,677</u>	<u>\$ 36,756</u>	<u>\$ 39,686</u>	<u>\$ 42,747</u>	<u>\$ 13,524</u>

**NOTE 8 – PENSION PLAN**

**General Information about the Pension Plan**

**Plan Description**

Employees of the District are provided with pensions through the Oregon Public Employee Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan, the Oregon Legislature has delegated authority to the Public Employees Retirement Board to administer and manage the system. All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Pension Program, established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. OPERS issues a publicly available Comprehensive Annual Financial Report and Actuarial Valuation that can be obtained at [http://www.oregon.gov/pers/Pages/section/financial\\_reports/financials.aspx](http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx).

**Benefits Provided**

**1. Tier One/Tier Two Retirement Benefit Chapter 238**

**Pension Benefits**

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage of 1.67 percent for general service employees is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or money match computation of a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with the participating employer.

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 8 – PENSION PLAN – (continued)**

**1. Tier One/Tier Two Retirement Benefit Chapter 238 – (continued)**

**Pension Benefits – (continued)**

General service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

**Death Benefits**

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- The member was employed by a PERS employer at the time of death,
- The member died within 120 days after termination of PERS-covered employment,
- The member died as a result of injury sustained while employed in a PERS-covered job,  
or
- The member was on an official leave of absence from a PERS-covered job at the time of death.

**Disability Benefits**

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.

**Benefit Changes**

After Retirement Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 8 – PENSION PLAN – (continued)**

**2. OPSRP Pension Program (OPSRP DB)**

**Pension Benefits**

The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP Pension Program becomes vested on the earliest of the following dates: The date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

**Death Benefits**

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

**Disability Benefit**

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

**Benefit Changes After Retirement**

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

**3. OPSRP Individual Account Program (OPSRP IAP)**

**Pension Benefits**

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 8 – PENSION PLAN – (continued)**

**3. OPSRP Individual Account Program (OPSRP IAP) – (continued)**

**Pension Benefits – (continued)**

member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

**Death Benefits**

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retire member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

**Recordkeeping**

OPERS contracts with VOYA Financial to maintain IAP participant records.

**Contributions**

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation as subsequently modified by 2015 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2015. Employer contributions for the year ended June 30, 2016 were \$98,345, excluding amounts to fund employer specific liabilities. The rates in effect for fiscal year ended June 30, 2016 were 17.17 percent for Tier One/Tier Two General Service Member, 10.88 percent for OPSRP Pension Program General Service Members, and 6 percent for OPSRP Individual Account Program.

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

At June 30, 2016, the District reported a liability of \$553,584 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013 rolled forward to June 30, 2015. The District's proportion

SOUTH SUBURBAN SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 8 – PENSION PLAN – (continued)**

**Pension Assets, Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – (continued)**

of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the District’s proportion was .00964 percent, which was lowered from its proportion .0102% measured as of June 30, 2013.

For the year ended June 30, 2016, the District’s recognized pension expense (income) of \$531,037. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 29,852	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	116,044
Changes in proportion and differences between District contributions and proportionate share of contributions	-	52,220
District contributions subsequent to the measurement date	98,345	-
Total	\$ 128,197	\$ 168,264

\$98,345 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	(\$ 61,187)
2018	(\$ 61,187)
2019	(\$ 61,187)
2020	\$ 45,861
Thereafter	(\$ 712)
Total	(\$138,412)



SOUTH SUBURBAN SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 8 – PENSION PLAN – (continued)**

**Actuarial Assumptions**

The employer contributions rates effective July 1, 2015, through June 30, 2017, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2013 rolled forward to June 30, 2015
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Inflation Rate	2.75 percent
Investment Rate of Return	7.75 percent
Projected Salary Increases	3.75 percent overall payroll growth
Mortality	<p>Health retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.</p> <p>Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage of the RP-2000 statistic combined disabled mortality sex-distinct table.</p>

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 8 – PENSION PLAN – (continued)**

**Actuarial Assumptions – (continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

**Long-Term Expected Rate of Return**

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target Allocation	Compounded Annual Return (Geometric)
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00%	3.70%
Intermediate -Term Bonds	3.00%	4.10%
High Yield Bonds	1.80%	6.66%
Large Cap US Equities	11.65%	7.20%
Mid Cap US Equities	3.88%	7.30%
Small Cap US Equities	2.27%	7.45%
Developed Foreign Equities	14.21%	6.90%
Emerging Foreign Equities	5.49%	7.40%
Private Equities	20.00%	8.26%
Opportunity Funds/Absolute Return	5.00%	6.01%
Real Estate (Property)	13.75%	6.51%
Real Estate (REITS)	2.50%	6.76%
Commodities	1.25%	6.07%
Total	<u>100.00%</u>	
Assumed Inflation - Mean		2.75%

SOUTH SUBURBAN SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 8 – PENSION PLAN – (continued)**

**Discount Rate**

The discount rate used to measure the total pension asset/liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension asset/liability.

**Sensitivity of the District’s Proportionate Share of the Net Pension Asset/Liability to Changes in the Discount Rate**

The following presents the District’s proportionate share of the net pension asset/liability calculated using the discount rate of 7.75 percent, as well as what the District’s proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability (asset)	\$ 1,336,055	\$ 553,584	\$ (105,833)

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued OPERS financial report.

**Changes in Plan Provisions Subsequent to Measurement Date**

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipients.

OPERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

The increase in the Total Pension Liability resulting from the Oregon Supreme Court decision are measured as of June 30, 2015, have been included during the measurement period.

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 9 – OTHER POST EMPLOYMENT HEALTHCARE BENEFITS OBLIGATION (OPEB)**

**Plan Description**

The District provides a defined benefit healthcare plan (the “Retiree Health Plan”). The Retiree Health Plan provides medical and dental benefits for eligible retirees and their spouses, which covers both active and qualified retired members and their spouses until the employee retires. Benefit provisions are established by the Board of Directors. Oregon Revised Statute 243.303 provides that retirees may elect within 60 days after the effective date of retirement to participate in the coverage and at the option of the retiree, the spouse and any unmarried children under 18 years of age.

**Funding Policy**

The District’s Board of Directors will not be funding the plan in the current year. The Board will review the funding requirements and policy annually.

**Annual OPEB Cost and Net OPEB Obligation**

All health plan participants are on a group plan rate. The difference between the group plan rate that the retiree must pay and the actual or estimated individually rated premium is the implicit rate subsidy (because the employee continues to participate in the group plan an implicit rate subsidy exists on the part of the employer).

The implicit rate is an inherent subsidy of retiree healthcare costs by active employee healthcare costs when healthcare premiums paid by retirees and actives are the same. The true healthcare costs for retirees are, on average, greater than active employees’ healthcare costs.

Thus, if both subgroups pay the same per-capita premium for their benefits, retirees are paying less than they would if their premiums were calculated solely based on retiree-only expected healthcare costs. With an implicit rate subsidy, the active employee premiums are subsidizing the retiree premiums, and that subsidization creates a liability that needs to be recognized.

Some employers may think that they do not have an OPEB liability because, although they offer post-employment benefits, the retirees pay the full cost of those benefits. If a retiree pays the full cost of benefits (100% of the premium), it might seem at first glance that there is no liability for the employer; but there may still be a liability because of an implicit rate subsidy.

The subsidy amount would be calculated under the *Default Factors for Calculating Age-Adjusted Premiums for Ages 65 or older*.

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected

SOUTH SUBURBAN SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 9 – OTHER POST EMPLOYMENT HEALTHCARE BENEFITS OBLIGATION (OPEB)** (continued)

**Annual OPEB Cost and Net OPEB Obligation - (continued)**

to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 24 years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 21,326
Interest on net OPEB obligation	966
Adjustment to annual required contribution	<u>(1,317)</u>
Annual OPEB cost (expense)	20,975
Implicit contributions	<u>27,981</u>
Increase in net OPEB obligation	(7,006)
Net OPEB obligation - beginning of year	<u>32,210</u>
Net OPEB obligation - end of year	<u>\$ 25,204</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the last three fiscal years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 27,409	128%	\$ 55,021
June 30, 2015	\$ 27,337	183%	\$ 32,210
June 30, 2016	\$ 20,975	133%	\$ 25,204

**Funding Status and Funding Progress**

As of July 1, 2015, the actuarial accrued liability for benefits was \$203,867, all of which is unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

SOUTH SUBURBAN SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 9 – OTHER POST EMPLOYMENT HEALTHCARE BENEFITS OBLIGATION (OPEB)** (continued)

**Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations. The following simplifying assumptions were made:

The calculation of the District’s other postemployment benefit cost is calculated as follows:

<u>Status</u>	<u>Medical</u>	<u>Dental</u>
Employee/Retiree Only	\$ 588.16	\$ 46.25
Employee/Retiree & Spouse	\$ 1,176.32	\$ 83.94
Employee/Retiree & Children	\$ 1,088.10	\$ 87.91
Employee/Retiree & Family	\$ 1,676.25	\$ 121.70

The number of retirees annually drawing these benefits is determined as follows:

- Current retirees drawing benefits, plus potential retirees (assuming a retirement age of 62).
- Employees and retirees will elect not to be covered by the Districts health plan upon reaching Medicare eligible age because they can obtain secondary coverage at a significantly lower rate.
- Capped at life expectancy based on mortality tables published by the National Center for Health Statistics.
- Annual discount rate of 3%.

**Plan for Funding**

On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

<u>Actuarial Valuation Date</u>	<u>Actuarial Liability (AAL) Entry Age (a)</u>	<u>Actuarial Value of Assets (b)</u>	<u>Unfunded Liability (UAAL) (a-b)</u>	<u>Funded Status (b/a)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a % of payroll ([a-b]/c)</u>
07/01/2009	\$222,630	\$ -	\$222,630	0%	\$667,039	33.4%
07/01/2012	\$225,443	\$ -	\$225,443	0%	\$689,215	32.7%
07/01/2015	\$203,867	\$ -	\$203,867	0%	\$737,839	27.6%

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 10 – RETIREMENT HEALTH INSURANCE ACCOUNT (RHIA)**

**Plan Description**

As a member of Oregon Public employees Retirement System (OPERS) the District contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and requires supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, OR 97281-3700. This plan is not a stand-alone plan and does not issue its own financial statements.

**Funding Policy**

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Part A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating districts are contractually required to contribute to RHIA at a rate assessed each year by OPERS. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. A portion of the actuarially determined rate under the OPERF plan and the OPSRP plan goes to fund the retiree health insurance account, RHIA. Of the 11.76%, 0.59% goes to RHIA, of the 10.65%, 0.49% goes to RHIA.

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 11 – RISK MANAGEMENT**

The District is exposed to various risks of loss during its ordinary course of business including losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

To mitigate the risk of loss, various commercial insurance policies have been purchased and are reviewed for adequacy by management annually. There have been no significant changes in coverage nor have any settlements exceeded insurance coverage in the past three years.

The District has several programs to protect against the risk of loss of life or assets. The insurance program includes the “normal” coverages subject to nominal deductibles for commercial, auto, property, liability, workers’ compensation, etc., as well as staff bonding, director and officer liability, expenses for effluent spills from collection system infrastructure and pump stations and computer systems.

The District retains the risk for the payment of state unemployment compensation and is invoiced for eligible former District employees quarterly by the state employment department. Each year the District appropriates funds to meet the estimated obligation. No claims were paid during the year ended June 30, 2016 with no outstanding liability at year-end.

**NOTE 12 – CAPITAL LEASE OBLIGATIONS**

The District has entered into a 60 month capital lease with Canon Financial Services, Inc. on September 12, 2014, for a Canon C5240A copier. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations.

The following schedule presents future minimum lease payments as of June 30, 2016:

	2017	2018	2019	2020	Total
	\$ 1,972	\$ 1,972	\$ 1,972	\$ 449	\$ 6,365
Less interest					374
Present value of minimum lease payments					\$ 5,991

Leased equipment under capital leases in capital assets at June 30, 2016, includes the following:

Equipment	\$ 8,979
Less: Accumulated depreciation	( 3,292)
Total	\$ 5,687

Amortization of leased equipment under capital assets is included with depreciation expense.



SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 13 – UNEARNED LEASE INCOME**

The District reports unearned lease income on its Statement of Net Position. Unearned lease income is recorded when funds are received by the District before it has a legal claim to them, as when lease funds are received prior to the incurrence of earned revenue. In subsequent periods, when the District has a legal claim to the funds, the liability for unearned revenue is removed from the statement of net position and revenue is recognized.

The balance includes the following at June 30, 2016:

Unearned Lease Income	\$1,132
-----------------------	---------

**NOTE 14 – SYSTEM DEVELOPMENT RESTRICTED FUNDS**

In compliance with ORS 223.297 to 223.314 (System Development Act of 1989), the District restricts cash received from systems development fees for expenditure on capital improvements. For the year ended June 30, 2016, \$42,654 was received for system development. As of June 30, 2016, the District has \$966,452 restricted for system development.

**NOTE 15 – NEW GASB PRONOUNEMETS**

The District plans to adopt GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, required for fiscal periods beginning after June 15, 2016, in fiscal year 2017. This Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

The District adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, required for fiscal periods beginning after June 15, 2015. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The District adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, required for fiscal periods beginning after December 15, 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants.

The District adopted GASB Statement No. 82, *Pension Issues* (an amendment of GASB Statements No. 67, no. 68, and No. 73) required for periods after June 15, 2016, with certain exceptions. This Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to*

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 15 – NEW GASB PRONOUNEMETS - (continued)**

*Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**NOTE 16 – UNCERTAIN EVENTS**

The District's waste water discharge permit expired in September 1995, but maintained in a current state by a Stipulation and Final Order developed between the District and the Department of Environmental Quality (DEQ). On September 10, 2015 DEQ issued a statement with respect to the Total Maximum Daily Loads (TMDL's) reconsideration process. DEQ plans to move forward with finalization of the Klamath River TMDL, with the exception of the natural temperature standard, which will likely be rescinded. The reconsideration process will move forward and it is estimated that the District may be ordered to apply for a new National Pollutant Discharge Elimination System (NPDES) permit as early as spring of 2017. Based on this information the District will need to finish the treatment plant facility plan and may need to have new treatment facilities online as early as 2023. At the current time the cost for modifications to meet NPDES permit cannot be reasonably estimated.

**REQUIRED SUPPLEMENTARY INFORMATION**

SOUTH SUBURBAN SANITARY DISTRICT  
 SCHEDULE OF FUNDING PROGRESS  
 Year ended June 30, 2016

Post Employment Health Care Plan - Implicit Medical Benefit

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)- Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll ([a-b]/c)
7/1/2015	\$ 203,867	\$ -	\$ 203,867	0%	\$ 737,839	27.60%
7/1/2012	\$ 255,443	\$ -	\$ 255,443	0%	\$ 689,215	32.70%
7/1/2009	\$ 222,630	\$ -	\$ 222,630	0%	\$ 667,039	33.40%

SOUTH SUBURBAN SANITARY DISTRICT  
SCHEDULE OF CONTRIBUTIONS  
Year ended June 30, 2016

Year Ended June 30,	(a) Statutorily required contribution	(b) Contributions in relation to the statutorily required contribution	(a-b) Contribution deficiency (excess)	(c) District's covered payroll	(b/c) Contributions as a percent of covered payroll
2016	\$ 94,418	\$ 94,418	\$ -	\$ 739,542	12.77%
2015	74,250	74,250	-	692,461	10.72%
2014	71,701	71,701	-	676,013	10.61%

The amounts presented for each fiscal year were actuarially determined at December 31, 2013 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

SOUTH SUBURBAN SANITARY DISTRICT  
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Year ended June 30, 2016

Year Ended June 30,	(a) District's proportion of the net pension liability (asset)	(b) District's proportionate share of the net pension liability (asset)	(c) District's covered payroll	(b/c) District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.00964187%	\$ 553,584	\$ 739,542	74.85%	91.90%
2015	0.01021934%	(231,643)	692,461	-33.45%	103.60%
2014	0.01021934%	521,508	676,013	77.14%	91.97%

The amounts presented for each fiscal year were actuarially determined at December 31, 2013 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

SOUTH SUBURBAN SANITARY DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year ended June 30, 2016

**Changes in plan provisions**

A summary of key changes in plan provisions are described in the Oregon Public Employees Retirement System's GASB 68 Disclosure Information which can be found at:

[http://www.oregon.gov/pers/EMP/Pages/section/er\\_general\\_information/gasb-68.aspx](http://www.oregon.gov/pers/EMP/Pages/section/er_general_information/gasb-68.aspx)

**Changes of assumptions**

A summary of key changes implemented since the December 31, 2013 valuation are described in the Oregon Public Employees Retirement System's GASB 68 Disclosure Information which can be found at:

[http://www.oregon.gov/pers/EMP/Pages/section/er\\_general\\_information/gasb-68.aspx](http://www.oregon.gov/pers/EMP/Pages/section/er_general_information/gasb-68.aspx)

Additional details and a comprehensive list of changes in methods and assumptions can be found in the 2014 Experience Study for the System, which was published on September 23, 2015, and can be found at:

[https://www.oregon.gov/pers/docs/2014\\_experience\\_study\\_9-23-15.pdf](https://www.oregon.gov/pers/docs/2014_experience_study_9-23-15.pdf)

## **OTHER SCHEDULES**



SOUTH SUBURBAN SANITARY DISTRICT  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BUDGET AND ACTUAL  
Year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Sewer service charges	\$ 3,742,864	\$ 3,742,864	\$ 3,753,939	\$ 11,075
Returns and allowances	(147,809)	(147,809)	(155,692)	(7,883)
System development fees	48,867	48,867	42,654	(6,213)
Texum	16,248	16,248	18,612	2,364
Henley school services	14,819	14,819	25,955	11,136
Interest and penalties	162,865	162,865	161,809	(1,056)
Interest on investments	120,000	120,000	200,248	80,248
Loss on Disposal of Assets	-	-	(1,059)	(1,059)
Lease Income	1,600	1,600	1,664	64
Donation of Fixed Assets	-	-	225,940	225,940
Miscellaneous	-	-	21,780	21,780
<b>Total revenues</b>	<b>3,959,454</b>	<b>3,959,454</b>	<b>4,295,850</b>	<b>336,396</b>
<b>EXPENSES</b>				
<b>Personal services</b>				
Salaries and wages	594,443	594,443	461,168	133,275
Payroll taxes	52,166	52,166	56,397	(4,231)
Employee benefit plan	262,766	262,766	226,642	36,124
PERS retirement	211,142	211,142	531,037	(319,895)
<b>Total personal services</b>	<b>1,120,517</b>	<b>1,120,517</b>	<b>1,275,244</b>	<b>(154,727)</b>
<b>Material and services</b>				
Contractual services	68,905	68,905	66,342	2,563
Administration	48,704	48,704	26,859	21,845
Sewer maintenance	75,137	75,137	44,140	30,997
Plant maintenance	302,798	302,798	300,599	2,199
<b>Total material and services</b>	<b>495,544</b>	<b>495,544</b>	<b>437,940</b>	<b>57,604</b>

SOUTH SUBURBAN SANITARY DISTRICT  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BUDGET AND ACTUAL  
Year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Depreciation	510,000	510,000	482,161	27,839
Interest Expense	255	255	235	20
Capital outlay	709,911	816,398	-	816,398
Operating contingency	348,896	242,409	-	242,409
Unappropriated and Reserves	26,093,803	25,945,994	-	25,945,994
 Total other expenses	 27,662,865	 27,515,056	 482,396	 27,032,660
 Total expenses	 29,278,926	 29,131,117	 2,195,580	 26,935,537
 CHANGE IN NET POSITION	 (25,319,472)	 (25,171,663)	 2,100,270	 27,271,933
 BEGINNING NET POSITION	 25,319,472	 25,171,663	 36,244,061	 11,072,398
 ENDING NET POSITION	 \$ -	 \$ -	 \$ 38,344,331	 \$ 38,344,331

SOUTH SUBURBAN SANITARY DISTRICT  
 SCHEDULE OF DELINQUENT LIEN COLLECTIONS WITH TAX COLLECTOR  
 JUNE 30, 2016

	Prior Years	2015-2016	Total All Years
Uncollected balances - July 1, 2015	\$ 588,104		\$ 588,104
Adjustment due to discount	(14,498)		(14,498)
Certification, June 30, 2016		550,248	550,248
Total to account for	573,606	550,248	1,123,854
Less collections	(524,768)		(524,768)
Uncollected balance - June 30, 2016	\$ 48,838	\$ 550,248	\$ 599,086

INDEPENDENT AUDITORS' REPORT  
 Required by Oregon State Regulations

We have audited the basic financial statements of the South Suburban Sanitary District as of and for the year ended June 30, 2016, and have issued our report thereon dated November 9, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

**Compliance**

As part of obtaining reasonable assurance about whether the South Suburban Sanitary District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- ◆ Deposits of public funds with financial institutions (ORS Chapter 295).
- ◆ Indebtedness limitations and restrictions.
- ◆ Budgets legally required (ORS Chapter 450 and 294).
- ◆ Insurance and fidelity bonds in force or required by law.
- ◆ Programs funded from outside sources.
- ◆ Authorized investment of surplus funds (ORS Chapter 294).
- ◆ Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).

In connection with our testing, nothing came to our attention that caused us to believe the District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as described below.

Regarding budget compliance, expenses exceeded budgeted appropriations as follows:

	<u>Appropriations</u>	<u>Expenses</u>	<u>Variance</u>
Personal Services	\$1,120,517	\$1,275,244	\$(154,727)

**OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered South Suburban Sanitary District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

This report is intended solely for the information and use of the Board of Directors and management of the South Suburban Sanitary District and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these specified parties.

RUSTH SPIRES & ASSOC., LLP



Dianne E. Spires, Partner  
November 9, 2016