SAUSALITO-MARIN CITY SANITARY DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2014

* * *

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

Sausalito-Marin City Sanitary District

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June 30, 2014

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, 2014, 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

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

of June 30, 2014, 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 and schedule of funding progress for the retiree health benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective July 1, 2013.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2014 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 28, 2014
San Jose, California

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

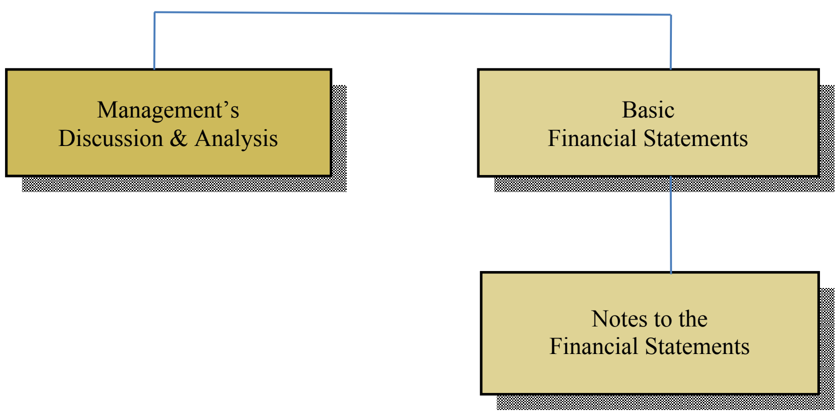
INTRODUCTION

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, 2014. 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 treatnent 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 2010 the District adopted a comprehensive financial and 4-year sewer rate plan (FY 2010/11 to FY 2013/14) to provide needed revenue for collection system and treatment plant renewal and upgrades. The work included a 10-year capital improvement plan (CIP) for FY 2011/12 to FY 2020/21 which identified $53 million of needed sewer infrastructure improvements.

To date, approximately $10 million of collections and treatment plant CIP improvements have been completed. Of the remaining $43 million, approximately $36 million is programmed for the treatment plant and $7 million for sewer collection conveyance projects. The largest capital project is the Headworks, Primary and Secondary improvements at the treatment plant which are estimated at $26 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.

In 2013, the District completed another extensive financial and sewer rate analysis. Out of this work, the District has 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.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2014 were as follows:

- Total net position increased by $2,361,387 (7.8%) which included an increase in unrestricted net position of $544,799 (8.6%).
- Noncurrent assets increased by $1,605,764 (5.6%) mostly due to an increase in capital assets of $1,458,862 (5%).
- Current liabilities decreased by $329,385 (49.8%) because there were less outstanding accounts payable for construction services as of June 30, 2014.
- Operating revenue increased by $641,140 (10%) because of the adopted sewer service charge rate plan.
- Total operating expenses were consistent with the prior year, but salaries and benefits included in operating expenses decreased by $390,896 (18%) while depreciation expense increased by $273,111 (21%).

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, 2014 as compared to June 30, 2013:

Table 1 - Summary Statement of Net Position

	2014	2013	Change	Percentage Change
Assets				
Current Assets	$ 7,505,076	$ 7,231,344	$ 273,732	3.79%
Noncurrent Assets	30,130,183	28,524,419	1,605,764	5.63%
Total Assets	$ 37,635,259	$ 35,755,763	$ 1,879,496	5.26%
Liabilities				
Current Liabilities	$ 332,579	$ 661,964	$ (329,385)	-49.76%
Noncurrent Liabilities	4,707,955	4,860,461	(152,506)	-3.14%
Total Liabilities	$ 5,040,534	$ 5,522,425	$ (481,891)	-8.73%
Net Position				
Net Investment in Capital Assets	$ 25,533,500	$ 23,864,718	$ 1,668,782	6.99%
Restricted	147,806	-	147,806	100.00%
Unrestricted	6,913,419	6,368,620	544,799	8.55%
Total Net Position	$ 32,594,725	$ 30,233,338	$ 2,361,387	7.81%

As seen above, the District's total net position increased by $2,361,387 from fiscal year 2012-13 to 2013-14. The increase can mostly be attributed to the increase in capital assets from ongoing capital improvements to plant and facilities.

Table 2 shows the changes in net position for fiscal year 2014 as compared to 2013.

Table 2 - Change in Net Position

	2014	2013	Dollar Change	Percent Change
Revenues				
Operating Revenue	$ 6,911,863	$ 6,270,723	$ 641,140	10%
Operating Expenses				
Salaries and Benefits	1,817,713	2,208,609	(390,896)	-18%
Plant Operations	755,493	714,042	41,451	6%
Repairs and Maintenance	219,894	184,561	35,333	19%
Permit Testing and Monitoring	87,068	107,572	(20,504)	-19%
Utilities and Telephone	11,332	8,234	3,098	38%
General Administration	438,696	386,549	52,147	13%
Depreciation	1,562,695	1,289,584	273,111	21%
Total Operating Expenses	4,892,891	4,899,151	(6,260)	0%
Operating Income (Loss)	2,018,972	1,371,572	647,400	47%
Nonoperating Revenue (Expense)	336,135	385,840	(49,705)	-13%
Connection Fees	6,280	-	6,280	100%
Change in Net Position	$ 2,361,387	$ 1,757,412	$ 603,975	34%

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, 2014 capital asset balances as compared to June 30, 2013.

Table 3 - Summary of Capital Assets Net of Depreciation

	2014	2013	Change	Percentage Change
Construction in Progress	$ 2,172,519	$ 1,235,179	$ 937,340	75.89%
Original conveyance and treatment facilities	1,473,861	1,498,425	(24,564)	-1.64%
Secondary treatment plant	7,780,596	7,985,583	(204,987)	-2.57%
General equipment, facility upgrade and renewal	8,212,540	8,727,274	(514,734)	-5.90%
Conveyance system upgrade and renewal	8,546,291	7,215,952	1,330,339	18.44%
Collection system upgrade	1,769,441	1,824,892	(55,451)	-3.04%
Office Equipment	23,219	32,300	(9,081)	-28.11%
Total Capital Assets - Net	$ 29,978,467	$ 28,519,605	$ 1,458,862	5.12%

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

	2014	2013	Change	Percentage Change
Note Payable - City National Bank	$ 2,341,635	$ 2,460,795	$ (119,160)	-4.84%
State Water Resources Control	2,103,332	2,194,092	(90,760)	-4.14%
River Watch Liability	34,300	34,300	-	0.00%
Net OPEB Obligation	407,307	383,736	23,571	6.14%
Compensated Absences	82,280	77,162	5,118	6.63%
Total Long-term Liabilities	$ 4,968,854	$ 5,150,085	$ (181,231)	-3.52%

CAPITAL PROJECTS

The District invested $3,100,856 on its capital program to renew infrastructure during the fiscal year ending June 30, 2014. Of this total $1,966,302 was spent on major capital projects, $1,125,317 on renewal and replacement projects. The following major capital project work was in progress or completed:

Projects Completed

Main Street Pump Station Rehabilitation Project
This project is complete. In May 2013, The District Board of Directors awarded a $1,127,000 construction contract for the project. The project will include extensive improvements to the station so that the placement of a portable pump at the station during the winter season will not be necessary as reported in prior reports. The portable pump was being implemented to comply with an EPA Order requiring back-up pumping.

The project included the replacement of the two (2) Main Street Pump Station 250 HP wet weather sewage pumps. The existing pumps have reached their expected service life. The replacement pumps will be a more modern design that incorporates pump design technology that reduces clogging due to rags and debris. In addition, a new150 HP standby submersible sewage pump will be installed in an existing wet well structure. The new 150 HP pump and the existing station 100 HP dry season pump will provide the required back-up pumping firm capacity should one of the two 250 HP pumps fail. Also the existing odor scrubber was replaced.

Plant Outfall Maintenance and Repair Project
The project is complete. In September of 2013, The District Board of Directors awarded the construction contract for $93,410. The District owns and operates an approximately 300 foot deep water outfall line. The work included replacement of 30 diffusers, repairs to the outfall pipeline anchoring system, and repair of the pipeline segment steel flange.

Pre-design of Disinfection System Analyzer Replacement
The District has completed the $25,000 pre-design phase. The final design and replacement will take place in fiscal year 2014/15.

This project will include the design and replacement of the three analyzers that are operated for regulatory compliance to determine both chlorine and bisulfite residual levels in the plant effluent.
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 three years ago.

Projects In-Progress

Headworks, Primary, Secondary Treatment and Wet Weather Improvements Project
The detail design phase is now in progress. The 50% design total project cost is estimated at $26 million. The detailed design phase is in progress and is estimated be complete by the fall of 2015 followed by bidding award and construction. The construction phase is estimated at 16 to 24 months. The District is preparing a new application for project funding under the Clean Water State Revolving Fund Program since the program requirements were changes in 2014.

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.

Pre-Design of Highway Booster, Scotties (wet weather) and Whiskey Springs Pump Station Replacement
The District has awarded a contract for $135,000 to start the study and preliminary design phase to replace the Highway Booster sewer pump station and the Scotties wet weather pump station. In partnership with the City of Sausalito the work includes evaluation of a combined Whiskey Springs (City owned) sewer and Scotties wet weather pump station. The Final design and construction will follow completion of the pre-design phase.

District Office and Facility Workspace Remodel Project
The District finalized design and is preparing to advertise for construction bids. The project scope of work includes but is not limited to foundation underpinning, interior remodeling, re-roofing, and incorporation of ADA accessibility requirements at the existing District residence. In addition, project scope includes interior remodeling of the existing office and operations building which were constructed in the 1980's.

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 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. The District has had a stable workforce of 12 full-time positions for the past several years. The District also has used private contracts for specialized services such as legal, accounting, laboratory water quality testing, financial planning, OSHA safety program, engineering, solid hauling and disposal. The private contracts help to keep District employee levels at the minimum required to cover its core mission of operation and maintenance of the sewer collection and wastewater treatment facility.

A key financial strategic focus has been controlling employee salary and benefit expenses. In FY 2013/14, the District completed a comprehensive evaluation of employee salaries and benefits. A new other post-employment benefits actuarial valuation was completed as of July 1, 2013 (Note 11). A summary of the results of the actuarial study can be found in Note 11 and on page 29. From the evaluation results, the District established a CalPERS California Employer's Retiree Benefit Trust (CERBT) to stabilize its financial liabilities.

As part of the program, the District negotiated with employees a pension cost share arrangement starting in fiscal year 2013/14. Employees will reimburse the District over the next six (6) years until they pay the full eight (8) percent of their Employee Paid Member Contributions (EPMC). At year six (6), it is estimated the employees will be contributing about $100,000 toward their pension cost that the District will then deposit into the CERBT trust.

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 $26 million Head works, Primary and Secondary Treatment Improvements 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 $32,594,725 at June 30, 2014 (Table 1). This represents a $2,361,387 increase from last fiscal year and an upward equity trend over past budget cycles. The District's investment in capital assets at June 30, 2014 represents the largest portion of fund equity (78%). Assets were reallocated among the future capital improvements, Operations, and Renewal and Replacement Funds pursuant to the District's reserve policy. Reserves increased by $988,539 from June 30, 2013 to June 30, 2014.

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, 2014

		2014
Assets		
Current Assets:		
Cash and cash equivalents	$	7,363,283
Accounts receivable		123,038
Interest receivable		3,557
Prepaid expenses		15,198
Total Current Assets		7,505,076
Noncurrent Assets:		
Restricted cash and investments		147,806
Other assets		3,910
Capital assets, net of accumulated depreciation		29,978,467
Total Noncurrent Assets - Net		30,130,183
Total Assets	$	37,635,259
Liabilities		
Current Liabilities:		
Accounts payable	$	67,950
Other liabilities		3,730
Current portion of long-term obligations		260,899
Total Current Liabilities		332,579
Noncurrent Liabilities:		
Long-term obligations, net of current portion		4,707,955
Total Noncurrent Liabilities		4,707,955
Total Liabilities	$	5,040,534
Net Position		
Net Investment in Capital Assets	$	25,533,500
Restricted for debt service		147,806
Unrestricted:		
Reserved for capital improvements		3,057,057
Reserved for operations		2,340,338
Reserved for renewal and replacement		218,144
Unreserved		1,297,880
Total Net Position	$	32,594,725

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, 2014

		2014
Operating Revenues:		
Service charges	$	5,420,051
TCSD service contract		1,143,160
Marin City sewer fees		214,835
Sausalito service contract		129,114
Other operating revenues		4,703
Total operating revenues		6,911,863
Operating Expenses:		
Salaries and benefits		1,817,713
Plant operations		755,493
Repairs and maintenance		219,894
Permit testing and monitoring		87,068
Depreciation and amortization		1,562,695
Utilities and telephone		11,332
General and administrative		438,696
Total operating expenses		4,892,891
Operating Income (Loss)		2,018,972
Nonoperating Revenues (Expenses):		
Interest and investment income		16,374
Interest expense		(159,148)
Property taxes		558,207
Loss on disposal of capital assets		(79,298)
Total nonoperating revenues (expenses)		336,135
Income (loss) before contributions		2,355,107
Capital contributions - connection fees		6,280
Change in net position		2,361,387
Beginning net position		30,233,338
Ending net position	$	32,594,725

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, 2014

	2014
Cash Flows from Operating Activities:	
Cash received from customers and users	$ 7,011,546
Cash payments to suppliers for goods and services	(1,813,291)
Cash payments to employees for services and benefits	(1,817,713)
Net Cash Provided (Used) by Operating Activities	3,380,542
Cash Flows from Noncapital Financing Activities:	
Cash received from property taxes	558,207
Net Cash Provided (Used) by Noncapital Financing Activities	558,207
Cash Flows from Capital and Related Financing Activities:	
Cash received from connection fees	6,280
Acquisition and construction of capital assets	(3,100,856)
Principal paid on capital debt	(209,920)
Interest paid on capital debt	(159,148)
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,463,644)
Cash Flows from Investing Activities:	
Investment income	16,622
Net Cash Provided (Used) by Investing Activities	16,622
Net Increase (Decrease) in Cash and Cash Equivalents	491,727
Cash and Cash Equivalents Beginning	7,019,362
Cash and Cash Equivalents Ending	$ 7,511,089
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:	
Operating Income (Loss)	$ 2,018,972
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,562,695
(Increase) decrease in:	
Accounts receivable	70,090
Prepaid expenses	(148)
Other assets	904
Increase (decrease) in:	
Accounts payable	(299,721)
Other liabilities	(939)
Net OPEB obligation	23,571
Compensated absences	5,118
Net Cash Provided (Used) by Operating Activities	$ 3,380,542

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.

The District participates in an investment pool managed by the State of California and regulated by California government code Section 16429 known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. 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.

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.

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, 2013 and were payable in two installments on November 1, 2013 and February 1, 2014. 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

Summary of Statement No. 65, Items Previously Reported as Assets and Liabilities (Issued 03/12). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented as of July 1, 2013. The implementation of this standard did not have an impact on the District's financial statements.

Upcoming New Accounting Pronouncements

Summary of Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

Summary of Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date – and Amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The District's cash, cash equivalents and investments consisted of the following as of June 30, 2014 and 2013:

Cash and Cash Equivalents	Available for Operations	Restricted	Carrying Value June 30, 2014	Fair Value June 30, 2014
Cash Deposits:				
Cash in Banks	$ 179,855	$ -	$ 179,855	$ 179,855
Money Market	418,228	-	418,228	418,228
Total Cash Deposits	598,083	-	598,083	598,083
Investments:				
CA Local Agency Investment Fund (L.A.I.F.)	6,762,885	147,806	6,910,691	6,912,756
Petty Cash	250	-	250	250
Total Cash and Cash Equivalents	$ 7,361,218	$ 147,806	$ 7,509,024	$ 7,511,089

Restricted cash and cash equivalents 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 $734,508, exceeded the insured limit by $484,508 as of June 30, 2014. 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.

Local Agency Investment Fund

LAIF allows local agencies such as the District to participate in a Pooled Money Investment Account managed by the State Treasurer 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, 2014, was approximately $64.9 billion with an average life of 232 days. Of that amount, 99.52%

was invested in non-derivative financial products and .48% in structured notes and asset-backed securities.

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, 2014.

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 21 for the District's limitations on the amount that can be invested in any one issuer. As of June 30, 2014, 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, 2014:

Description	Balance June 30, 2013	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2014
Non-depreciable Capital Assets:					
Construction in progress	$ 1,235,179	$ 1,125,317	$ -	$ (187,977)	$ 2,172,519
Total Non-depreciable Capital Assets	1,235,179	1,125,317	-	(187,977)	2,172,519
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	12,318,912	169,406	(216,320)	28,620	12,300,618
Conveyance system upgrade and renewal	9,921,595	1,629,262	(196,631)	178,279	11,532,505
Collection system upgrade	1,976,601	167,634	-	(18,922)	2,125,313
Office equipment	94,176	9,237	(3,057)	-	100,356
Total Depreciable Capital Assets	39,604,525	1,975,539	(416,008)	187,977	41,352,033
Less Accumulated Depreciation for:					
Original conveyance and treatment facilities	958,009	24,564	-	-	982,573
Secondary treatment plant	4,851,224	204,987	-	-	5,056,211
General equipment, facility upgrade and renewal	3,591,638	712,760	(216,320)	-	4,088,078
Conveyance system upgrade and renewal	2,705,643	397,904	(117,333)	-	2,986,214
Collection system upgrade	151,709	204,163	-	-	355,872
Office equipment	61,876	18,317	(3,056)	-	77,137
Total Accumulated Depreciation	12,320,099	1,562,695	(336,709)	-	13,546,085
Total Depreciable Capital Assets - Net	27,284,426	412,844	(79,299)	187,977	27,805,948
Total Capital Assets - Net	$ 28,519,605	$ 1,538,161	$ (79,299)	$ -	$ 29,978,467

Depreciation expense for the year ended June 30, 2014 was $1,562,695

NOTE 5 - LONG-TERM OBLIGATIONS

The District's long-term obligations consisted of the following as of June 30, 2014:

Long-term Obligations	Balance July 01, 2013	Additions	Deductions	Balance June 30, 2014	Due Within One Year
Note Payable - City National Bank	$ 2,460,795	$ -	$ 119,160	$ 2,341,635	$ 126,640
State Water Resources Control	2,194,092	-	90,760	2,103,332	93,119
River Watch Liability	34,300	-	-	34,300	-
Net OPEB Obligation	383,736	242,815	219,244	407,307	-
Compensated Absences	77,162	5,118	-	82,280	41,140
Total Long-term Obligations	$ 5,150,085	$ 247,933	$ 429,164	$ 4,968,854	$ 260,899

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, 2014:

Year Ending June 30,	Principal	Interest	Total
2015	$ 126,640	$ 94,622	$ 221,262
2016	131,886	89,377	221,262
2017	137,349	83,914	221,262
2018	143,038	78,225	221,262
2019	148,962	72,300	221,262
2020 - 2024	1,032,669	294,905	1,327,574
2025 - 2029	621,091	45,139	666,230
Total Debt Service	$ 2,341,635	$ 758,481	$ 3,100,116

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, 2014:

Year Ending June 30,	Principal	Interest	Total
2015	$ 93,119	$ 54,687	$ 147,806
2016	95,540	52,266	147,806
2017	98,024	49,782	147,806
2018	100,573	47,233	147,806
2019	103,188	44,618	147,806
2020 - 2024	557,605	181,424	739,029
2025 - 2029	770,813	116,021	886,835
2030 - 2032	284,470	11,142	295,612
Total Debt Service	$ 2,103,332	$ 557,171	$ 2,660,504

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, 2013 (most recent information available):

	June 30, 2013
Total Assets	$ 28,340,390
Total Liabilities	16,300,058
Total Equity	12,040,332
Total Revenues	9,652,254
Total Expenditures	9,950,148

NOTE 8 - DEFINED BENEFIT PENSION PLAN

PEMHCA

Under the Public Employees' Medical and Hospital Care Act (PEMHCA) state employees and annuitants are provided access to group health insurance. The CalPERS Board of Administration administers the health benefits program and determines the benefits design, including any co-pays and deductibles, providers, and premiums. By statute, public agencies in California are eligible to contract with CalPERS to participate in the PEMHCA program

In summary, public agencies that choose to contract with CalPERS to provide health benefits to their employees and annuitants under PEMCHA accept the benefits designs, provider networks, premium structures (for contracting agencies this means regionally priced premiums), and employer contributions as determined by the CalPERS Board of Administration. In exchange, they have access to the relatively stable premium pricing that comes with a large purchasing arrangement and no longer have the responsibility to contract with insurers or providers for health benefits. New District employees that are CalPERS members have be enrolled in PEMHCA.

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), which is a cost sharing multiple-employer defined benefit public employee retirement systems that serves as common investment and administrative agents for participating public entities within the State of California. The District has a 2.7% @ 55 retirement plan for classic CallPERS members where all full-time employees who retire at or after age 50, with a minimum of 5 years CalPERS credited service, are eligible to receive a monthly retirement benefit based upon compensation, years of credited service and retirement age. CalPERS also provide disability, death and survivor benefits to eligible retirees and their beneficiaries. The District Board authorizes plan benefit provisions established by contract with CalPERS and retirement law. CalPERS does not provide stand-alone financial information for the plan. However, system-wide reports are available by contacting the retirement systems directly. CalPERS issues a separate comprehensive annual financial report. Copies of the Ca1PERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

For the Fiscal Year 2014, the employer's required contribution rate for CalPERS was 25.239% of covered payroll. This rate was established by CalPERS to fund contracted benefits using the actuarial methods and assumptions adopted by the CalPERS Board of Administration. CalPERS may amend employee and employer contribution requirements. Additionally, the District makes a contribution toward the employee's portion of the CalPERS local miscellaneous plan as specified by the existing labor agreements with its bargaining units. For represented and unrepresented employees that are classic CalPERS members, the District contributes 8% of their salary toward required CalPERS contribution. For represented and unrepresented employees that are new CalPERS members, employees cover 50% of the normal CalPERS pension cost per PEMCHA. New members are not eligible for EPMC.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the District's annual pension cost of $258,040 equaled the annual required contribution. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.50% investment rate of return (net of administrative expenses); (b) projected annual salary increases from 3.30% to 14.20% that vary by age, duration of service, and type of employment; (c) 2.75% inflation; (d) 3.00% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 2.75% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period three years.

Three Year Trend Information (Employer Portion)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	$ 315,887	100%	$ -
6/30/13	524,080	100%	-
6/30/14	258,040	100%	-

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 $246,619. 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, 2013, 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	$	246,619
Interest on net OPEB obligation		18,612
Adjustment to annual required contribution		(22,416)
Annual OPEB cost (expense)		242,815
Contributions made		(219,244)
Increase in net OPEB obligation		23,571
Net OPEB obligation (asset) - beginning		383,736
Net OPEB obligation (asset) - ending	$	407,307

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, 2014 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
June 30, 2012	$ 193,446	73%	$ 150,458
June 30, 2013	399,056	42%	383,736
June 30, 2014	242,815	90%	407,307

The following summarizes the funded status and progress of the plan as of June 30, 2014:

Actuarial accrued liability (AAL)	$ 2,195,098
Actuarial value of plan assets	70,469
Unfunded actuarial accrued liability (UAAL)	$ 2,124,629
Funded ratio (actuarial value of plan	3%
Projected covered payroll (active Plan members)	$ 1,059,075
UAAL as a percentage of covered payroll	201%

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, 2013 actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), inflation rate of 3 percent and an annual medical cost trend rate of 6.7 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.

REQUIRED SUPPLEMENTARY INFORMATION

Sausalito-Marin City Sanitary District
Schedule of Funding Progress for the Retiree Health Benefit Plan
June 30, 2014

The following schedule summarizes the funding progress of the District's retiree heal 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))
7/1/2009	$ -	$1,956,161	$1,956,161	0.00%	$1,137,221	172.01%
7/1/2012	-	4,196,510	4,196,510	0.00%	1,005,472	417.37%
7/1/2013	70,469	2,195,098	2,124,629	3.21%	1,059,075	200.61%

OTHER INDEPENDENT AUDITOR'S REPORTS

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

To the Board of Directors
Sausalito-Marin City Sanitary District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sausalito-Marin City Sanitary District (the "District") as of and for the year ended June 30, 2014, 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 28, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

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 28, 2014
San Jose, California

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com