Accepted & Approved by SMCSD Board
1/7/2019

SAUSALITO-MARIN CITY SANITARY DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2018

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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, 2018

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, 2018, 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 of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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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, schedule of OPEB contributions, and schedule of net OPEB liability, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The District currently funds this obligation on a pay-as-you go basis and through contributions to a trust. The District anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C & A LLP

November 27, 2018
San Jose, California

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MANAGEMENT’S DISCUSSION AND ANALYSIS

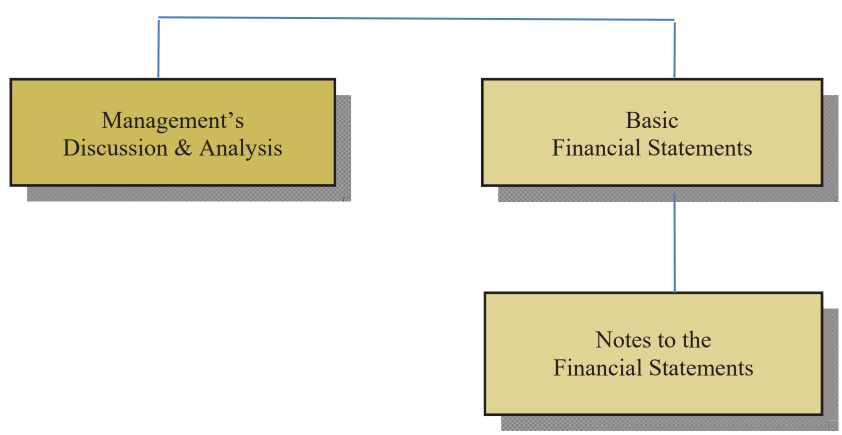
INTRODUCTION

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, 2018. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

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

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

Required Components of the Annual Financial Report



ORGANIZATION AND BUSINESS

The Sausalito-Marin City Sanitary District (SMCSD) is governed by an elected five-member Board of Directors and provides wastewater conveyance and treatment service to the City of Sausalito and wastewater collection, conveyance and treatment service to Marin City and other unincorporated areas within the District's boundaries. Wastewater conveyance and treatment is provided through a wastewater services agreement to Tamalpais Community Services District (TCSD) which includes Muir Woods National Monument. Wastewater treatment is also provided to National Parks Service which includes Forts Baker, Barry and Cronkhite, Marine Mammal Center and Cavallo Point Resort in exchange for the

District's use of the treatment plant property. The District's treatment plant site, located in Fort Baker, recently renewed its property lease agreement with the National Park Service for an additional 32 years.

The District operates and maintains a complex wastewater system protecting the community's public health, the environment and the San Francisco Bay. The District operates and maintains a six and one half million-gallon per day (MGD) secondary/one MGD tertiary wastewater treatment plant, eleven (11) sewage pump stations, and approximately ten (10) miles of pipelines. Four (4) of these pump stations are operated and maintained by SMCSD for the City of Sausalito on a contract basis. There are thirteen (13) full-time staff approved and funded by the District. In addition, there is an intern program where up to two positions may be funded and filled as temporary part-time (non-benefited).

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

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

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

To date, approximately $12.6 million of the treatment plant and conveyance improvements have been completed. Of the remaining $33.9 million, approximately $25.2 million is programmed for the treatment plant, $5.7 million for sewer conveyance projects, and $3 million for other capital expenses. The District's Capital Plan is subject to change, and the project costs and timing of projects will be reviewed annually.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2018 were as follows:

- Total net position increased by $1,340,594 (3.36%) which included a decrease in unrestricted net position of $4,914,138 (42%) because of construction during the year.

- The District recorded deferred outflows of resources of $3,079,518 and deferred inflows of resources of $177,029 in order to record the different components required by GASB 68 and GASB 75 for pension and benefit 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.

- The increase in the deferred outflows of resources was caused by the District's contribution of $2,143,737 to its other postemployment benefit (OPEB) plan trust. Since the plan's measurement date is one year behind the audited financial statements, this payment will not reduce the net OPEB liability until fiscal year 2018/19. Effectively, because of this contribution, the District has fully funded its OPEB obligation.

- Total liabilities increased by $404,204 (.87%) mostly because the District implemented GASB 75 and recorded the net OPEB liability of $2,143,737, which was funded by the District in fiscal year 2017/18 but will not reflect against the liability until fiscal year 2018/19 as noted above.

- Current assets decreased by $10,979,122 (21.66%) mostly from the spending of bond proceeds on capital projects, which can be seen in the corresponding increase to noncurrent asset of $10,461,731 (29.87%).

- Operating revenue increased by $1,345,220 (16.88%) primarily due to the increased charges related to TCSD service contract which now includes their share of the revenue bond payment for the wet Weather Upgrade Project. The TCSD revenue was $2,440,524 in 2017/18 versus $1,648,912 in 2016/17.

- Total operating expenses decreased by $241,790 (3.74%) mostly because of reductions to pension expense adjustments totaling and the deferral of OPEB contributions.

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, 2018 as compared to June 30, 2017:

Table 1 - Summary Statement of Net Position

	2018	2017	Change	Percentage Change
Assets				
Current Assets	$ 39,706,407	$ 50,685,529	$ (10,979,122)	-21.66%
Noncurrent Assets	45,487,573	35,025,842	10,461,731	29.87%
Total Assets	$ 85,193,980	$ 85,711,371	$ (517,391)	-0.60%
Deferred Outflows	$ 3,079,518	$ 778,813	$ 2,300,705	295.41%
Liabilities				
Current Liabilities	$ 2,118,855	$ 1,985,894	$ 132,961	6.70%
Noncurrent Liabilities	44,763,831	44,492,588	271,243	0.61%
Total Liabilities	$ 46,882,686	$ 46,478,482	$ 404,204	0.87%
Deferred Inflows	$ 177,029	$ 138,513	$ 38,516	27.81%
Net Position				
Net Investment in Capital Assets	$ 34,372,282	$ 28,014,293	$ 6,357,989	22.70%
Restricted	44,549	147,806	(103,257)	-69.86%
Unrestricted	6,796,952	11,711,090	(4,914,138)	-41.96%
Total Net Position	$ 41,213,783	$ 39,873,189	$ 1,340,594	3.36%

Table 2 shows the changes in net position for fiscal year 2018 as compared to 2017.

Table 2 - Change in Net Position				
	2018	2017	Change	Percent Change
Revenues				
Operating Revenue	$ 9,315,486	$ 7,970,266	$ 1,345,220	16.88%
Operating Expenses				
Salaries and Benefits	2,540,801	2,737,082	(196,281)	-7.17%
Plant Operations	799,129	647,097	152,032	23.49%
Repairs and Maintenance	242,886	298,194	(55,308)	-18.55%
Permit Testing and Monitoring	53,508	54,394	(886)	-1.63%
Utilities and Telephone	277,659	306,826	(29,167)	-9.51%
General Administration	387,363	292,756	94,607	32.32%
Depreciation	2,190,449	2,133,667	56,782	2.66%
Total Operating Expenses	6,491,795	6,470,016	21,779	0.34%
Operating Income (Loss)	2,823,691	1,500,250	1,323,441	88.21%
Nonoperating Revenue (Expense)	134,037	147,419	(13,382)	-9.08%
Connection Fees	-	24,520	(24,520)	-100.00%
Change in Net Position	2,957,728	1,672,189	1,285,539	76.88%
Beginning Net Position	39,873,189	39,586,927	286,262	0.72%
Prior Period Adjustment	(1,617,134)	(1,385,927)	(231,207)	-16.68%
Beginning Net Position - As Adjusted	38,256,055	38,201,000	55,055	0.14%
Ending Net Position	$ 41,213,783	$ 39,873,189	$ 1,340,594	3.36%

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, 2018 capital asset balances as compared to June 30, 2017.

Table 3 - Summary of Capital Assets Net of Depreciation

	2018	2017	Change	Percentage Change
Construction in Progress	$ 10,264,700	$ 1,357,753	$ 8,906,947	656.01%
Original conveyance and treatment facilities	1,375,605	1,400,169	(24,564)	-1.75%
Secondary treatment plant	6,788,997	7,177,559	(388,562)	-5.41%
General equipment, facility upgrade and renewal	11,678,631	11,971,860	(293,229)	-2.45%
Conveyance system upgrade and renewal	8,782,136	8,839,808	(57,672)	-0.65%
Collection system upgrade	1,093,205	1,164,725	(71,520)	-6.14%
Office Equipment	62,510	63,070	(560)	-0.89%
Total Capital Assets - Net	$ 40,045,784	$ 31,974,944	$ 8,070,840	25.24%

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

	2018	2017	Change	Percentage Change
Note Payable - City National Bank	$ 1,800,280	$ 1,943,318	$ (143,038)	-7.36%
2017 Revenue Bond	32,810,000	33,630,000	(820,000)	-2.50%
2017 Revenue Bond Premium	1,727,244	1,823,202	(95,958)	-5.56%
2017 Revenue Bond Reserve Surety	2,159,600	2,159,600	-	0.00%
State Water Resources Control	1,716,076	1,816,649	(100,573)	-5.54%
Net OPEB Obligation	2,143,737	313,635	1,830,102	583.51%
Net Pension Obligation	3,401,917	2,964,080	437,837	14.77%
Compensated Absences	121,627	106,079	15,548	14.66%
Total Long-term Liabilities	$ 45,880,481	$ 44,756,563	$ 1,123,918	2.51%

CAPITAL PROJECTS

The District invested $10,514,107 on its capital program to renew infrastructure during the fiscal year ending June 30, 2018. Of this total $9,193,707 was spent on major capital projects and $1,320,400 on depreciable capital projects as noted in Table 3. The following major capital project work was in progress or completed:

Projects Completed

<u>Highway Booster Pump Station Rehabilitation Project</u>
The District completed construction of the pump station on November 6, 2017 for a total construction cost of $1,119,177. The project's designer was Carollo Engineers and the project's contractor was Pacific Infrastructure Corp. Work included the installation of new piping and vaults, the conversion of a dry well into a wet well to eliminate confined space entry, the inclusion of a stationary backup generator and

equipment pad, and all new controls. In addition, the station's force main was cleaned, inspected and its isolation valve replaced.

<u>Marin City Mudslide Repair Project</u>
A mudslide in Marin City compromised a section of the collection system piping and an associated access road. Emergency repairs were implemented at a cost of $11,498.15 to ensure containment of all sewage. Final engineering, design and repairs, including the addition of a retaining wall to prevent further erosion, were completed on November 20, 2017 at a construction cost of $153,369 by Miller Pacific and Hillside Drilling. The District received emergency funding from FEMA as well as the District's insurance provider due to the nature of the damage caused on County land. FEMA reimbursed the District for total of $8,363 to cover emergency repairs only. The District's insurance reimbursed costs to the District for a total of $156,664.

<u>Secondary Sedimentation Tanks Improvements Project</u>
The District completed construction of the project on November 6, 2017 for a total construction cost of $585,000. The design was provided by Nute Engineering at a cost of $32,937. Work included the removal of embedded train rails due to corrosion issues and the replacement of the entire collector systems in each of two sediment tanks which reached the end of its useful life. Additional work includes improved monitoring to protect equipment and the replacement of gate valves to support maintenance and to improve operational flexibility.

Projects In-Progress

<u>Treatment and Wet Weather Flow Upgrade Project</u>
Project construction began in June of 2016 and is currently anticipated to be complete by November of 2019. The total project cost including design, construction and management is estimated at $26 million. The District successfully completed revenue bond sales to fund the project.

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

<u>Design of Whiskey Springs & Coloma Pump Stations Improvements Project</u>
The SMCSD Coloma pump station will be collocated with the Whiskey Springs pump station, which is owned by the City of Sausalito but operated and maintained by the District, for improved access, capacity and reliability. The project design is 75% complete and construction is planned for FY 2018/2019 and FY 2019/1020 pending funding and permit approval from the City of Sausalito. Detailed design of the project was awarded to Carollo Engineers for $452,418. Whiskey Springs improvements will be funded through a $1.5 million funding agreement with the City of Sausalito. The remainder of the project costs will be funded by SMCSD.

BUDGETARY HIGHLIGHTS

In Fiscal Year 17/18, the District originally estimated that a $1.6 million drawdown from fund balance was needed to fund one-time capital improvements and outlay; however due to increased performance in revenues and decreased annual spending, the District ended the year with a positive fund balance.

Revenues
The District's adopted and final revenue budgets was $9.56 million, with actual revenues recorded at $11.16 million. The difference between budgeted and actual revenues is primarily related to the TCSD deferred capital charges, increases in charges for services and better than anticipated investment returns.

Expenditures
The District's adopted and final expenditure budget was $8.35 million. The actual expenditures totaled $8.2 million. The difference is the net of principal debt service payments that are included in the budget but not the audited financial statements and accrual-based benefit plan expenses that are included in the audit but not the cash basis budget.

Reserves
Under the proposed budget, the District's cash position continues to improve ensuring stability in the current and future planned rates. Our total FY18/19 Projected Cash Balance is expected to be $12,315,859. Of that total, the FY18/19 Projected Reserve (Policy) total is expected to be $8,907,015. The FY18/19 Projected Working Capital is expected to be $3,408,845 which includes the $1,213,748 transfer to reserve. The following summarizes the District's budgeted reserves as of June 30, 2018:

Reserved for capital improvements	$ 4,029,752
Reserved for operations	2,057,263
Reserved for disaster recovery	2,500,000
Reserved for renewal and replacement	220,000
Reserved for self-insurance	100,000
Total reserves	$ 8,907,015

FACTORS BEARING ON THE DISTRICT'S FUTURE

Over the next year, the District will consider adopting a new sewer service rate through the Proposition 218 process. The new rate should maintain adequate reserve funding and the necessary revenue to support the overall District operation and capital costs projected over the next several years and be equitable for all of our customers. The 2017 Revenue Bonds will continue to fund the Treatment and Wet Weather Flow Upgrade Project and other capital projects. Adequate funding and timely implementation of the Capital Improvement Plan allows us achieve our mission to protect human health, the environment and the Bay; meet requirements of our National Pollutant Discharge Elimination System (NPDES) Regional Water Quality Control Board Operating Permit; reach compliance of the 2007 EPA order; stay ahead of the ever-changing regulatory environment; and maintain safe and effective working conditions for our staff.

The District will continue the implementation of wastewater service contracts, which include pump station operation and maintenance for the City of Sausalito; treatment and conveyance services for the Tamalpais Community Services District; and treatment services for the National Park Service. The District is planning to update our long-standing operation and maintenance service agreement with the City of Sausalito reflecting a more modern service agreement. The National Park Service and SMCSD recently signed a 32-year Plant Property and Road Access Right of Entry Lease Agreement which includes SMCSD provided wastewater services and support funded by a federal grant. Due to litigation, a Stipulation for Settlement Agreement is in place with the Tamalpais Community Services District pending the completion of an

Amended and Restated Wastewater Services Agreement changing the calculation of their annual wastewater services charge to a rate-based approach.

The District received a 5-year renewal of the National Pollutant Discharge Elimination System (NPDES) permit from the State Regional Water Quality Board on June 13th, 2018. Evolving regulatory compliance standards to improve discharge water quality continue to pose challenges, both from an operational and permitting standpoint, along with continued funding requirements for needed capital infrastructure improvements.

Lastly, the District continues to focus on the key areas of the 2018-2023 Strategic Plan. The District completed its annual review of the plan. The adoption and annual review signify the importance of the plan to the District, its Board of Directors, and employees along with the effort placed on achieving continuous improvement in every facet of District operation. The Strategic Plan serves as a framework for decision making over the five-year period.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is to provide interested parties with a general overview of the District's finances. Should there be any questions about this report or if there is a need for additional information, a request in writing should be submitted to: District General Manager, Sausalito-Marin District 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, 2018

Assets		2018
Current Assets:		
Cash and investments	$	6,482,648
Restricted cash and investments		32,380,254
Accounts receivable		648,861
Interest receivable		179,232
Prepaid expenses		15,412
Total Current Assets		39,706,407
Noncurrent Assets:		
Restricted cash and investments		44,549
Restricted bond reserve cash and investments		2,159,600
TCSD receivable		3,237,640
Capital assets:		
Non-depreciable		10,264,700
Depreciable capital assets - net		29,781,084
Total Capital Assets - Net		40,045,784
Total Noncurrent Assets - Net		45,487,573
Total Assets	$	85,193,980
Deferred Outflows of Resources		
OPEB adjustments	$	2,143,737
Pension adjustments		935,781
Total Deferred Outflows of Resources	$	3,079,518
Liabilities		
Current Liabilities:		
Accounts payable	$	656,205
Interest payable		346,000
Current portion of long-term obligations		1,233,922
Total Current Liabilities		2,236,127
Noncurrent Liabilities:		
Long-term obligations, net of current portion		44,646,559
Total Noncurrent Liabilities		44,646,559
Total Liabilities	$	46,882,686
Deferred Inflows of Resources		
OPEB adjustments	$	3,895
Pension adjustments		173,134
Total Deferred Inflows of Resources	$	177,029
Net Position		
Net Investment in Capital Assets	$	34,372,282
Restricted for debt service		44,549
Unrestricted		6,796,952
Total Net Position	$	41,213,783

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, 2018

		2018
Operating Revenues:		
Service charges	$	6,284,135
TCSD service contract		2,409,451
NPS waste water service charges		263,569
Sausalito service contract		356,710
Other operating revenues		1,621
Total operating revenues		9,315,486
Operating Expenses:		
Salaries and benefits		2,540,801
Plant operations		799,129
Repairs and maintenance		242,886
Permit testing and monitoring		53,508
Depreciation and amortization		2,190,449
Utilities and telephone		277,659
General and administrative		387,363
Total operating expenses		6,491,795
Operating Income (Loss)		2,823,691
Nonoperating Revenues (Expenses):		
Interest and investment income		690,378
Interest expense		(1,452,217)
Other revenue (expenses)		162,832
TCSD capital charges		805,166
TCSD loan forgiveness		(470,618)
Property taxes		654,096
Loss on disposal of capital assets		(255,600)
Total nonoperating revenues (expenses)		134,037
Change in net position		2,957,728
Beginning net position		39,873,189
Prior period adjustment - GASB 75 OPEB		(1,617,134)
Beginning net position, as adjusted		38,256,055
Ending net position	$	41,213,783

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, 2018

	2018
Cash Flows from Operating Activities:	
Cash received from customers and users	$ 8,676,854
Cash payments to suppliers for goods and services	(2,593,328)
Cash payments to employees for services and benefits	(4,136,637)
Net Cash Provided (Used) by Operating Activities	1,946,889
Cash Flows from Noncapital Financing Activities:	
Cash received from property taxes	654,096
Net Cash Provided (Used) by Noncapital Financing Activities	654,096
Cash Flows from Capital and Related Financing Activities:	
Cash from insurance recoveries	165,027
Proceeds from capital charges	334,548
Acquisition and construction of capital assets	(10,514,107)
Principal paid on capital debt	(1,063,611)
Interest paid on capital debt	(1,442,370)
Net Cash Provided (Used) by Capital and Related Financing Activities	(12,520,513)
Cash Flows from Investing Activities:	
Investment income	511,146
Net Cash Provided (Used) by Investing Activities	511,146
Net Increase (Decrease) in Cash and Cash Equivalents	(9,408,382)
Cash and Cash Equivalents Beginning	48,315,833
Cash and Cash Equivalents Ending	$ 38,907,451
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:	
Operating Income (Loss)	$ 2,823,691
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	2,190,449
Prior period adjustments - GASB 75 OPEB	(1,617,134)
(Increase) decrease in:	
Accounts receivable	(304,084)
Prepaid expenses	(2,287)
Deferred outflows of resources	(2,300,705)
Other assets	(334,548)
Increase (decrease) in:	
Accounts payable	(830,496)
Net pension obligations	437,837
Net OPEB liability	1,830,102
Deferred inflows of resources	38,516
Compensated absences	15,548
Net Cash Provided (Used) by Operating Activities	$ 1,946,889
Summary of cash and cash equivalents:	
Cash and cash equivalents	$ 6,482,648
Restricted cash and cash equivalents	32,424,803
Total cash and cash equivalents	$ 38,907,451

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

NOTE 1 - NATURE OF ORGANIZATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

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

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

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

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

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

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to pension and benefit plans.

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

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

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

Statement of Net Position

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

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

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

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Cash and Investments

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

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

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

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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

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

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

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

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

Accounts Receivable

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

Statement of Cash Flows (Cash and Cash Equivalents)

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

Capital Assets

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

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

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

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

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

Long-Term Debt

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

Compensated Absences

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

Pensions

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

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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, except for the District's pending favorable settlement with TCSD in regard to inter-district loans, deferred capital costs, and related mediation. The inter-district loan and deferred capital costs receivables have been written down by $470,618 to reflect the settlement and the District will receive $1.2 million for the mediation that will be paid annually at $240,000 per year for five years starting in 2018/19. The $1.2 million mediation settlement will be reported in 2018/19 when the settlement is finalized.

Property Taxes

Property taxes were levied July 1, 2017 and were payable in two installments on November 1, 2017 and February 1, 2018. 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. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The provisions in Statement 75 are effective for the fiscal year ended June 30, 2018. 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.

As of June 30, 2018, according to GASB 75, the District's net OPEB liability must be recognized. Therefore, the previous net OPEB liability as of June 30, 2017 in the amount of $1,617,134 has been shown as a restatement of net position in the Statement of Activities as a separate line item.

GASB Statement No. 86, Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. This statement did not have an impact on the District's financial statements.

Upcoming New Accounting Pronouncements

GASB Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 84, *Fiduciary Activities*

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

GASB issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for LAFCO's fiscal year ending June 30, 2021. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of the Construction Period

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

NOTE 3 - CASH AND INVESTMENTS

The District's cash and investments consisted of the following as of June 30, 2018:

Cash and Investments	Available for Operations	Restricted	Fair Value June 30, 2018
Cash:			
Cash in Banks	$ 452,745	$ -	$ 452,745
Petty Cash	300	-	300
Cash with Fiscal Agent	-	2,159,600	2,159,600
Money Market	903,527	-	903,527
Total Cash Deposits	1,356,572	2,159,600	3,516,172
Investments:			
State of California Local Agency Investment Fund	5,126,076	32,424,803	37,550,879
Total Cash and Investments	6,482,648	$ 34,584,403	$ 41,067,051

Restricted cash and investments includes $44,549 in proceeds required to be set-aside for the annual State Water Resource Control Board loan debt service requirements, a $2,159,600 insurance surety for the 2017 Revenue Bonds debt service reserve, and $32,380,098 restricted for capital projects from bond proceeds.

Cash Deposits

Interest bearing bank balances are insured up to $250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC"). The bank balance of the District's cash in bank, which was $1,544,837, exceeded the insured limit by $1,294,837 as of June 30, 2018. 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, 2018:

- California Local Agency Investment Fund (LAIF) of $37,463,112; valued using Level 1/2 inputs.
- Money Market of $903,527; 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, 2018, was approximately $88 billion. Of that amount, 99.13% is invested in non-derivative financial products and .86% 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, 2018.

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

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

Risk Disclosures

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

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

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

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

- *Concentration of Credit Risk* - See the chart on the previous page for the District's limitations on the amount that can be invested in any one issuer. As of June 30, 2018, the District invested 100% of its cash not deposited in checking, money market accounts, or fiscal agents in LAIF.

NOTE 4 - CAPITAL ASSETS

The District's capital assets consisted of the following as of June 30, 2018:

Capital Assets	Balance July 01, 2017	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2018
Non-depreciable Capital Assets:					
Construction in progress	$ 1,357,753	9,193,707	$ -	$ (286,760)	$ 10,264,700
Total Non-depreciable Capital Assets	1,357,753	9,193,707	-	(286,760)	10,264,700
Depreciable Capital Assets:					
Original conveyance and treatment facilities	2,456,434	-	-	-	2,456,434
Secondary treatment plant	12,836,807	-	(1,688,752)	-	11,148,055
General equipment, facility upgrade and renewal	18,245,647	953,782	(336,534)	-	18,862,895
Conveyance system upgrade and renewal	13,227,498	490,999	-	-	13,718,497
Collection system upgrade	2,165,710	148,985	-	-	2,314,695
Office equipment	174,901	16,176	(4,248)	-	186,829
Total Depreciable Capital Assets	49,106,997	1,609,942	(2,029,534)	-	48,687,405
Less Accumulated Depreciation for:					
Original conveyance and treatment facilities	1,056,265	24,564	-	-	1,080,829
Secondary treatment plant	5,659,248	196,818	(1,497,008)	-	4,359,058
General equipment, facility upgrade and renewal	6,273,787	1,183,155	(272,678)	-	7,184,264
Conveyance system upgrade and renewal	4,387,690	548,671	-	-	4,936,361
Collection system upgrade	1,000,985	220,505	-	-	1,221,490
Office equipment	111,831	16,736	(4,248)	-	124,319
Total Accumulated Depreciation	18,489,806	2,190,449	(1,773,934)	-	18,906,321
Total Depreciable Capital Assets - Net	30,617,191	(580,507)	(255,600)	-	29,781,084
Total Capital Assets - Net	$ 31,974,944	$ 8,613,200	$ (255,600)	$ (286,760)	$ 40,045,784

Depreciation expense for the year ended June 30, 2018 was $2,190,449.

NOTE 5 - LONG-TERM OBLIGATIONS

The District's long-term obligations consisted of the following as of June 30, 2018:

Long-term Obligations	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Note Payable - City National Bank	$ 1,943,318	$ -	$ 143,038	$ 1,800,280	$ 148,962
2017 Revenue Bond	33,630,000	-	820,000	32,810,000	825,000
2017 Revenue Bond Premium	1,823,202	-	95,958	1,727,244	95,958
2017 Revenue Bond Reserve Surety	2,159,600	-	-	2,159,600	-
State Water Resources Control	1,816,649	-	100,573	1,716,076	103,188
Net OPEB Liability	313,635	4,602,569	2,772,467	2,143,737	-
Net Pension Obligation	2,964,080	662,010	224,173	3,401,917	-
Compensated Absences	106,079	15,548	-	121,627	60,814
Total Long-term Obligations	$ 44,756,563	$ 5,280,127	$ 4,156,209	$ 45,880,481	$ 1,233,922

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, 2018:

Year Ending June 30,	Principal	Interest	Total
2019	$ 148,962	$ 72,299	$ 221,261
2020	155,132	66,129	221,261
2021	161,558	59,703	221,261
2022	168,250	53,013	221,263
2023	175,219	46,044	221,263
2024 - 2028	991,159	115,153	1,106,312
Total Debt Service	$ 1,800,280	$ 412,341	$ 2,212,621

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, 2018:

Year Ending June 30,	Principal	Interest	Total
2019	$ 103,188	$ 44,618	$ 147,806
2020	105,871	41,935	147,806
2021	108,623	39,182	147,805
2022	111,448	36,358	147,806
2023	114,345	33,461	147,806
2024 - 2028	617,897	121,132	739,029
2029 - 2033	554,704	36,518	591,222
Total Debt Service	$ 1,716,076	$ 353,203	$ 2,069,279

2017 Revenue Bonds

On April 7, 2017, the District issued $33,630,000 in Series 2017 Revenue Bonds, through the Marin Public Financing Authority, at a premium with an interest rate ranging from 3.0% to 4.0%. The Bonds are being issued to provide funds to (i) finance certain capital improvements to the District's wastewater system; (ii) provide a debt service reserve for the Bonds, which may be funded through the deposit of a reserve surety, as further described herein; and (iii) pay the costs of issuing the Bonds. The Bonds are fully registered with principal due annually on April 1st and interest payable semi-annually on April 1st and October 1st. The premium on the 2017 Revenue Bonds was received as additional proceeds by the District, in the amount of $2,118,915. This premium, net of related issuance costs, is being amortized over the life of the 2017 Revenue Bonds.

In connection with the issuance of the bond, the District purchased surety bond insurance to establish a debt service reserve. The reserve will be held by a trustee as a fiscal agent and can be used to pay the required debt service payments if the District were unable to meet its debt service requirements. The $2,159,600 reserve amount would revert back to the insurance company once the bonds mature, or if the bonds are called or defeased. Thus, the reserve balance has been recorded as restricted cash and investments with an offsetting noncurrent liability at June 30, 2018.

The District's debt service requirements for the 2017 Revenue Bonds were as follows as of June 30, 2018:

Year Ending June 30,	Principal	Interest	Total
2019	$ 825,000	$ 1,312,400	$ 2,137,400
2020	855,000	1,279,400	2,134,400
2021	890,000	1,245,200	2,135,200
2022	930,000	1,209,600	2,139,600
2023	985,000	1,172,400	2,157,400
2024 - 2028	5,540,000	5,238,800	10,778,800
2029 - 2033	6,740,000	4,038,800	10,778,800
2034 - 2038	8,210,000	2,578,200	10,788,200
2039 - 2043	7,835,000	798,800	8,633,800
Total Debt Service	$ 32,810,000	$ 18,873,600	$ 51,683,600

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

In addition, the District has entered into construction and service contracts with various organizations. As of June 30, 2018, the District's total commitment for these contracts was $16,973,568.

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 the cost allocation plan and rating formula. The premium for each participating agency includes the District's share of expected losses, program insurance costs, and program administrative costs for the year, plus the District's share of Authority general expense allocated to the program by the Board. Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2017 (most recent information available):

	June 30, 2017
Total Assets	$ 28,419,707
Total Liabilities	17,241,037
Total Equity	11,178,670
Total Revenues	11,166,523
Total Expenditures	11,588,811

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, 2018, are summarized as follows:

	Miscellaneous	
	Tier 1	PEPRA
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	8.000%	6.250%
Required employer contribution rates	12.818%	6.533%

On September 12, 2012 the Governor signed pension reform AB 340, which the California State Legislature approved on August 31. Within AB 340 is the California Public Employees' Pension Reform Act of 2013 (PEPRA), which affects most California retirement systems, including CalPERS, effective January 1, 2013. PEPRA generally restricts current pension provisions while increasing flexibility for employee/employer cost sharing. The Tier 1 plan is known as the classic plan offered to miscellaneous employees by CalPERS and is effective for employees hired prior to January 1, 2013.

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, 2018, the District contributed $257,992 into the plan:

During the fiscal year, employees contributed 6.8% (Classic) and 6.25% (PEPRA) of the contributions. The District contributed its required 12.818% plus 1.2% (the difference of EMPC 8%-6.8%) for Classic and 6.533% for PEPRA bringing the total contributions to 20.818% for Classic and 12.783% for PEPRA.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of $3,401,917. 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, 2017, 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, 2016 rolled forward to June 30, 2017 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, 2017 and 2018 was as follows:

	Miscellaneous
Proportion - June 30, 2017	0.08532%
Proportion - June 30, 2018	0.08630%
Change - Increase/(Decrease)	0.00097%

For the year ended June 30, 2018, the District recognized pension expense of $626,227. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes of Assumptions	$ 458,277	$ -
Differences between Expected and Actual Experience	-	53,286
Differences between Projected and Actual Investment Earnings	112,199	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	119,848
Change in Employer's Proportion	107,313	-
Pension Contributions Made Subsequent to Measurement Date	257,992	-
Total	$ 935,781	$ 173,134

The District reported $257,992 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	**Deferred Outflows/ (Inflows) of Resources**
2019	$ 135,584
2020	276,988
2021	158,698
2022	(66,614)
2023	-
Thereafter	-
Total	$ 504,656

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuation were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

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

Discount Rate - The discount rate used to measure the total pension liability was 7.15 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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. 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%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	$ 5,037,224
Current	7.15%
Net Pension Liability	$ 3,401,917
1% Increase	8.15%
Net Pension Liability	$ 2,047,527

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 2% 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 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.

Benefits

Eligible employees receive benefits for life. An eligible employee’s family members are also covered, both during the employee’s lifetime and after the employee’s death, provided employee has elected a retirement option that provides for continuation of retirement benefits for the spouse. For employees hired before 2004, the District pays the entire premium for employees and family members. Employees hired after 2004 with 10 years of service, 5 of which must be with the District, receive 50% of the District's contribution toward post-employment health benefits. The amount of health benefit increases proportionally based on the employee’s credited years of service to 100% after 20 years. For employees hired after 2004, the maximum premium paid by the District is the Kaiser premium for family coverage, and eligible employee’s family members receive 90% of the retirees health benefit. Retired employees over age 65 are responsible for enrolling in Medicare Parts B and D. Medical benefits are provided through CalPERS.

Employees Covered by Benefit Terms

At June 30, 2017 (the valuation date), the benefit terms covered the following employees:

Active employees	12
Inactive employees	13
Total employees	25

Contributions

The District makes contributions based on an actuarially determined rate and are approved by the District of the District’s Board. Total contributions during the year were $2,143,737. Total contributions included in the measurement period were $311,200. The actuarially determined contribution for the measurement period was $250,037. The District's contributions were 208% of payroll during the fiscal year ended June 30, 2018. Employees are not required to contribute to the plan.

Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Valuation Date:	July 1, 2017
Measurement Date:	July 1, 2017
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	6.73%
Inflation	2.75%
Payroll Growth	3.00%
Medical Cost Increase (Trend)	5.5%
Investment Rate of Return	6.73%
Mortality	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous".
Retirement	Rx PA Misc 2% @ 55

Discount Rate

The projection of cash flows used to determine the discount rate assumed that the District contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to cover all future OPEB payments. Therefore, the discount rate was set to be equal to the long-term expected rate of return which was applied to all periods of projected benefit payments to determine the total OPEB liability.

Long-Term Expected Rate of Return

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Percentage of Portfolio	Long-Term Expected Rate of Return
Global Equity	40%	7.795%
Fixed Income	39%	7.795%
Treasury Inflation-Protected Securities (TIPS)	10%	5.290%
Real Estate Investment Trusts (REITs)	8%	4.500%
Commodities	3%	7.795%
Total	100%	

Net OPEB Liability (NOL)

The District's net OPEB liability was measured as of June 30, 2017 (measurement date), and the total OPEB liability (TOL) used to calculate the net OPEB liability (NOL) was determined by an actuarial valuation as of June 30, 2017 (valuation date) for the fiscal year ended June 30, 2018 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2018:

Fiscal Year Ended June 30, 2018 (Measurement Date June 30, 2017)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30,2017	$ 2,520,332	$ 278,363	$ 2,241,969
Service cost	72,979	-	72,979
Interest in Total OPEB Liability	163,427	-	163,427
Employer contributions	-	311,200	(311,200)
Actual investment income	-	23,597	(23,597)
Administrative expenses	-	(159)	159
Benefit payments	(183,982)	(183,982)	-
Net changes	52,424	150,656	(98,232)
Balance at June 30, 2018	$ 2,572,756	$ 429,019	$ 2,143,737

Covered Payroll at Measurement Date	$ 1,333,613
Total OPEB Liability as a % of covered payroll	192.92%
Plan Fid. Net Position as a % of Total OPEB Liability	16.68%
Service cost as a % of covered payroll	5.47%
Net OPEB Liability as a % of covered payroll	160.75%

Deferred Inflows and Outflows of Resources

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ -
Difference between actual and expected earnings	-	(3,895)
Change in assumptions	-	-
OPEB contribution subsequent to measurement date	2,143,737	-
Totals	$ 2,143,737	$ (3,895)

Of the total amount reported as deferred outflows of resources related to OPEB, $2,143,737 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2019.

The following deferrals will be recognized as OPEB expense in the future:

Year Ended June 30,	
2019	$ (974)
2020	(974)
2021	(974)
2022	(974)
2023	-
Thereafter	-
Total	$ (3,895)

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2018:

Service cost	$ 72,979
Interest on total OPEB liability (TOL)	163,427
Expected investment income	(18,728)
Other	-
Employee contributions	-
Difference between actual and expected experience	-
Difference between actual and expected earnings	(974)
Change in assumptions	-
Administrative expenses	159
OPEB Expense	**$ 216,863**

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2018:

Net OPEB liability ending	$	2,143,737
Net OPEB liability begining		(2,241,969)
Change in net OPEB liability		(98,232)
Changes in deferred outflows		-
Changes in deferred inflows		3,895
Employer contributions and implict subsidy		311,200
OPEB Expense	**$**	**216,863**

Sensitivity to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	Discount Rate		
	5.73% (1% Decrease)	**6.73% (Current Rate)**	**7.73% (1% Increase)**
Net OPEB Liability (Asset)	$ 2,474,431	$ 2,143,737	$ 1,872,651

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

	Trend Rate		
	(1% Decrease)	**5 to 5.5% (Current Rate)**	**(1% Increase)**
Net OPEB Liability (Asset)	$ 1,869,812	$ 2,143,737	$ 2,479,171

NOTE 11 - AGENCY SERVICE AGREEMENTS

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

City of Sausalito

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

National Park Service (Golden Gate National Recreation Area)

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

Tamalpais Community Services District (TCSD)

The District and TCSD approved the current agreement in 2013. The agreement is valid for a 30-year term to expire in 2043. The District annually estimates TCSD's allocated share of total operation & maintenance and capital improvement expenses for their use of the SMCSD wastewater conveyance and treatment system. The estimate is done during the annual fiscal year budget process. The budget and TCSD's annual estimated charge is adopted by the Board. SMCSD invoices TCSD quarterly for the estimated annual charge. Following the District's annual fiscal year audit by our CPA, the District reconciles the Estimated Annual Charge versus Actual Annual Charge utilizing a mutually agreed upon financial professional to calculate their proportional share of the actual annual expense. SMCSD invoices or credits TCSD for the difference. The District calculated the Actual Annual Charge for Fiscal Year 2017/18 to be $3,214,617. The Actual Annual Charge will be calculated by a mutually agreed upon financial professional and the adjustment will be made in Fiscal Year 2018/19.

Over the past several years, the District has loaned funds to TCSD by deferring the annual cash funded capital expenses. As of June 30, 2018, TCSD owed the District $3,237,640 for deferred capital expenses, which is reported in the District's financial statements as a receivable. As of June 30, 2018, TCSD's debt service total consisted of cash funded capital deferrals of $2,473,994 and an Inter-District Loan balance of $763,646. Through this agreement TCSD also pays $121,156 annually for their portion of capital expenses funded by a City National Bank Loan and State Revolving Loan. Beginning in FY17/18 TCSD will begin paying $725,804 annually for their portion of a 25-year revenue bond funding the plant upgrade requirements of the 2008 EPA order to increase the system capacity for their respective percentage of wet weather flow.

The following schedule summarizes the capital deferral receivable:

Year Ending June 30,	Principal	Interest	Total
2019	$ 108,076	$ 75,779	$ 183,855
2020	111,387	72,468	183,855
2021	114,799	69,057	183,856
2022	118,315	65,539	183,854
2023	121,939	61,917	183,856
2024-2028	668,060	251,214	919,274
2029-2033	776,836	142,437	919,273
2034-2038	454,582	31,782	486,364
Total Debt Service	$ 2,473,994	$ 770,193	$ 3,244,187

The following schedule summarizes the Inter-District receivable:

Year Ending June 30,	Principal	Interest	Total
2019	$ 51,982	$ 22,909	$ 74,891
2020	53,542	21,350	74,892
2021	55,148	19,744	74,892
2022	56,803	18,089	74,892
2023	58,507	16,385	74,892
2024-2028	319,939	54,521	374,460
2029-2033	167,725	8,745	176,470
Total Debt Service	$ 763,646	$ 161,743	$ 925,389

REQUIRED SUPPLEMENTARY INFORMATION

Sausalito-Marin City Sanitary District

Schedule of CalPERS Pension Plan Contributions

June 30, 2018

Miscellaneous Plan

Fiscal Year Ended	2018	2017	2016	2015
Contractually Required Contributions	$ 257,992	$ 224,173	$ 237,897	$ 181,617
Contributions in Relation to Contractually Required Contributions	257,992	224,173	237,897	181,617
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	**$ 1,387,443**	**$ 1,032,559**	**$ 1,044,426**	**$ 1,147,300**
Contributions as a Percentage of Covered Payroll	**18.59%**	**21.71%**	**22.78%**	**15.83%**

Notes to Schedule:

Valuation Date:	June 30, 2016
Assumptions Used:	Entry Age Method used for Actuarial Cost Method
	Level Percentage of Payroll and Direct Rate Smoothing
	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 four years are shown.

Sausalito-Marin City Sanitary District

Schedule of CalPERS Proportionate Share of Net Pension Liability

June 30, 2018

Miscellaneous Plan

Fiscal Year Ended	2018	2017	2016	2015
Proportion of Net Pension Liability	0.08630%	0.08532%	0.06791%	0.07119%
Proportionate Share of Net Pension Liability	$ 3,401,917	$ 2,964,080	$ 1,863,054	$ 1,759,386
Covered Payroll	$ 1,032,559	$ 1,044,426	$ 1,147,300	$ 1,112,881
Proportionate Share of NPL as a % of Covered Payroll	**329.46%**	**283.80%**	**162.39%**	**158.09%**
Plan's Fiduciary Net Position as a % of the TPL	**71.39%**	**72.86%**	**77.84%**	**83.03%**

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

Sausalito-Marin City Sanitary District

Schedule of OPEB Contributions

June 30, 2018

Fiscal Year Ended		**2018**
Actuarially determined contribution (ADC)	$	250,037
Less: actual contribution in relation to ADC		(2,143,737)
Contribution deficiency (excess)	$	(1,893,700)
Covered payroll for the fiscal year	$	1,032,559
Contributions as a percentage of covered payroll		207.61%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	July 1, 2017
Measurement Date:	July 1, 2017
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	6.73%
Inflation	2.75%
Salary Increases	3.00%
Healthcare Trend Rate	5.50%
Investment Rate of Return	6.73%
Mortality	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous".
Retirement	Rx PA Misc 2% @ 55

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

Sausalito-Marin City Sanitary District
Schedule of Net OPEB Liability
June 30, 2018

Fiscal Year Ended		2018
Total OPEB liability		
Service cost	$	72,979
Interest		163,427
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes of assumptions		-
Benefit payments		(183,982)
Implicit subsidy fullfilled		-
Net change in Total OPEB Liability		52,424
Total OPEB Liability - beginning		2,520,332
Total OPEB Liability - ending	$	2,572,756
Plan fiduciary net position		
Employer contributions	$	311,200
Employer implict subsidy		-
Employee contributions		-
Net investment income		23,597
Difference between estimated and actual earnings		-
Benefit payments		(183,982)
Implicit subsidy fullfilled		-
Other		-
Administrative expense		(159)
Net change in plan fiduciary net position		150,656
Plan fiduciary net position - beginning		278,363
Plan fiduciary net position - ending	$	429,019
Net OPEB liability (asset)	$	2,143,737
Plan fiduciary net position as a percentage of the total OPEB liability		16.68%
Covered employee payroll for the plan	$	1,333,613
Net OPEB Liability as a percentage of covered payroll		160.75%
Total OPEB Liability as a percentage of covered payroll		192.92%

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 27, 2018.

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

November 27, 2018
San Jose, California