# SAUSALITO-MARIN CITY SANITARY DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2017

*     *     *

**CHAVAN & ASSOCIATES LLP**
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE, SUITE 180
SAN JOSE, CA 95129

**Sausalito-Marin City Sanitary District**

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June 30, 2017

Chavan & Associates, LLP
Certified Public Accountants

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sausalito-Marin City Sanitary District
Sausalito, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Sausalito-Marin City Sanitary District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities of the Sausalito-Marin City Sanitary District, as

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of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of pension contributions - CalPERS, schedule of proportionate share of net pension liability, and schedule of funding progress for the retiree health benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

C & A LLP

November 13, 2017
San Jose, California

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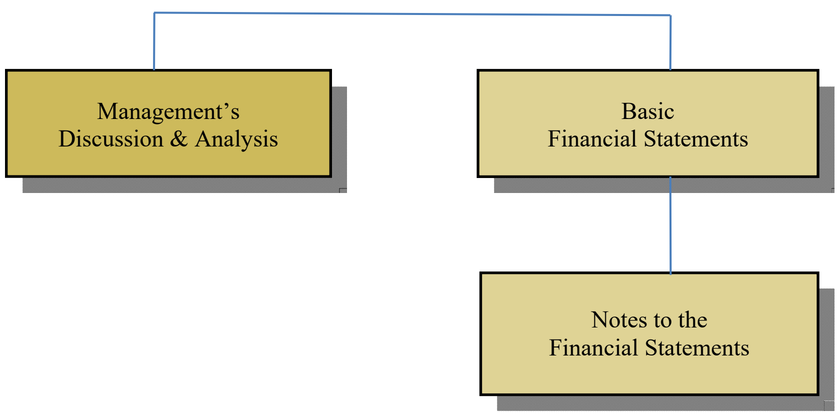
## INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing. The annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**Required Components of the Annual Financial Report**




## ORGANIZATION AND BUSINESS

The Sausalito-Marin City Sanitary District (SMCSD) is governed by an elected five-member Board of Directors and provides wastewater conveyance and treatment service to the City of Sausalito and wastewater collection, conveyance and treatment service to Marin City and other unincorporated areas within the District's boundaries. Wastewater treatment service is provided on a service agreement basis to Tamalpais Community Services District (TCSD) which includes Muir Woods National Monument. Wastewater treatment service is also provided to National Parks Service which includes Forts Baker, Barry and Cronkhite, Marine Mammal Center and Cavallo Point Resort. The District operates and maintains a complex system, protecting our community's public health, the environment and San Francisco Bay.

The District operates and maintains a 6.5 million-gallon per day secondary wastewater treatment plant, eleven (11) sewage pump stations, and approximately ten (10) miles of pipelines. Four (4) of these pump stations are operated and maintained by SMCSD for the City of Sausalito on a contract basis. The District's treatment plant site, located in Fort Baker, recently renewed its property lease agreement with the National Park Service for an additional 32 years.

There are thirteen (13) full-time staff currently employed by the District. In addition, there is an intern program where up to two positions may be funded and filled as temporary part-time (non-benefited).

The District continues to work on their 10-year capital improvement plan (CIP) started in FY 2011/12, updated in FY 2017/18 which identified $43 million of sewer infrastructure improvements. Following an extensive evaluation of District operations and infrastructure needs, the District adopted a comprehensive financial plan and 5-year sewer rate plan (FY 2014/15 to FY 2018/19) to fund renewal and upgrades for the conveyance system and treatment plant.

The Wet Weather Plant Upgrade Project includes needed upgrades and rehabilitation of the District's infrastructure to address new discharge regulations, eliminate peak wet weather overflows, and to improve treatment plant performance and reliability. The Wet Weather Plant Upgrade Project includes new screenings and grit removal, refurbishing treatment towers and pumps, improving flow storage to minimize peak flowrates, and replacement of effluent filters. Over the past two years the District completed the design for the wet weather upgrades as required to satisfy the 2008 EPA Order. The project bid was awarded for $20,808,870 which was within the engineer's construction cost estimate. The construction Notice to Proceed was given on June 21st, 2017. Construction of the project is underway and expected to be completed in approximately 24 months. The upgrade project along with other District capital projects are financed with revenue bonds.

In February 2017, the District formed the Marin Public Financing Authority with Las Gallinas Sanitary District to issue 2017 Revenue Bonds. The Bonds were issued primarily to finance capital improvements to the District's Wet Weather Plant Upgrade Project. Remaining Bond proceeds will finance plant and system capital projects included in the District's Capital Plan started in the next five fiscal years. The bonds for financing have been sold and awarded in the amount of $33,630,000 with an annual average debt service of $2,153,000 over 25 years.

To date, approximately $9.1 million of the treatment plant and conveyance improvements have been completed. Of the remaining $33.9 million, approximately $25.2 million is programmed for the treatment plant, $5.7 million for sewer conveyance projects, and $3 million for other capital expenses. The District's Capital Plan is subject to change, and the project costs and timing of projects will be revised annually.

## FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2017 were as follows:

- Total net position increased by $286,262 (.72%) which included a decrease in unrestricted net position of $1,259,730 (9.71%).

- The District recorded deferred outflows of resources of $778,813 and deferred inflows of resources of $138,513 in order to record the different components required by GASB 68 for pension accounting and reporting. Deferred outflows of resources are technically not assets but increase the Statement of Net Position similar to an asset and deferred inflows of resources are technically not liabilities but decrease the Statement of Net Position similar to liabilities. See Note 2 in the notes to financial statements for a definition.

- Total liabilities increased by $40,017,779 (619.40%) mostly because the District issued revenue bonds totaling $33,630,000 at a premium of $2,118,915 with net proceeds after issuance of $35,240,000. In addition, the District recorded $1,357,753 in accounts payable for construction services provided prior to the end of the year. Finally, the District's net pension liability increased by $1,101,026 mainly because the District's proportionate share of net pension liability increased from 0.0679% to 0.0853% as determined by the actuarial report.

- Current assets increased by $37,379,633 (335.35%) mostly from bond proceeds deposited into LAIF of $35,240,000.

- Operating revenue increased by $157,839 (2.02%) because of increases to service fees as noted in the service charge rate plan.

- Total operating expenses increased by $1,444,128 (28.73%) mostly because of pension expense adjustments totaling $506,514 and additional depreciation expense over prior year of $373,740.

## BASIC FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District's accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets, deferred inflows, deferred outflows, and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Position. These statements reflect the result of the District's operations over the past year.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2017 as compared to June 30, 2016:

**Table 1 - Summary Statement of Net Position**

| | 2017 | 2016 | Change | Percentage Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets | $ 48,525,929 | $ 11,146,296 | $ 37,379,633 | 335.35% |
| Noncurrent Assets | 37,185,442 | 34,855,546 | 2,329,896 | 6.68% |
| Total Assets | $ 85,711,371 | $ 46,001,842 | $ 39,709,529 | 86.32% |
| | | | | |
| Deferred Outflows | $ 778,813 | $ 470,870 | $ 307,943 | 65.40% |
| | | | | |
| **Liabilities** | | | | |
| Current Liabilities | $ 2,838,569 | $ 395,297 | $ 2,443,272 | 618.09% |
| Noncurrent Liabilities | 43,639,913 | 6,065,406 | 37,574,507 | 619.49% |
| Total Liabilities | $ 46,478,482 | $ 6,460,703 | $ 40,017,779 | 619.40% |
| | | | | |
| Deferred Inflows | $ 138,513 | $ 425,082 | $ (286,569) | -67.41% |
| | | | | |
| **Net Position** | | | | |
| Net Investment in Capital Assets | $ 28,014,293 | $ 26,468,301 | $ 1,545,992 | 5.84% |
| Restricted | 147,806 | 147,806 | - | 0.00% |
| Unrestricted | 11,711,090 | 12,970,820 | (1,259,730) | -9.71% |
| Total Net Position | $ 39,873,189 | $ 39,586,927 | $ 286,262 | 0.72% |

Table 2 shows the changes in net position for fiscal year 2017 as compared to 2016.

| Table 2 - Change in Net Position | | | | |
|---|---|---|---|---|
| | 2017 | 2016 | Change | Percent Change |
| **Revenues** | | | | |
| Operating Revenue | $ 7,970,266 | $ 7,812,427 | $ 157,839 | 2.02% |
| **Operating Expenses** | | | | |
| Salaries and Benefits | 2,737,082 | 1,756,487 | 980,595 | 55.83% |
| Plant Operations | 647,097 | 564,687 | 82,410 | 14.59% |
| Repairs and Maintenance | 298,194 | 266,534 | 31,660 | 11.88% |
| Permit Testing and Monitoring | 54,394 | 67,696 | (13,302) | -19.65% |
| Utilities and Telephone | 306,826 | 282,379 | 24,447 | 8.66% |
| General Administration | 292,756 | 328,178 | (35,422) | -10.79% |
| Depreciation | 2,133,667 | 1,759,927 | 373,740 | 21.24% |
| **Total Operating Expenses** | 6,470,016 | 5,025,888 | 1,444,128 | 28.73% |
| **Operating Income (Loss)** | 1,500,250 | 2,786,539 | (1,286,289) | -46.16% |
| Nonoperating Revenue (Expense) | 147,419 | 437,807 | (290,388) | -66.33% |
| Connection Fees | 24,520 | 6,130 | 18,390 | 300.00% |
| **Change in Net Position** | 1,672,189 | 3,230,476 | (1,558,287) | -48.24% |
| **Beginning Net Position** | 39,586,927 | 32,797,172 | 6,789,755 | 20.70% |
| Prior Period Adjustment | (1,385,927) | 3,559,279 | (4,945,206) | 138.94% |
| Beginning Net Position - As Adjusted | 38,201,000 | 36,356,451 | 1,844,549 | 5.07% |
| **Ending Net Position** | $ 39,873,189 | $ 39,586,927 | $ 286,262 | 0.72% |

While the Statement of Net Position shows the change in financial position, the Statement of Activities and Changes in Net Position (Table 2 above) provides answers as to the nature and sources of the changes. The increase in net position resulted from the surplus of operating revenues over operating expenses (operating income) during the year.

## CAPITAL ASSETS

Table 3 shows June 30, 2017 capital asset balances as compared to June 30, 2016.

**Table 3 - Summary of Capital Assets Net of Depreciation**

| | 2017 | 2016 | Change | Percentage Change |
|---|---|---|---|---|
| Construction in Progress | $ 1,357,753 | $ 930,310 | $ 427,443 | 45.95% |
| Original conveyance and treatment facilities | 1,400,169 | 1,424,733 | (24,564) | -1.72% |
| Secondary treatment plant | 7,177,559 | 7,377,161 | (199,602) | -2.71% |
| General equipment, facility upgrade and renewal | 11,971,860 | 10,999,055 | 972,805 | 8.84% |
| Conveyance system upgrade and renewal | 8,839,808 | 8,290,655 | 549,153 | 6.62% |
| Collection system upgrade | 1,164,725 | 1,380,264 | (215,539) | -15.62% |
| Office Equipment | 63,070 | 61,462 | 1,608 | 2.62% |
| Total Capital Assets - Net | $31,974,944 | $30,463,640 | $ 1,511,304 | 4.96% |

## LONG TERM LIABILITIES

Table 4 summarizes the percent changes in long-term liabilities over the past two years.

**Table 4 - Summary of Long-term Liabilities**

| | 2017 | 2016 | Change | Percentage Change |
|---|---|---|---|---|
| Note Payable - City National Bank | $ 1,943,318 | $ 2,080,666 | $ (137,348) | -6.60% |
| 2017 Revenue Bond | 33,630,000 | - | 33,630,000 | 100.00% |
| 2017 Revenue Bond Premium | 1,823,202 | - | 1,823,202 | 100.00% |
| 2017 Revenue Bond Reserve Surety | 2,159,600 | - | 2,159,600 | 100.00% |
| State Water Resources Control | 1,816,649 | 1,914,673 | (98,024) | -5.12% |
| River Watch Liability | - | 34,300 | (34,300) | -100.00% |
| Net OPEB Obligation | 313,635 | 355,215 | (41,580) | -11.71% |
| Net Pension Obligation | 2,964,080 | 1,863,054 | 1,101,026 | 59.10% |
| Compensated Absences | 106,079 | 81,473 | 24,606 | 30.20% |
| Total Long-term Liabilities | $ 44,756,563 | $ 6,329,381 | $ 38,427,182 | 607.12% |

## CAPITAL PROJECTS

The District invested $3,644,971 on its capital program to renew infrastructure during the fiscal year ending June 30, 2017. Of this total $3,496,606 was spent on major capital projects, $13,994 on renewal and replacement projects and $94,442 on Capital Outlay. The following major capital project work was in progress or completed:

**Projects Completed**

Secondary Digester Cleaning and Rehabilitation Project
This project is complete. The project was performed in-house by District Staff with support from a mechanical contractor for piping. Equipment and construction support was provided through competitive informal bidding. The project also included the primary digester cleaning. The final cost was approximately $430,000. All payments were made in budget year 2016/2017 in the amount of $142,331. The project scope of work included but was not limited to cleaning and internally coating the digester tank, repairing access hatches, reconfiguring piping and valves for improved performance and reliability and rehabilitating heating and mixing systems.

**Projects In-Progress**

Treatment and Wet Weather Flow Upgrade Project
This project is in construction with an anticipated 24-month construction period. The complete project cost including design, construction and management is estimated at $26 million. The District successfully completed Revenue Bond sales to fund the project.

The SMCSD Treatment and Wet Weather Flow Upgrade Project implements facility and process improvements to the existing treatment plant, including the addition of a headworks, new primary clarifier, secondary upgrades, tertiary polishing and equalization storage. The project has been developed to address regulatory compliance, plant operation, reliability, performance, and to prevent wet weather blending events for continuous flow capacities of up to 9.0 MGD and storm event flow capacities of up to 12.0 MGD

Secondary Sedimentation Tanks Improvements Project
Project construction continues to progress as allowable with plant flows and concurrent work. The design cost was $32,937 and project construction was awarded for $585,000. Work includes the removal of embedded train rails due to corrosion issues and the replacement of the entire collector systems in each of two sediment tanks which have reached the end of their useful life. Additional work includes improved monitoring to protect equipment and the replacement of gate valves to support maintenance and to improve operational flexibility.

Highway Booster Pump Station Rehabilitation Project
The District completed final design for $153,615 and has award a construction contract for $1,061,000. The project is nearing completion. Work includes the installation of new piping and vaults, the conversion of a dry well into a wet well to eliminate confined space entry, the inclusion of a stationary backup generator and equipment pad, and all new controls. In addition, the station's force main was cleaned, inspected and its isolation valve replaced.

Design of Whiskey Springs & Coloma Pump Stations Improvements Project
Detailed design of the project was awarded for $452,418. This project will improve reliability and capacity of Whiskey Spring pump station (Whiskey Springs is owned by the City of Sausalito but operated and maintained by the District) and a District pump station. All associated costs for the City of Sausalito pump station will be reimbursed by the City. The Coloma pump station will be relocated for improved access, capacity and reliability. The project design is 50% complete and construction is planned for FY 2017/2018 and 2018/1019.

Marin City Mudslide Repair Project

A mudslide in Marin City compromised a section of collection system piping and an associated access road. Emergency repairs were implemented at a cost of $6,162. Detailed design of repairs, including the addition of a retaining wall to prevent further erosion, have been completed to support informally bidding the project for a total design cost of $7,000. Project Construction is underway and planned to be completed in preparation for the upcoming wet weather season at an estimated construction cost of $150,000.

## FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has maintained a sustainable financial condition over the past several years. Mainly due to extensive financial planning, accurate expense projections and sewer rate setting over the past ten years that has allowed the District to build up the financial capacity to undertake needed cash-funded capital infrastructure and renewal & replacement projects. In addition, the District has been reasonably successful at stabilizing its operational expenses. For the past several years, the District has had and continues to have a stable workforce. This year a Lab Technician position was created and filled to replace the Lab Director position. The internship positions were not filled this year and continue to be unfilled. The net effect was the District's workforce is currently at 13 full-time positions. The District uses outside resources through service contracts for specialized services such as legal; accounting; specialized laboratory water quality testing; financial planning; OSHA safety program; engineering; automation controls/SCADA; solids hauling and disposal. The outside specialized resources augment staff allowing for a focused, well trained and consistent District workforce delivering its core mission of operating and maintaining the wastewater conveyance, collection and treatment system protecting human health, the environment and the Bay.

One key financial strategic focus continues to be to prioritize and focus capital investments on system facilities that reduce operations, maintenance and repair costs. An example of this strategy is the upgrade of technology infrastructure to improve internet speed, telephone communication and timely sharing of critical data. These improvements enhance communication and productivity of staff. These projects have been led and implemented by our staff to reduce costs and expedite the installation of the critical assets.

A second strategy continues to address expense stabilization and reduction strategies by using accounting data to capture expenses in a way so that they may be measured and assessed easily. The District leadership engages our staff to identify potential solutions for expense reduction. This strategy continues to identify cost savings measures then redeploys the resources to enhance services or make investments in other areas of our treatment and conveyance system operations. An example of a successful expense reduction strategy is the purchase and use of a Spiral Filter to use reclaimed water in lieu of potable water. This investment eliminated the use of potable water and reduced the use of costly polymer.

Finally, we continue to emphasize revenue enhancement by assuring our tax rolls are up to date and all customers are accounted for and being assessed the appropriate rate. Fees for services are assessed and capture the actual cost of the work. Our service agreement invoicing is based upon actual costs and the terms of the agreements.

The District's reserve target balance continues to track its financial model. Over the next few years reserves will continue to adequate to fund our reserve policy. Total Fund equity is a measure of an agencies financial position and, over time, a trend of increasing or decreasing equity is an indication of financial health of the organization. The District's total fund equity was $39,847,836 at June 30, 2017 (Table 1). This represents a $260,909 increase from last fiscal year and an upward equity trend over past budget cycles. The District's investment in capital assets at June 30, 2017 represents the largest portion of fund equity (70%). Unrestricted net position was reallocated among future Capital Improvements, Operations, Renewal & Replacement, Disaster Recovery, and Private Sewer Lateral Grants. Self-Insurance & Deductibles are Funded pursuant to the District's reserve policy. The reserves increase or decrease when budgeted revenue does not equal budgeted expenses.

The District is monitoring the changes in the current financial and credit markets. Reserve funds are invested in two manners. The majority of funds are invested in the Local Agency Investment Fund (LAIF), which is an investment pool managed by the Treasurer of the State of California. The Treasurer's office is regularly updating the pool members of the impact of changes in the investment landscape on the portfolio. The balance is invested in savings accounts with Westamerica Bank. Funds on deposit with the bank are covered by insurance from the Federal Deposit Insurance Corporation up to $250,000. In addition, the funds are collateralized 110% by securities held in trust.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is to provide interested parties with a general overview of the District's finances. Should there be any questions about this report or if there is a need for additional information, a request in writing should be submitted to: District Manager, Sausalito-Marin City Sanitary District, 1 East Road, Sausalito, CA, 94965, or telephone (415) 332-0244.

# BASIC FINANCIAL STATEMENTS

**Sausalito-Marin City Sanitary District**
Statement of Net Position
June 30, 2017

| | | 2017 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and investments | $ | 12,915,509 |
| Restricted cash and investments | | 35,252,518 |
| Accounts receivable | | 344,777 |
| Prepaid expenses | | 13,125 |
| Total Current Assets | | 48,525,929 |
| Noncurrent Assets: | | |
| Restricted cash and investments | | 147,806 |
| Restricted bond reserve cash and investments | | 2,159,600 |
| TCSD capital deferral | | 2,903,092 |
| Capital assets: | | |
| Non-depreciable | | 1,357,753 |
| Depreciable capital assets - net | | 30,617,191 |
| Total Capital Assets - Net | | 31,974,944 |
| Total Noncurrent Assets - Net | | 37,185,442 |
| Total Assets | $ | 85,711,371 |
| | | |
| **Deferred Outflows of Resources** | | |
| Pension adjustments | $ | 778,813 |
| | | |
| **Liabilities** | | |
| Current Liabilities: | | |
| Accounts payable | $ | 1,483,919 |
| Interest payable | | 238,000 |
| Current portion of long-term obligations | | 1,116,650 |
| Total Current Liabilities | | 2,838,569 |
| Noncurrent Liabilities: | | |
| Long-term obligations, net of current portion | | 43,639,913 |
| Total Noncurrent Liabilities | | 43,639,913 |
| Total Liabilities | $ | 46,478,482 |
| | | |
| **Deferred Inflows of Resources** | | |
| Pension Adjustments | $ | 138,513 |
| | | |
| **Net Position** | | |
| Net Investment in Capital Assets | $ | 28,014,293 |
| Restricted for debt service | | 147,806 |
| Unrestricted: | | |
| Reserved for capital improvements | | 6,117,034 |
| Reserved for operations | | 2,634,562 |
| Reserved for disaster recovery | | 500,000 |
| Reserved for renewal and replacement | | 423,318 |
| Unreserved | | 2,036,176 |
| Total Net Position | $ | 39,873,189 |

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

**Sausalito-Marin City Sanitary District**
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

| | 2017 |
|---|---|
| **Operating Revenues:** | |
| Service charges | $ 6,081,006 |
| TCSD service contract | 1,648,912 |
| NPS waste water service charges | 158,683 |
| Sausalito service contract | 78,820 |
| Other operating revenues | 2,845 |
| Total operating revenues | 7,970,266 |
| **Operating Expenses:** | |
| Salaries and benefits | 2,737,082 |
| Plant operations | 647,097 |
| Repairs and maintenance | 298,194 |
| Permit testing and monitoring | 54,394 |
| Depreciation and amortization | 2,133,667 |
| Utilities and telephone | 306,826 |
| General and administrative | 292,756 |
| Total operating expenses | 6,470,016 |
| Operating Income (Loss) | 1,500,250 |
| **Nonoperating Revenues (Expenses):** | |
| Interest and investment income | 39,331 |
| Interest expense | (371,695) |
| Bond issuance costs | (166,525) |
| Property taxes | 622,576 |
| Other revenue (expenses) | 23,732 |
| Total nonoperating revenues (expenses) | 147,419 |
| Income (loss) before contributions | 1,647,669 |
| Capital contributions - connection fees | 24,520 |
| Change in net position | 1,672,189 |
| Beginning net position | 39,586,927 |
| Prior period adjustment - TCSD capital deferral (note 11) | (1,385,927) |
| Beginning net position, as adjusted | 38,201,000 |
| Ending net position | $ 39,873,189 |

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

## Sausalito-Marin City Sanitary District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

| | 2017 |
|---|---|
| **Cash Flows from Operating Activities:** | |
| Cash received from customers and users | $ 7,498,840 |
| Cash payments to suppliers for goods and services | (1,607,329) |
| Cash payments to employees for services and benefits | (2,247,542) |
| Net Cash Provided (Used) by Operating Activities | 3,643,969 |
| **Cash Flows from Noncapital Financing Activities:** | |
| Cash received from property taxes | 622,576 |
| Net Cash Provided (Used) by Noncapital Financing Activities | 622,576 |
| **Cash Flows from Capital and Related Financing Activities:** | |
| Cash received from connection fees | 24,520 |
| Proceeds from bond issuances | 35,286,677 |
| Acquisition and construction of capital assets | (2,260,704) |
| Principal paid on capital debt | (269,672) |
| Interest paid on capital debt | (133,695) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 32,647,126 |
| **Cash Flows from Investing Activities:** | |
| Investment income | 39,331 |
| Net Cash Provided (Used) by Investing Activities | 39,331 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 36,953,002 |
| Cash and Cash Equivalents Beginning | 11,362,831 |
| Cash and Cash Equivalents Ending | $ 48,315,833 |
| **Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:** | |
| Operating Income (Loss) | $ 1,500,250 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation | 2,133,667 |
| GASB 68 pension adjustments | 506,514 |
| (Increase) decrease in: | |
| Accounts receivable | (278,701) |
| Prepaid expenses | (124) |
| Other assets | 1,193,202 |
| Increase (decrease) in: | |
| Accounts payable | (7,938) |
| Net OPEB obligation | (41,580) |
| Compensated absences | 24,606 |
| Net Cash Provided (Used) by Operating Activities | $ 3,643,969 |
| **Summary of cash and cash equivalents:** | |
| Cash and cash equivalents | $ 12,915,509 |
| Restricted cash and cash equivalents | 35,400,324 |
| Total cash and cash equivalents | $ 48,315,833 |

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

## NOTE 1 - NATURE OF ORGANIZATION

The Sausalito-Marin City Sanitary District is a political subdivision of the State of California, located in Marin County, California. The District was incorporated in November of 1950 as an independent special district organized under the California Health & Safety Code, codifying the Sanitary District Act of 1923, for the purpose of collecting, conveying, treating and disposing of wastewater within its jurisdictional boundaries, which includes the City of Sausalito and unincorporated areas, including Marin City. The District provides wastewater conveyance, treatment and disposal service to the Tamalpais Community Services District (TCSD) and the National Park Service under contract and operates and maintains the City of Sausalito Pump Stations under contract.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*The Financial Reporting Entity*

Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a stand-alone government, may serve as the nucleus for its financial reporting entity when the stand-alone government provides separately issued financial statements. A stand-alone government is a legally separate governmental organization that does have a separately elected governing body and does not meet the definition of a component unit. The District meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

Component units are defined as legally separate organizations for which the primary government are financially accountable, and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District considered all potential component units in determining what organizations should be included in the financial statements. The District determined that the Marin Public Financing Authority should be reported on a blended basis. A blended component unit, although a legally separate entity, is, in substance, part of the government’s operations and so data from this unit is combined with data of the primary government.

*Basis of Presentation*

The District's Basic Financial Statements are prepared in accordance with the policies and procedures for California special districts. The accounting policies of the District conform to accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

The activities of the District are accounted for in a single enterprise fund. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Measurement Focus and Basis of Accounting*

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. With this measurement focus, all assets deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to pensions from the implementation of GASB Statement No. 68.

In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

The District applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

*Statement of Net Position*

The statement of net position is designed to display the financial position of the District. The District’s net position is classified into three categories as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.

- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

*Statement of Revenues, Expenses, and Changes in Net Position*

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for services. Operating expenses for the District include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*Cash and Investments*

Cash includes amounts in demand deposits as well as short-term investments.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for Deposits and Investment Risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Investments are reported in the statement of net position at fair value. Changes in fair market value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

The following is a summary of the definition of fair value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

*Accounts Receivable*

District management considers all accounts receivable to be fully collectible. Accordingly, an allowance for doubtful accounts has not been recorded in these financial statements.

*Statement of Cash Flows (Cash and Cash Equivalents)*

For purposes of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered cash equivalents.

*Capital Assets*

Capital assets are defined by the District as long-lived assets acquired for use, and not intended for consumption in operations and that exceed the District's capitalization threshold. Assets contributed or donated have been recorded at the fair market value at the date received.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Costs of feasibility studies are accumulated in construction-in-progress. If the study results in a capital asset addition, these costs are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Alternately, costs not resulting in a capital asset addition are expensed through operating expenses. Feasibility studies, when used, are considered necessary for maintaining the efficient operations of the treatment plant.

Depreciation is computed using the straight-line method based on the estimated useful lives of related asset classifications that have a useful life in excess of one year. Depreciation of all capital assets in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of the capital assets.

The District has assigned the useful lives listed below to capital assets:

| | |
|---|---|
| Treatment Plant | 30-100 years |
| Equipment | 5-25 years |
| Buildings | 25-40 years |
| Other | 5-30 years |

*Long-Term Debt*

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

*Compensated Absences*

Compensated absences include vacation leave and sick leave. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to the employees. A liability is recognized for that portion of accumulated sick leave that has been vested.

*Pensions*

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

*Accounting Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Subsequent Events*

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

*Property Taxes*

Property taxes were levied July 1, 2016 and were payable in two installments on November 1, 2016 and February 1, 2017. Property tax revenues are recognized as revenue when received. The County of Marin bills and collects property taxes on behalf of the District on the schedule as follows:

| | Secured | Unsecured |
|---|---|---|
| Valuation/lien dates | January 1 | January 1 |
| Levy dates | July 1 | July 1 |
| Due dates (delinquent as of) | 50% on November 1 (December 10)<br>50% on February 1 (April 10) | July 31 (August 31) |

*Implemented New Accounting Pronouncements*

**GASB Statement No. 77, *Tax Abatement Disclosures*. -** Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (earlier application was encouraged and was applied at the District). This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the District under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The implementation of this statement did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

**GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* -** The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The implementation of this statement did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

*Upcoming New Accounting Pronouncements*

**GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* -** The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The District is in the process of determining the impact this statement will have on the financial statements.

**GASB Statement No. 81, Irrevocable Split-Interest Agreements -** The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

**GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* -** The objective of 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 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.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

**GASB Statement No. 83, *Certain Asset Retirement Obligations.* -** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

**GASB Statement No. 84, *Fiduciary Actives.* -** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

**GASB Statement No. 86, *Certain Debt Extinguishment Issues.* -** The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

## NOTE 3 - CASH AND INVESTMENTS

The District's cash and investments consisted of the following as of June 30, 2017:

| Cash and Investments | Available for Operations | Restricted | Fair Value June 30, 2017 |
|---|---|---|---|
| Cash: | | | |
| Cash in Banks | $ 416,403 | $ - | $ 416,403 |
| Petty Cash | 300 | - | 300 |
| Cash with Fiscal Agent | - | 2,209,449 | 2,209,449 |
| Money Market | 2,134,762 | - | 2,134,762 |
| Total Cash Deposits | 2,551,465 | 2,209,449 | 4,760,914 |
| Investments: | | | |
| State of California Local Agency Investment Fund | 10,364,044 | 35,350,475 | 45,714,519 |
| Total Cash and Investments | 12,915,509 | $ 37,559,924 | $ 50,475,433 |

Restricted cash and investments includes $147,806 in proceeds required to be set-aside for the annual State Water Resource Control Board loan debt service requirements, a $2,159,600 insurance surety for the 2017 Revenue Bonds debt service reserve, $49,849 remaining in a cost of issuance fund with the District's fiscal agent, and $35,202,669 restricted for capital projects from bond proceeds.

*Cash Deposits*

Interest bearing bank balances are insured up to $250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC"). The bank balance of the District's cash in bank, which was $2,798,784, exceeded the insured limit by $2,548,784 as of June 30, 2017. None of the District's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts. All of the District's accounts met the collateral and categorization requirements as noted in the following paragraphs.

*Fair Value Measurements*

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

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

- California Local Agency Investment Fund (LAIF) of $45,714,519; valued using Level 2 inputs.
- Money Market of $2,134,762; valued using Level 2 inputs.

*California Local Agency Investment Fund*

The District participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities, defined as follows:

- Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

LAIF allows local agencies such as the District to participate in a Pooled Money Investment Account managed by the State Treasurers Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value.

The total amount invested by all public agencies in LAIF, as of June 30, 2017, was approximately $77.5 billion. Of that amount, 99.23% is invested in non-derivative financial products and .77% in structured notes and asset-backed securities. The balance in LAIF is available for withdrawal on demand.

*Investment Policy*

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government. or its agencies; bankers acceptances of U.S. banks; commercial paper of prime quality; negotiable certificates of deposit; repurchase or reverse repurchase agreements; and passbook savings account demand deposits. Investments prohibited by the District are inverse floaters, range notes, mortgage pool interest-only strips, and zero interest accrual at maturity notes. The District's investments were in compliance with the above provisions as of and for the year ended June 30, 2017.

The District follows the California Government Code which authorizes the District to invest in the following:

| Authorized Investment Type | Maximum Remaining Maturity | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|---|---|---|---|
| Medium Term Notes | 5 years | 30% | No Limit |
| Money Market and Mutual Funds | N/A | 20% | 10% |
| U.S. Treasury Obligations | 5 years | No Limit | No Limit |
| Local Agency Bonds, Notes, Warrants | 5 years | No Limit | No Limit |
| Registered State Bonds, Notes, Warrants | 5 years | No Limit | No Limit |
| U.S. Agency Securities | 5 years | No Limit | No Limit |
| Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | No Limit |
| County Pooled Investment Funds | N/A | No Limit | No Limit |
| Joint Power Authority Pools | N/A | No Limit | No Limit |
| Banker's Acceptance | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | No Limit |
| Repurchase Agreements | 1 year | No Limit | No Limit |
| Reverse Repurchase Agreements | 92 days | 20% | No Limit |
| Local Agency Investment Fund (LAIF) | N/A | No Limit | No Limit |

*Risk Disclosures*

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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

- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the District only invests in the LAIF pool.

- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a written policy for custodial credit risk over deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. In the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial risk.

- *Concentration of Credit Risk* - See the chart on the previous page for the District's limitations on the amount that can be invested in any one issuer. As of June 30, 2017, the District invested 100% of its cash not deposited in checking, money market accounts, or fiscal agents in LAIF.

## NOTE 4 - CAPITAL ASSETS

The District's capital assets consisted of the following as of June 30, 2017:

| Capital Assets | Balance July 01, 2016 | Additions | Deletions | Transfers/ Adjustments | Balance June 30, 2017 |
|---|---|---|---|---|---|
| **Non-depreciable Capital Assets:** | | | | | |
| Construction in progress | $ 930,310 | 1,357,753 | $ - | $ (930,310) | $ 1,357,753 |
| Total Non-depreciable Capital Assets | 930,310 | 1,357,753 | - | (930,310) | 1,357,753 |
| **Depreciable Capital Assets:** | | | | | |
| Original conveyance and treatment facilities | 2,456,434 | - | - | - | 2,456,434 |
| Secondary treatment plant | 12,836,807 | - | - | - | 12,836,807 |
| General equipment, facility upgrade and renewal | 16,549,273 | 1,358,699 | (357,182) | 694,857 | 18,245,647 |
| Conveyance system upgrade and renewal | 12,206,290 | 928,519 | (118,320) | 211,009 | 13,227,498 |
| Collection system upgrade | 2,165,710 | - | - | - | 2,165,710 |
| Office equipment | 150,457 | - | - | 24,444 | 174,901 |
| Total Depreciable Capital Assets | 46,364,971 | 2,287,218 | (475,502) | 930,310 | 49,106,997 |
| **Less Accumulated Depreciation for:** | | | | | |
| Original conveyance and treatment facilities | 1,031,701 | 24,564 | - | - | 1,056,265 |
| Secondary treatment plant | 5,459,646 | 199,602 | - | - | 5,659,248 |
| General equipment, facility upgrade and renewal | 5,550,218 | 1,080,751 | (357,182) | - | 6,273,787 |
| Conveyance system upgrade and renewal | 3,915,635 | 590,375 | (118,320) | - | 4,387,690 |
| Collection system upgrade | 785,446 | 215,539 | - | - | 1,000,985 |
| Office equipment | 88,995 | 22,836 | - | - | 111,831 |
| Total Accumulated Depreciation | 16,831,641 | 2,133,667 | (475,502) | - | 18,489,806 |
| Total Depreciable Capital Assets - Net | 29,533,330 | 153,551 | - | 930,310 | 30,617,191 |
| Total Capital Assets - Net | $ 30,463,640 | $ 1,511,304 | $ - | $ - | $ 31,974,944 |

Depreciation expense for the year ended June 30, 2017 was $2,133,667.

## NOTE 5 - LONG-TERM OBLIGATIONS

The District's long-term obligations consisted of the following as of June 30, 2017:

| Long-term Obligations | Balance June 30, 2016 | Additions | Deductions | Balance June 30, 2017 | Due Within One Year |
|---|---|---|---|---|---|
| Note Payable - City National Bank | $ 2,080,666 | $ - | $ 137,348 | $ 1,943,318 | $ 143,038 |
| 2017 Revenue Bond | - | 33,630,000 | - | 33,630,000 | 820,000 |
| 2017 Revenue Bond Premium | - | 1,823,202 | - | 1,823,202 | - |
| 2017 Revenue Bond Reserve Surety | - | 2,159,600 | - | 2,159,600 | - |
| State Water Resources Control | 1,914,673 | - | 98,024 | 1,816,649 | 100,573 |
| River Watch Liability | 34,300 | 1,700 | 36,000 | - | - |
| Net OPEB Obligation | 355,215 | - | 41,580 | 313,635 | - |
| Net Pension Obligation | 1,863,054 | 1,101,026 | - | 2,964,080 | - |
| Compensated Absences | 81,473 | 24,606 | - | 106,079 | 53,040 |
| Total Long-term Obligations | $ 6,329,381 | $38,740,134 | $ 312,952 | $ 44,756,563 | $ 1,116,650 |

*Note Payable – City National Bank*

On April 1, 2008, the District entered into an installment agreement with Municipal Finance Corporation for the acquisition and construction of wastewater system improvements. Municipal Finance Corporation assigned the loan to City National Bank. The note is payable in semi-annual principal and interest payments of $110,631 and is secured by a pledge of net revenues of the District. In addition, the District is obligated to set rates at a level such that the enterprise's unencumbered cash net revenues will at least be equal to 115 percent of that year's debt service on the loan.

The District's debt service requirements on the note payable with City National Bank were as follows as of June 30, 2017:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 143,038 | $ 78,224 | $ 221,262 |
| 2019 | 148,962 | 72,299 | 221,261 |
| 2020 | 155,132 | 66,129 | 221,261 |
| 2021 | 161,558 | 59,704 | 221,262 |
| 2022 | 168,250 | 53,013 | 221,263 |
| 2023 - 2027 | 951,738 | 154,574 | 1,106,312 |
| 2028 - 2032 | 214,640 | 6,624 | 221,264 |
| Total Debt Service | $ 1,943,318 | $ 490,567 | $ 2,433,885 |

*State Water Resource Control Board*

The District entered into a loan contract with the State of California (State Water Resources Control Board) on August 15, 2011 to finance the Locust Street Pump Station Improvements project. The total loan amount cannot exceed $2,298,373, with a stated interest rate of 2.6% per annum. To date, the District has received $2,298,373. Principal and interest payments of $147,806 are due annually beginning through the fiscal year 2032.

The District's debt service requirements on the State Water Resource Control Board loan were as follows as of June 30, 2017:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 100,573 | $ 47,233 | $ 147,806 |
| 2019 | 103,188 | 44,618 | 147,806 |
| 2020 | 105,871 | 41,935 | 147,806 |
| 2021 | 108,623 | 39,182 | 147,805 |
| 2022 | 111,448 | 36,358 | 147,806 |
| 2023 - 2027 | 602,239 | 136,790 | 739,029 |
| 2028 - 2032 | 684,707 | 54,321 | 739,028 |
| Total Debt Service | $ 1,816,649 | $ 400,436 | $ 2,217,085 |

*2017 Revenue Bonds*

On April 7, 2017, the District issued $33,630,000 in Series 2017 Revenue Bonds, through the Marin Public Financing Authority, at a premium with an interest rate ranging from 3.0% to 4.0%. The Bonds are being issued to provide funds to (i) finance certain capital improvements to the District's wastewater system; (ii) provide a debt service reserve for the Bonds, which may be funded through the deposit of a reserve surety, as further described herein; and (iii) pay the costs of issuing the Bonds. The Bonds are fully registered with principal due annually on April 1st and interest payable semi-annually on April 1st and October 1st. The outstanding principal balance of the 2017 Revenue Bonds at June 30, 2017 was $33,630,000.

The premium on the 2017 Revenue Bonds was received as additional proceeds by the District, in the amount of $2,118,915. This premium, net of related issuance costs, is being amortized over the life of the 2017 Revenue Bonds, and has a balance of $1,823,202 as of June 30, 2017.

In connection with the issuance of the bond, the District purchased surety bond insurance to establish a debt service reserve. The reserve will be held by a trustee as a fiscal agent and can be used to pay the required debt service payments if the District were unable to meet its debt service requirements. The $2,159,600 reserve amount would revert back to the insurance company once the bonds mature, or if the bonds are called or defeased. Thus, the reserve balance has been recorded as restricted cash and investments with an offsetting noncurrent liability at June 30, 2017. The sources and uses of funds relating to the Bonds are as follows:

| | |
|---|---|
| **Sources:** | |
| Principal Amount of Bonds | $ 33,630,000 |
| Original Issue Premium | 2,118,915 |
| **Total Sources** | 35,748,915 |
| **Uses:** | |
| Premium for the Reserve Policy | 39,953 |
| Costs of Issuance | 213,202 |
| Underwriters Discount | 255,760 |
| **Total Uses** | 508,915 |
| **Deposited to Projects Fund** | $ 35,240,000 |

The District's debt service requirements on the 2017 Revenue Bonds were as follows as of June 30, 2017:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 820,000 | $ 1,314,717 | $ 2,134,717 |
| 2019 | 825,000 | 1,312,400 | 2,137,400 |
| 2020 | 855,000 | 1,279,400 | 2,134,400 |
| 2021 | 890,000 | 1,245,200 | 2,135,200 |
| 2022 | 930,000 | 1,209,600 | 2,139,600 |
| 2023 - 2027 | 5,330,000 | 5,452,000 | 10,782,000 |
| 2028 - 2032 | 6,480,000 | 4,298,000 | 10,778,000 |
| 2033 - 2037 | 7,890,000 | 2,893,800 | 10,783,800 |
| 2038 - 2042 | 9,610,000 | 1,183,200 | 10,793,200 |
| Total Debt Service | $ 33,630,000 | $ 20,188,317 | $ 53,818,317 |

*River Watch Liability*

The District entered into a Settlement and Release of Claims Agreement on July 31, 2008 with Northern California River Watch, a 501(c)(3) non-profit public benefit corporation to resolve allegations that the District violated Section 505 of the Federal Water Pollution Control Act. As part of the settlement, the District agreed to provide funding in the amount of $40,000 for a supplemental environmental project relating to a storm water pollution study or grant or reduced cost programs for lateral replacements. The District is no longer committed to provide this funding and removed the liability from the books during 2016/17.

## NOTE 6 - COMMITMENTS AND CONTINGENCIES

The District is involved in litigation arising in the ordinary course of its operations that, in the opinion of management, will not have a material effect on the District's results of operations.

In addition, the District has entered into construction and service contracts with various organizations. As of June 30, 2017, the District's total commitment for these contracts was $2,563,690.

## NOTE 7 - RISK MANAGEMENT

The District is exposed to risks of loss from property, liability, and workers' compensation. The District mitigates risk by participating in risk sharing and insurance purchasing pools through membership in the California Sanitation Risk Management Authority (CSRMA). Risk sharing pools provide general liability and workers' compensation coverage. The pools operate to share risk among the members of the pool up to a limit of $15,500,000 and $750,000 for general liability and workers' compensation, respectively.

The cost to each CSRMA member District for program participation is determined by the Executive Board upon the basis of cost allocation plan and rating formula. The premium for each participating agency includes the District's share of expected losses, program insurance costs, and program administrative costs for the year, plus the District's share of Authority general expense allocated to the program by the Board. Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2016 (most recent information available):

| | June 30, 2016 |
|---|---|
| Total Assets | $ 28,336,567 |
| Total Liabilities | 16,735,609 |
| Total Equity | 11,600,958 |
| Total Revenues | 11,843,583 |
| Total Expenditures | 10,946,085 |

## NOTE 8 - DEFINED BENEFIT PENSION PLAN

*General Information about the Pension Plans*

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

**Benefits Provided** - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law. The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

| | Tier 1 | PEPRA |
|---|---|---|
| Benefit formula | 2.7% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 Years | 5 Years |
| Benefit payments | Monthly for Life | Monthly for Life |
| Retirement age | 55 | 62 |
| Monthly benefits as a % of eligible compensation | 2.0% to 2.5% | 2.00% |
| Required employee contribution rates | 8.000% | 6.250% |
| Required employer contribution rates | 12.777% | 6.555% |

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

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

| | | Totals |
|---|---|---|
| Contributions - employer | $ | 191,747 |
| Contributions - employee | | 112,740 |
| Total | $ | 304,487 |

During the fiscal year, the District contributed the 8% required employee contribution. In addition to that, the District contributed 12.777% toward the required employer contribution, bringing the District's total contribution to 20.777% for 2017.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of $2,964,080. The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

| | Proportionate Share of Net Pension Liability |
|---|---|
| Proportion - June 30, 2015 | 0.0679% |
| Proportion - June 30, 2016 | 0.0853% |
| Change in Proportions | 0.0174% |

For the year ended June 30, 2017, the District recognized pension expense of $858,808.

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 353,677 | $ - |
| Changes in assumptions | - | (80,424) |
| Differences between expected and actual experiences | 6,553 | - |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | - | (58,089) |
| Net differences between projected and actual earnings on plan investments | 418,583 | - |
| Total | $ 778,813 | $ (138,513) |

The District reported $353,677 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

| Fiscal Year Ending: | Deferred Outflows/(inflows) of Resources |
|---|---|
| 2018 | $ (1,403) |
| 2019 | 6,588 |
| 2020 | 173,020 |
| 2021 | 108,418 |
| Total | $ 286,623 |

**Actuarial Assumptions** - The total pension liabilities in the June 30, 2015 actuarial valuation were determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2016 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | (1) |
| Investment Rate of Return | 7.5% (2) |
| Mortality | (3) |

(1) Varies by age and service
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

**Discount Rate** - The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

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

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

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10 (a) | Real Return Years 11+ (b) |
|---|---|---|---|
| Global Equity | 51.00% | 5.25% | 5.71% |
| Global Fixed Income | 20.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 10.00% | 6.83% | 6.95% |
| Real Estate | 10.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.00% | 4.50% | 5.09% |
| Liquidity | 1.00% | -0.55% | -1.05% |
| Total | 100.00% | | |

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

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

**Rate** - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | | |
|---|---|---|
| 1% Decrease | | 6.65% |
| Net Pension Liability | $ | 4,434,499 |
| Current Discount Rate | | 7.65% |
| Net Pension Liability | $ | 2,964,080 |
| 1% Increase | | 8.65% |
| Net Pension Liability | $ | 1,748,852 |

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

## NOTE 9 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The deferred compensation plan is available to all full-time employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, death, or unforeseeable emergency. The District contributes 1.5% of unrepresented employee's salary as deferred compensation.

## NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

*Plan Description*

The District administers an Other Post-Employment Benefit (OPEB) Plan, a single-employer defined benefit plan. The District's OPEB Plan provides medical insurance for eligible retirees and spouses through the District's group health insurance, which covers both active and retired members. In order to be eligible to retire with District-paid health benefits, an employee must have been hired by the District prior to 2004 or, if hired after 2004, must have 10 years of service credit, 5 of which must be with the District. The activity and liability from the OPEB plan are included in these financial statements.

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

*Funding Policy*

The District pays 100% of the cost of the OPEB plan for employees hired before 2004. For employees hired after 2004 with 10 years of service, 5 of which must be with the District, the District pays 50% of the cost of the OPEB plan. The amount of health benefit increases proportionally based on the employee's credited years of service to 100% after 20 years. The District's annual required contribution of the employer (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC is $250,037. The plan members receiving benefits currently don't make contributions.

*Annual OPEB Cost, Net OPEB Obligation and Funded Status and Progress.*

The following table, based on the District's actuarial valuation as of July 1, 2015, shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's Net OPEB obligation (asset):

| | | |
|---|---|---|
| Annual required contribution | $ | 250,037 |
| Interest on net OPEB obligation | | 27,730 |
| Adjustment to annual required contribution | | (35,714) |
| Annual OPEB cost (expense) | | 242,053 |
| Contributions made | | (283,633) |
| Decrease in net OPEB obligation | | (41,580) |
| Net OPEB obligation (asset) - beginning | | 355,215 |
| Net OPEB obligation (asset) - ending | $ | 313,635 |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2017 are as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation/ (Asset) |
|---|---|---|---|
| June 30, 2015 | $ 244,532 | 104% | $ 398,506 |
| June 30, 2016 | 240,058 | 118% | 355,215 |
| June 30, 2017 | 242,053 | 117% | 313,635 |

The following summarizes the funded status and progress of the plan as of June 30, 2017:

| | | |
|---|---|---|
| Actuarial accrued liability (AAL) | $ | 2,437,729 |
| Value of plan assets | | 429,019 |
| Unfunded actuarial accrued liability (UAAL) | $ | 2,008,710 |
| | | |
| Funded ratio (actuarial value of plan assets/AAL) | | 18% |
| Projected covered payroll (active Plan members) | $ | 1,333,613 |
| UAAL as a percentage of covered payroll | | 151% |

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are 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, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 actuarial methods and assumptions used are consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 6.73 percent investment rate of return (net of administrative expenses), inflation rate of 3 percent and an annual medical cost trend rate of 6.1 percent initially, reduced by decrements to an ultimate rate of 5.5 percent after four years. The plan's unfunded actuarial accrued liability in each year is amortized on a level dollar basis over the closed 30-year period beginning July 1, 2009. The actuarial value of assets is equal to the fair value of plan assets, including any receivable contributions.

## NOTE 11 - AGENCY SERVICE AGREEMENTS

The District maintains wastewater service agreements with the City of Sausalito, National Park Service (Golden Gate National Recreation Area) and Tamalpais Community Services District (TCSD). The agreements establish the terms and conditions related to the repair, operation and agency share costs of the wastewater collection system and treatment facility. The agreements are described below.

*City of Sausalito*

The District has a long-standing agreement with the City to operate and maintain four sewer pump stations that are owned by the City. The agreement is on-going and has no sunset date. Under the agreement, the District estimates the annual cost in the fiscal year budget. The District invoices the City on a quarterly basis for actual expenses incurred by the District, which includes equipment, supplies, labor, overhead and administrative expenses.

*National Park Service (Golden Gate National Recreation Area)*

The District recently renewed its property lease agreement with the National Park Service(NPS) for an additional 32 years expiring in 2049. Under the agreement, the District provides to NPS wastewater treatment as an "in-kind service" in exchange for the annual lease payment for the use of approximately five (5) acres of land where the treatment plant is located. The "in kind service" allows the District to operate and maintain the wastewater treatment facility on Federal NPS lands within the Golden Gate National Recreation Area.

*Tamalpais Community Services District (TCSD)*

The District and TCSD approved a new agreement in 2013. The agreement is valid for a 30-year term to expire in 2043. The District annually estimates TCSD's allocated share of total operation & maintenance and capital improvement expenses for their use of the SMCSD wastewater conveyance and treatment system. The estimate is done during the annual fiscal year budget process. The budget and TCSD's annual estimated charge is adopted by the Board. SMCSD invoices TCSD quarterly for the estimated annual charge. Following the District's annual fiscal year audit by our CPA, the District reconciles the Estimated Annual Charge versus Actual Annual Charge utilizing a mutually agreed upon financial professional to calculate their proportional share of the actual annual expense. SMCSD invoices or credits TCSD for the difference. The District calculated the Actual Annual Charge for Fiscal Year 2016/17 to $1,989,527 less the Capital/R&R Cash Funded Costs, the total charge is $1,648,912. The Actual Annual Charge will be calculated by a mutually agreed upon financial professional and the adjustment will be made in Fiscal Year 2017/18.

Over the past several years, the District has loaned funds to TCSD by deferring the annual capital cost. As of June 30, 2017, TCSD owes the District $2,903,772 for deferred capital expenses, which is reported in the District's financial statements. As of June 30, 2017, TCSD's $2,903,772 debt service total consists of cash funded capital deferrals of $2,088,978 and a 2014 Inter-District Loan balance of $814,114. Through this agreement TCSD also pays $121,156 annually for their portion of capital expenses funded by a City National Bank Loan and State Revolving Loan. Beginning in FY17/18 TCSD will begin paying $725,804 annually for their portion of a 25-year revenue bond funding the plant upgrade requirements of the 2008 EPA order to increase the system capacity for their respective percentage of wet weather flow. The District adjusted the beginning deferral by $1,385,927, resulting in an adjustment to beginning net position, after revisiting and recalculating the amounts owed to the District for loans made and services provided.

The following schedule summarized these balances projected over the next six years:

| Fiscal Year Ending: | Inter-District Loan | Cash Funded Capital Deferral | Total Deferred Debt Service |
|---|---|---|---|
| 2018 | $ 763,646 | $ 2,794,847 | $ 3,558,493 |
| 2019 | 711,664 | 3,307,863 | 4,019,527 |
| 2020 | 658,122 | 3,823,583 | 4,481,705 |
| 2021 | 602,974 | 4,559,385 | 5,162,359 |
| 2022 | 546,171 | 5,070,510 | 5,616,681 |
| 2023 | 487,664 | 5,583,312 | 6,070,976 |

The above schedule includes assumptions that District will continue cash funded capital projects escalating in cost by 5%. TCSD's share of the District's total capital cost is based upon their Peak Wet Weather Flow (PWWF) of 34%. TCSD defers cash fund capital until FY 2022/23. By the 10th year of the service agreement, their ability to defer cash funded capital expenses ends. Their total debt service will be $6,070,976 as noted above.

# REQUIRED SUPPLEMENTARY INFORMATION

# Sausalito-Marin City Sanitary District

Schedule of CalPERS Pension Plan Contributions

For the Fiscal Year Ended June 30, 2017

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Contractually Required Contributions (Actuarially Determined) | $ 264,760 | $ 241,935 | $ 204,517 |
| Contributions in Relation to Actuarially Determined Contributions | 353,677 | 288,873 | 231,791 |
| **Contribution Deficiency (Excess)** | (88,917) | (46,938) | (27,274) |
| **Covered Employee Payroll** | **$ 1,032,559** | **$ 1,044,426** | **$ 1,147,300** |
| **Contributions as a Percentage of Covered Payroll** | **34.25%** | **27.66%** | **20.20%** |

**Notes to Schedule:**

| | |
|---|---|
| Valuation Date: | June 30, 2015 |
| Assumptions Used: | Entry Age Method used for Actuarial Cost Method |
| | Level Percentage of Payroll (Closed) Used Amortization Method |
| | 3.7 Years Remaining Amortization Period |
| | Inflation Assumed at 2.75% |
| | Investment Rate of Returns set at 7.5% |
| | CalPERS mortality table using 20 years of membership data for all funds |

** Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

# Sausalito-Marin City Sanitary District

Schedule of CalPERS Proportionate Share of Net Pension Liability
For the Fiscal Year Ended June 30, 2017

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Proportion of Net Pension Liability | 0.08532% | 0.06791% | 0.07119% |
| Proportionate Share of Net Pension Liability | $ 2,964,080 | $ 1,863,054 | $ 1,759,386 |
| Covered Employee Payroll | $ 1,032,559 | $ 1,044,426 | $ 1,147,300 |
| **Proportionate Share of NPL as a % of Covered Employee Payroll** | **287.06%** | **178.38%** | **153.35%** |
| **Plan's Fiduciary Net Position as a % of the TPL** | **72.86%** | **82.55%** | **83.03%** |

** Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

# Sausalito-Marin City Sanitary District

Schedule of Funding Progress for the Retiree Health Benefit Plan

June 30, 2017

The following schedule summarizes the funding progress of the District's retiree health benefit plan as stated in each actuarial valuation by the date each study was completed:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a/c)) |
|---|---|---|---|---|---|---|
| 7/1/2012 | $ - | $ 4,196,510 | $ 4,196,510 | 0.00% | $ 1,005,472 | 417.37% |
| 7/1/2013 | - | 2,158,563 | 2,158,563 | 0.00% | 1,059,075 | 203.82% |
| 7/1/2015 | 161,796 | 2,411,352 | 2,249,556 | 6.71% | 1,163,562 | 193.33% |

# OTHER INDEPENDENT AUDITOR'S REPORTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Sausalito-Marin City Sanitary District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sausalito-Marin City Sanitary District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2017.

**Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

November 13, 2017
San Jose, California

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