Attachment V.C.1.

SAUSALITO-MARIN CITY SANITARY DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2016

* * *

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

Sausalito-Marin City Sanitary District

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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, 2016, 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, 2016, 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.

New Accounting Principles

As discussed in Note 1 to the financial statements, the District adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* effective June 30, 2016**.**

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016 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

September 23, 2016
San Jose, California

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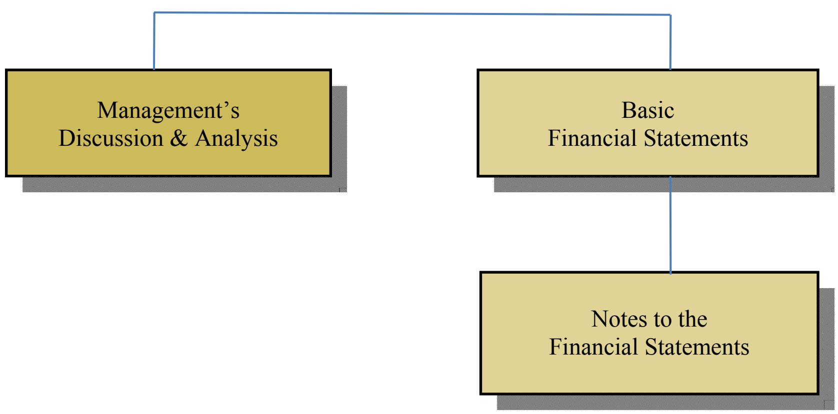
INTRODUCTION

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, 2016. 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 treatment and disposal service to the City of Sausalito and wastewater collection, treatment and disposal service to Marin City and other unincorporated areas within the District's boundaries. Treatment and disposal service is also provided on a contract basis to Tamalpais Community Services District (TCSD) and the National Parks Service (Forts Baker, Barry and Cronkhite and Muir Woods National Monument). Treated wastewater is discharged into the deep waters of the central San Francisco Bay.

The District operates a 1.8 million-gallon per day secondary wastewater treatment plant, seven sewer pump stations, and approximately ten miles of pipelines. Three additional sewer pump stations are operated and maintained for the City of Sausalito on a contract basis. Twelve full-time employees are employed to accomplish these operations. In addition, the District has an established intern program. Under the program, two positions are funded as temporary part-time (non-benefited).

In January 2013, the District approved a new 30-year wastewater collection, treatment and disposal service agreement with the Tamalpais Community Services District. The District started the process of securing a new 50-year easement agreement for the treatment plant site from the National Park Service. Following an extensive evaluation of District operations and infrastructure, in 2014 the District adopted a 5-year sewer rate plan (FY 2014/15 to FY 2018/19) to ensure adequate revenue is available to support the District's operation and 10-year CIP. The 10-year capital improvement plan (CIP) for FY 2011/12 to FY 2020/21 was updated in FY 2015/16 and identified a total of $53 million of needed sewer infrastructure improvements.

To date, approximately $12.5 million of collections and treatment plant CIP improvements have been completed. Of the remaining $41.5 million, approximately $31.8 million is programmed for the treatment plant, $6.7 million for sewer collection conveyance projects and $3 million for other capital expenses. The largest capital project is the Headworks, Primary and Secondary improvements at the treatment plant which are estimated at $28.2 million. At the conclusion of the current 10-year capital improvement program, new expenditures on capital improvements should drop significantly, while the financing of current projects will span over the next 20 to 30 years.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2016 were as follows:

- Total net position increased by $6,789,755 (20.70%) which included an increase in unrestricted net position of $6,339,845 (95.61%) from the prior period adjustment for TCSD Notes Receivable and adjustments required by the implementation of GASB 68 related to the District's Miscellaneous Pension Plan administered by CalPERS.

- The District recorded deferred outflows of resources of $470,870 and deferred inflows of resources of $425,082 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 decreased by $146,633 (2.22%) because the implementation of GASB 68 required the District to record its proportionate share of the CalPERS miscellaneous pension plans' net pension liability at June 30, 2016, which was $1,863,054. The majority of the difference between the increase from the pension liability and the overall increase to total liabilities came from debt service payments made during the year that reduced long-term obligations.

- Current assets increased by $1,967,113 (21.09%), mostly from an increase in cash and investments because capital project progress has been slowed due to the time it has taken to reach land use and financing agreements with partner agencies.

- Operating revenue increased by $735,524 (10.39%) because of the revenue recognition of TCSD's share of cash funded capital expenses and the adopted sewer service charge rate plan.

- Total operating expenses increased by $120,001 (2.45%) mostly because depreciation expense increased by $110,428 (6.69%).

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, 2016 as compared to June 30, 2015:

Table 1 - Summary Statement of Net Position

	2016	2015	Change	Percentage Change
Assets				
Current Assets	$11,294,102	$ 9,326,989	$ 1,967,113	21.09%
Noncurrent Assets	34,707,740	30,391,950	4,315,790	14.20%
Total Assets	$46,001,842	$39,718,939	$ 6,282,903	15.82%
Deferred Outflows	$ 470,870	$ 276,804	$ 194,066	70.11%
Liabilities				
Current Liabilities	$ 407,432	$ 383,257	$ 24,175	6.31%
Noncurrent Liabilities	6,053,271	6,224,079	(170,808)	-2.74%
Total Liabilities	$ 6,460,703	$ 6,607,336	$ (146,633)	-2.22%
Deferred Inflows	$ 425,082	$ 591,235	$ (166,153)	-28.10%
Net Position				
Net Investment in Capital Assets	$26,468,301	$26,018,391	$ 449,910	1.73%
Restricted	147,806	147,806	-	0.00%
Unrestricted	12,970,820	6,630,975	6,339,845	95.61%
Total Net Position	$39,586,927	$32,797,172	$ 6,789,755	20.70%

As seen above, the District's total net position increased by $6,789,755 from fiscal year 2014-15 to 2015-16. The increase can mostly be attributed to the adjustment that reflects the TCSD Notes Receivable and the increase in capital assets from ongoing capital improvements to plant and facilities.

Table 2 shows the changes in net position for fiscal year 2016 as compared to 2015.

Table 2 - Change in Net Position				
	2016	2015	Change	Percent Change
Revenues				
Operating Revenue	$ 7,812,426	$ 7,076,902	$ 735,524	10.39%
Operating Expenses				
Salaries and Benefits	1,756,486	1,843,977	(87,491)	-4.74%
Plant Operations	564,687	563,309	1,378	0.24%
Repairs and Maintenance	266,534	213,817	52,717	24.66%
Permit Testing and Monitoring	67,696	59,888	7,808	13.04%
Utilities and Telephone	282,379	247,396	34,983	14.14%
General Administration	328,178	328,000	178	0.05%
Depreciation	1,759,927	1,649,499	110,428	6.69%
Total Operating Expenses	5,025,887	4,905,886	120,001	2.45%
Operating Income (Loss)	2,786,539	2,171,016	615,523	28.35%
Nonoperating Revenue (Expense)	437,807	171,215	266,592	155.71%
Connection Fees	6,130	6,130	-	0.00%
Change in Net Position	3,230,476	2,348,361	882,115	37.56%
Beginning Net Position	32,797,172	32,594,725	202,447	0.62%
Prior Period Adjustment	3,559,279	(2,145,914)	5,705,193	265.86%
Beginning Net Position - As Adjusted	36,356,451	30,448,811	5,907,640	19.40%
Ending Net Position	$ 39,586,927	$ 32,797,172	$ 6,789,755	20.70%

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, 2016 capital asset balances as compared to June 30, 2015.

Table 3 - Summary of Capital Assets Net of Depreciation				
	2016	2015	Change	Percentage Change
Construction in Progress	$ 930,310	$ 169,458	$ 760,852	448.99%
Original conveyance and treatment facilities	1,424,733	1,449,297	(24,564)	-1.69%
Secondary treatment plant	7,377,161	7,577,271	(200,110)	-2.64%
General equipment, facility upgrade and renewal	10,999,055	11,111,005	(111,950)	-1.01%
Conveyance system upgrade and renewal	8,290,655	8,283,956	6,699	0.08%
Collection system upgrade	1,380,264	1,595,803	(215,539)	-13.51%
Office Equipment	61,462	54,370	7,092	13.04%
Total Capital Assets - Net	$30,463,640	$30,241,160	$ 222,480	0.74%

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				
	2016	2015	Change	Percentage Change
Note Payable - City National Bank	$2,080,666	$2,212,552	$ (131,886)	-5.96%
State Water Resources Control	1,914,673	2,010,213	(95,540)	-4.75%
River Watch Liability	34,300	34,300	-	0.00%
Net OPEB Obligation	355,215	398,506	(43,291)	-10.86%
Net Pension Obligation	1,863,054	1,759,386	103,668	5.89%
Compensated Absences	81,473	73,097	8,376	11.46%
Total Long-term Liabilities	$6,329,381	$6,488,054	$ (158,673)	-2.45%

CAPITAL PROJECTS

The District invested $1,982,407 on its capital program to renew infrastructure during the fiscal year ending June 30, 2016. Of this total $1,424,836 was spent on major capital projects, $470,597 on renewal and replacement projects and $86,977 on Capital Outlay. The following major capital project work was in progress or completed:

Projects Completed

Construction of Disinfection System Analyzer Replacement
The District has completed construction of the project at a total cost of $206,953.

This project included the replacement of the three analyzers that are operated for regulatory compliance to determine both chlorine and bisulfite residual levels in the plant effluent. Additional work was included in project scope to improve space in the analyzer and storage rooms. Shelving, tool cabinets and a new hot water heater for the building were installed and the floors resurfaced.

The District operates a plant effluent chlorination and de-chlorination system. The system includes chemical storage, feed and analyzer equipment. The chemical storage and feed equipment was replaced four years ago.

District Office and Facility Workspace Remodel Project
The project is complete. On July 7, 2014, the District Board of Directors awarded the construction contract for $692,400. The final contract price was $722,414. Final payments were made in budget year 2015/2016 in the amount of $142,331.

The project scope of work included but was not limited to foundation underpinning, interior remodeling, re-roofing, and incorporation of ADA accessibility requirements at the existing District residence to convert it into the District's main office. In addition, project scope includes interior remodeling of the existing office and operations building which were constructed in the 1980's.

Design and construction of the Beach Force Main and Gravity Sewer Inspection Project

The District has completed final design and construction of the project. Construction was completed for $421,391 and final design costs incurred in the budget year were $39,993.

The project scope included cleaning and inspection of the District's beach force main which was originally installed in 1952 and abandoned as the primary influent line to the treatment plant in 1999. This line continues to serve 19 homes within the City of Sausalito. Subsequent to cleaning and inspection, the line was fitted with wyes to facilitate slip lining in a future project. In addition to the force main, the City of Sausalito's beach gravity sewer was cleaned and inspected. The City of Sausalito is a 50% cost share for the project.

Projects In-Progress

Treatment and Wet Weather Flow Upgrade Project

The detail design phase is now in progress. The 100% design total project cost is estimated at $28 million. The detailed design phase is in progress and is anticipated to be completed in November, 2016.Bidding award and construction are scheduled for early 2017. The construction phase is estimated to take approximately 24 months to complete. The District has prepared an application for project funding under the Clean Water State Revolving Fund Program, however, funding through the program is no longer available. Instead the project will be funded through revenue bonds.

The SMCSD Treatment Plant Upgrade Project would implement facility and process improvements to the existing treatment operations, 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 flow capacities of up to 9.0 MGD.

Final Design of the Highway Booster Pump Station Rehabilitation Project

The District has completed final design for $153,615 and has advertised the project. Award and construction will be in the 2016/2017 budget year. 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.

Miscellaneous Upgrades Project

The District has completed construction of the project with final payments made in the budget year of 2015/2016 in the amount of $29,790. The total project cost was $305,475 which included reimbursable work for the City of Sausalito in the amount of $42,492 and for TCSD in the amount of $12,000. Project scope included a variety of maintenance and capital improvements work which were combined to promote competitive bidding.

Project scope included the replacement of aging air relief valves on the District's Main Street force main, structural upgrades to facility foundations, collector system upgrades to the secondary sediment tanks to eliminate failures, exterior painting of all shop level buildings, a pump replacement for TCSD's Bell Lane pump station, modifications to the City of Sausalito's Spinnaker pump station to prevent corrosion, and installation of a bypass connection at the District's Scotties pump station. Work performed for TCSD and the City of Sausalito is to be reimbursed by those agencies.

<u>Secondary Sedimentation Tanks Improvements</u>
Final design of the project has been completed and construction has begun. Design costs were $32,937. Work includes the removal of embedded train rails due to corrosion, and the replacement of the entire collector system which has reached the end of its useful life. Additional work includes improved monitoring to protect equipment.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has enjoyed a stable 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 infrastructure renewal and replacement. In addition, the District has been reasonably successful at stabilizing its operational expenses. For the past several years, the District has had a stable workforce of 12 full-time positions along with an internship program of 2 unbenefited part time positions. This year the Operations Superintendent position was filled, an Operator-In-Training position was filled and an Engineer in Training position was created and filled. The net effect was to increase the District's workforce to 13 full-time positions, allow promotion opportunities for existing staff and place the internship program on temporary hold. The District uses outside resources through services contracts for specialized services such as legal, accounting, specialized laboratory water quality testing, financial planning, OSHA safety program, engineering, solids hauling and disposal. The outside resources augment staff resources allowing a focused, well trained and consistent District workforce to deliver its core mission of engineering, operating and maintaining the wastewater conveyance, collection and treatment system to protect human health and the environment.

One key financial strategic focus has been to prioritize and focus capital investments on system facilities that reduce operations, maintenance and repair costs. An example of this strategy was having our staff install higher speed internet cabling which not only saved the District close to $50,000, it enhanced the District's access to technology and the ability to deploy additional technology creating significant productivity gains.

A second strategy has been to address expense stabilization and reduction strategies. The District leadership has engaged our staff in identifying and implementing solutions to reduce expenses. This strategy identifies cost savings measures then redeploys the resources to enhance services or make investments in other areas of the system. One example of this strategy is we switched the plant process water from potable to plant recycled water use. By experimenting with a new filter technology, the results were the ability to use plant recycled water in several of our treatment processes saving annually $8-10,000 in potable water use, $10-15,000 in chemical use in our solids handling process. A secondary benefit creates a more sustainable and environmental approach to one of our major wastewater treatment processes.

Finally, an emphasis was placed on the 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 accurate and aligned with 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 accumulate in anticipation of drawing them down over time for debt service payments to fund the $28.19 million Treatment and Wet Weather Flow Upgrade Project.

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 $39,586,927 at June 30, 2016 (Table 1). This represents a $6,789,755 increase from last fiscal year and an upward equity trend over past budget cycles. The District's investment in capital assets at June 30, 2016 represents the largest portion of fund equity (67%). Assets were reallocated among the future capital improvements, Operations, and Renewal and Replacement Funds pursuant to the District's reserve policy. Reserves increased by $6,789,755 from June 30, 2015 to June 30, 2016.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is to provide interested parties with a general overview of the District's finances if you have any questions about this report or need additional information, you may submit a request in writing 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, 2016

		2016
Assets		
Current Assets:		
Cash and investments	$	11,215,025
Accounts receivable		66,076
Prepaid expenses		13,001
Total Current Assets		11,294,102
Noncurrent Assets:		
Restricted cash and investments		147,806
TCSD capital deferral		4,096,294
Capital assets, net of accumulated depreciation		30,463,640
Total Capital Assets - Net		30,463,640
Total Noncurrent Assets - Net		34,707,740
Total Assets	$	46,001,842
Deferred Outflows of Resources		
Pension Contributions	$	470,870
Liabilities		
Current Liabilities:		
Accounts payable	$	131,322
Current portion of long-term obligations		276,110
Total Current Liabilities		407,432
Noncurrent Liabilities:		
Long-term obligations, net of current portion		6,053,271
Total Noncurrent Liabilities		6,053,271
Total Liabilities	$	6,460,703
Deferred Inflows of Resources		
Pension Adjustments - Differences in Projected and Actual Earnings	$	425,082
Net Position		
Net Investment in Capital Assets	$	26,468,301
Restricted for debt service		147,806
Unrestricted:		
Reserved for capital improvements		4,820,952
Reserved for operations		2,497,221
Reserved for renewal and replacement		500,000
Unreserved		5,152,647
Total Net Position	$	39,586,927

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, 2016

	2016
Operating Revenues:	
Service charges	$ 5,931,612
TCSD service contract	1,715,614
Sausalito service contract	160,998
Other operating revenues	4,202
Total operating revenues	7,812,426
Operating Expenses:	
Salaries and benefits	1,756,486
Plant operations	564,687
Repairs and maintenance	266,534
Permit testing and monitoring	67,696
Depreciation and amortization	1,759,927
Utilities and telephone	282,379
General and administrative	328,178
Total operating expenses	5,025,887
Operating Income (Loss)	2,786,539
Nonoperating Revenues (Expenses):	
Interest and investment income	27,548
Interest expense	(141,643)
Property taxes	551,902
Total nonoperating revenues (expenses)	437,807
Income (loss) before contributions	3,224,346
Capital contributions - connection fees	6,130
Change in net position	3,230,476
Beginning net position	32,797,172
Prior period adjustment - TCSD capital deferral	3,559,279
Beginning net assets - as adjusted	36,356,451
Ending net position	$ 39,586,927

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, 2016

		2016
Cash Flows from Operating Activities:		
Cash received from customers and users	$	7,305,354
Cash payments to suppliers for goods and services		(1,495,239)
Cash payments to employees for services and benefits		(2,047,956)
Net Cash Provided (Used) by Operating Activities		3,762,159
Cash Flows from Noncapital Financing Activities:		
Cash received from property taxes		551,902
Net Cash Provided (Used) by Noncapital Financing Activities		551,902
Cash Flows from Capital and Related Financing Activities:		
Cash received from connection fees		6,130
Acquisition and construction of capital assets		(1,982,407)
Principal paid on capital debt		(227,426)
Interest paid on capital debt		(141,643)
Net Cash Provided (Used) by Capital and Related Financing Activities		(2,345,346)
Cash Flows from Investing Activities:		
Investment income		27,548
Net Cash Provided (Used) by Investing Activities		27,548
Net Increase (Decrease) in Cash and Cash Equivalents		1,996,263
Cash and Cash Equivalents Beginning		9,366,568
Cash and Cash Equivalents Ending	$	11,362,831
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:		
Operating Income (Loss)	$	2,786,539
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		1,759,927
Prior period adjustments		3,559,279
GASB 68 pension adjustments		(256,555)
(Increase) decrease in:		
Accounts receivable		26,955
Prepaid expenses		2,195
Other assets		(4,093,306)
Increase (decrease) in:		
Accounts payable		12,040
Net OPEB obligation		(43,291)
Compensated absences		8,376
Net Cash Provided (Used) by Operating Activities	$	3,762,159

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 not 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. Since no other entities are controlled by, or rely upon the District, the reporting entity consists solely of the District. Based on these criteria, there are no component units to include in the District's financial statements.

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.

Deferred outflow of resources is a consumption of net assets by the District that is applicable to a future reporting period; for example, prepaid items and deferred charges. Deferred inflow of resources is an acquisition of net assets by the District that is applicable to a future reporting period; for example, unearned revenue and advance collections.

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 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, 2015 and were payable in two installments on November 1, 2015 and February 1, 2016. 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) 50% on February 1 (April 10)	July 31 (August 31)

Implemented New Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The provisions of GASB Statement No. 72 (GASB 72) are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (*a*) a government holds primarily for the purpose of income or profit and (*b*) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *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 between participants at the measurement date.

The statement requires that acquisition value (an entry price) be used to measure the following assets:

a. donated capital assets;
b. donated works of art, historical treasures, and other similar assets; and
c. capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

GASB 72 requires that sound and consistent valuation techniques be used to determine fair value. The valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The valuation technique used should be consistent with one or more of three approaches that are appropriate in the circumstances: the market approach, cost approach, and income approach. Valuation techniques should be applied consistently from period to period. A change in valuation technique or its application is appropriate if it achieves a measurement that is equally or more representative of an asset's fair value under the circumstances.

Inputs to valuation techniques used to measure fair value are categorized into three levels as noted in the investments disclosure section.

The implementation of GASB 72 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. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

The purpose of GASB Statement No. 76 (GASB 76) is to identify the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*

GASB 76 reduces the authoritative sources of GAAP from four categories to two. According to the statement, "The sources of authoritative GAAP are categorized in descending order of authority as follows:

a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A).
b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B)."

Sources of nonauthoritative accounting literature are identified in paragraph 7 of GASB 76, and includes GASB Concepts Statements.

The implementation of GASB 76 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. 79, *Certain External Investment Pools and Pool Participants*

GASB 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB 79, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of GASB 79 are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The implementation of GASB 79 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. 74, ***Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.***

Effective date: the provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—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, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

Management anticipates that this statement will not have a direct impact on the District's financial statements.

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. 77, *Tax Abatement Disclosures*.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. 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 authority 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.

Management anticipates that this statement will not have a material impact on the District's financial statements.

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 requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

Management does not anticipate a material impact on its financial statements from the implementation of this standard.

NOTE 3 - CASH AND INVESTMENTS

The District's cash and investments consisted of the following as of June 30, 2016:

Cash and Investments	Available for Operations	Restricted	Fair Value June 30, 2016
Cash:			
Cash in Banks	$ 87,109	$ -	$ 87,109
Petty Cash	300	-	300
Undeposited Funds	32,233	-	32,233
Money Market	780,210	-	780,210
Total Cash Deposits	899,852	-	899,852
Investments:			
State of California Local Agency Investment Fund	10,315,173	147,806	10,462,979
Total Cash and Investments	$ 11,215,025	$ 147,806	$ 11,362,831

Restricted cash and investments include proceeds required to be set-aside for the annual State Water Resource Control Board loan debt service requirements.

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 $1,050,164, exceeded the insured limit by $800,164 as of June 30, 2016. 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, 2016:

- California Local Agency Investment Fund (LAIF) of $10,462,979; valued using Level 2 inputs.
- Money Market of $780,210; 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, 2016, was approximately $75.4 billion. Of that amount, 99.25% is invested in non-derivative financial products and .75% 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, 2016.

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
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%ofbase	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Passbook Savings Account Demand Deposits	N/A	None	None
California Asset Management Program (CAMP)	N/A	None	None

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 page 26 for the District's limitations on the amount that can be invested in any one issuer. As of June 30, 2016, the District invested 100% of its cash not deposited in checking or money market accounts in LAIF.

NOTE 4 - CAPITAL ASSETS

The District's capital assets consisted of the following as of June 30, 2016:

Capital Assets	Balance July 01, 2015	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2016
Non-depreciable Capital Assets:					
Construction in progress	$ 169,458	$ 913,499	$ -	$ (152,647)	$ 930,310
Total Non-depreciable Capital Assets	169,458	913,499	-	(152,647)	930,310
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	15,894,812	547,413	(45,599)	152,647	16,549,273
Conveyance system upgrade and renewal	11,713,987	492,303	-	-	12,206,290
Collection system upgrade	2,165,710	-	-	-	2,165,710
Office equipment	145,575	29,192	(24,310)	-	150,457
Total Depreciable Capital Assets	45,213,325	1,068,908	(69,909)	152,647	46,364,971
Less Accumulated Depreciation for:					
Original conveyance and treatment facilities	1,007,137	24,564	-	-	1,031,701
Secondary treatment plant	5,259,536	200,110	-	-	5,459,646
General equipment, facility upgrade and renewal	4,783,807	812,010	(45,599)	-	5,550,218
Conveyance system upgrade and renewal	3,430,031	485,604	-	-	3,915,635
Collection system upgrade	569,907	215,539	-	-	785,446
Office equipment	91,205	22,100	(24,310)	-	88,995
Total Accumulated Depreciation	15,141,623	1,759,927	(69,909)	-	16,831,641
Total Depreciable Capital Assets - Net	30,071,702	(691,019)	-	152,647	29,533,330
Total Capital Assets - Net	$ 30,241,160	$ 222,480	$ -	$ -	$ 30,463,640

Depreciation expense for the year ended June 30, 2016 was $1,759,927.

NOTE 5 - LONG-TERM OBLIGATIONS

The District's long-term obligations consisted of the following as of June 30, 2016:

Long-term Obligations	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
Note Payable - City National Bank	$ 2,212,552	$ -	$ 131,886	$ 2,080,666	$ 137,349
State Water Resources Control	2,010,213	-	95,540	1,914,673	98,024
River Watch Liability	34,300	-	-	34,300	-
Net OPEB Obligation	398,506	240,058	283,349	355,215	-
Net Pension Obligation	1,759,386	103,668	-	1,863,054	-
Compensated Absences	73,097	8,376	-	81,473	40,737
Total Long-term Obligations	$ 6,488,054	$ 352,102	$ 510,775	$ 6,329,381	$ 276,110

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, 2016:

Year Ending June 30,	Principal	Interest	Total
2017	$ 137,349	$ 83,913	$ 221,262
2018	143,038	78,224	221,262
2019	148,962	72,299	221,261
2020	155,132	66,130	221,262
2021	161,558	59,704	221,262
2022 - 2026	913,885	192,427	1,106,312
2027 - 2031	420,742	21,783	442,525
Total Debt Service	$ 2,080,666	$ 574,480	$ 2,655,146

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, 2016:

Year Ending June 30,	Principal	Interest	Total
2017	$ 98,024	$ 49,782	$ 147,806
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 - 2026	586,977	152,052	739,029
2027 - 2031	667,357	71,672	739,029
3032	144,060	3,745	147,805
Total Debt Service	$ 1,914,673	$ 450,219	$ 2,364,892

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 recorded a liability in the amount of $40,000 for the supplemental environmental project.

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 companies. Many of the contracts are considered fixed fee arrangements. However, work under these contracts could be discontinued at the direction of the District. Therefore, it is the opinion of the management that a fixed commitment does not exist.

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. Members share losses, which exceed the maximum premium assessment.

Insurance purchasing pools provided property insurance and excess coverage to $15,000,000 on general liability and workers' compensation. Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2015 (most recent information available):

	June 30, 2015
Total Assets	$ 27,418,098
Total Liabilities	16,714,638
Total Equity	10,703,460
Total Revenues	10,895,632
Total Expenditures	11,157,866

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, 2016, are summarized as follows:

	Tier 1	**Tier 2**	**PEPRA**
Hire date	Before June 27, 2011	After June 27, 2011; Before January 1, 2013	On or after Janaury 1, 2013
Benefit formula	2.7% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%	2.00%
Required employee contribution rates	8.00%	7.00%	6.25%
Required employer contribution rates	14.00%	8.00%	6.25%

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, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	Total
Contributions - employer	$ 276,804
Contributions - employee	90,364
Total contributions	$ 367,168

During the fiscal year, the District contributed the 8% required employee contribution. In addition to that, the District contributed 14% toward the required employer contribution, bringing the District's total contribution to 22% for 2016.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of $1,863,054. 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, 2015, 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, 2014 rolled forward to June 30, 2015 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, 2014 and 2015 was as follows:

	Proportion of Net Pension Liability
Proportion - June 30, 2014	0.0712%
Proportion - June 30, 2015	0.0679%
Change	-0.0033%

For the year ended June 30, 2016, the District recognized pension expense of $32,322. At June 30, 2016, 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	$ 191,747	$ -
Changes in assumptions	-	(104,584)
Differences between expected and actual experiences	11,054	-
Net differences between projected and actual earnings on plan investments	268,069	(320,498)
Total	$ 470,870	$ (425,082)

The District reported $191,747 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Periods Ended June 30:	Deferred Outflows/(inflows) of Resources
2016	$ 118,528
2017	(73,219)
2018	(66,538)
2019	67,017
Total	$ 45,788

Actuarial Assumptions - The total pension liabilities in the June 30, 2014 actuarial valuation were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(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 7.50 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 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	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-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	$ 3,124,472
Current Discount Rate	7.65%
Net Pension Liability	$ 1,863,054
1% Increase	8.65%
Net Pension Liability	$ 821,607

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 $247,327. 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	$	247,327
Interest on net OPEB obligation		27,428
Adjustment to annual required contribution		(34,697)
Annual OPEB cost (expense)		240,058
Contributions made		(283,349)
Decrease in net OPEB obligation		(43,291)
Net OPEB obligation (asset) - beginning		398,506
Net OPEB obligation (asset) - ending	$	355,215

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, 2016 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
June 30, 2014	$ 242,815	90%	$ 407,307
June 30, 2015	244,532	104%	398,506
June 30, 2016	240,058	118%	355,215

The following summarizes the funded status and progress of the plan as of June 30, 2016:

Actuarial accrued liability (AAL)	$ 2,411,352
Value of plan assets	278,363
Unfunded actuarial accrued liability (UAAL)	$ 2,132,989
Funded ratio (actuarial value of plan assets/AAL)	12%
Projected covered payroll (active Plan members)	$ 1,163,562
UAAL as a percentage of covered payroll	183%

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 three sewer pump station 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 and NPS have a long standing right-of-way easement agreement. The existing 50-year agreement term is set to expire in 2017. Under the agreement, the District provides wastewater treatment at no cost to the NPS. In turn, the NPS bas approved the right-of-way easement agreement which allows the District to operate and maintain the wastewater treatment facility of Federal NPS lands.

Tamalpais Community Services District (TCSD)

The District and TCSD approved an updated agreement in 2012. The agreement is valid for a 30-year term to expire in 2042. The District approves the estimated TCSD operation and maintenance and capital improvement expenses as part of the annual fiscal year budget adoption. TCSD then pays the estimated budget costs with two annual payments to the District. Following the fiscal year audit completion, the District completes reconciliation of budget vs. actual expenses for the year and invoices TCSD as either a credit or an additional expense, if over the estimated budget amount.

As of June 30, 2016, TCSD owed the District $4,096,294, which is reported as a capital deferral in the District’s financial statements. A majority of the note receivable, $3,559,279, was owed in prior periods but had not been recorded by the District. Therefore, this amount has been treated as a prior period adjustment in the Statement of Revenues, Expenses and Changes in Net Position.

As of June 30, 2016, the $4,096,294 capital deferral included a loan balance of $2,200,042 and operating deferrals of $1,896,254. The following schedule summarized these balances projected over the next five years:

Fiscal Year Ending:	Cumulative Loan Balance	Deferral	Total Deferred Debt Service
2017	$ 2,073,473	$ 2,388,655	$ 4,462,128
2018	11,256,181	3,063,180	14,319,361
2019	10,765,870	3,778,600	14,544,470
2020	10,261,327	4,537,050	14,798,377
2021	9,742,085	5,340,773	15,082,858
2022	9,207,990	6,192,125	15,400,115
2023	8,658,249	7,093,583	15,751,832
2024	8,092,697	6,886,915	14,979,612
2025	7,510,528	6,771,153	14,281,681
2026	6,911,566	6,716,994	13,628,560

The above schedule includes assumptions that District will continue cash funded projects with 5% annual inflation. TCSD will be paying 31.7% (pending negotiation) of the total capital cost. TCSD has the right to defer costs from FY 2013/14 – 2022/23. By the 10th year of the contract, their total deferred debt service will be $15,751,832 as noted above.

REQUIRED SUPPLEMENTARY INFORMATION

Sausalito-Marin City Sanitary District
Schedule of CalPERS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2016

	Actuarially Deterimined	
	2016	2015
Contractually Required Contributions (Actuarially Determined)	$ 276,804	$ 258,040
Contributions in Relation to Actuarially Determined Contributions	276,804	258,040
Contribution Deficiency (Excess)	-	-
Covered Employee Payroll (Actuarially Determined)	**$ 1,967,960**	**$ 1,916,463**
Contributions as a Percentage of Covered Payroll	**14.07%**	**13.46%**

Notes to Schedule:

Valuation Date:	June 30, 2014
Assumptions Used:	Entry Age Method used for Actuarial Cost Method
	Level Percentage of Payroll (Closed) Used Amortization Method
	3.8 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 two years are shown.

Sausalito-Marin City Sanitary District

Schedule of CalPERS Proportionate Share of Net Pension Liability

For the Fiscal Year Ended June 30, 2016

	2016	2015
Authority's Proportion of Net Pension Liability	0.06791%	0.07119%
Authority's Proportionate Share of Net Pension Liability	$ 1,863,054	$ 1,759,386
Authority's Covered Employee Payroll	$ 1,967,960	$ 1,916,463
Authority's Proportionate Share of NPL as a % of Covered Employee Payroll	**94.67%**	**91.80%**
Plan's Fiduciary Net Position as a % of the TPL	**82.55%**	**83.03%**

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

Sausalito-Marin City Sanitary District
Schedule of Funding Progress for the Retiree Health Benefit Plan
June 30, 2016

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

Chavan & Associates, LLP
Certified Public Accountants

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 23, 2016.

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

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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

September 23, 2016
San Jose, California

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