CENTRAL MARIN SANITATION AGENCY

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

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CHAVAN & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS
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Central Marin Sanitation Agency

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June 30, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Central Marin Sanitation Agency
San Rafael, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Central Marin Sanitation Agency (the "Agency"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Agency'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 Agency'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 Agency'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 the Central Marin Sanitation Agency, as of June 30, 2017, and the

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.

C & A LLP

October 20, 2017
San Jose, California

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Agency's Independent Audit Report presents management's discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2017. It is intended to serve as an overview to the Agency's required financial statements. Please read it in conjunction with Agency's financial statements and accompanying notes, which follow this section.

ORGANIZATION AND BUSINESS

Central Marin Sanitation Agency (CMSA) is a regional wastewater treatment agency that serves central Marin County residents, businesses, and governmental institutions including San Quentin State Prison (SQSP). The area served by CMSA includes portions of the City of San Rafael, the City of Larkspur, the Towns of Corte Madera, Fairfax, Ross, San Anselmo and the unincorporated areas of Ross Valley. For the Fiscal Year 2016-17 reporting period, the Agency provided services to 47,724 equivalent dwelling units (EDUs) with an approximate population of 105,000 in the service area. An additional 4005 EDUs have been assigned to SQSP.

In the 1970's, central Marin County had four small wastewater treatment plants whose operations were not able to meet the stringent new requirements of the 1972 Clean Water Act. Accordingly, the four local agencies that provided wastewater services, San Rafael Sanitation District (SRSD), Sanitary District No. 1 of Marin County (SD1), Sanitary District No. 2 of Marin County (SD2), and the City of Larkspur, entered into a joint powers agreement (JPA) in October 1979 to create a separate governmental entity, the Central Marin Sanitation Agency (CMSA), to oversee the construction and operation of a regional wastewater treatment facility. The SQSP chose not to join the JPA. The Agency's facilities were constructed at a cost of $84 million and funded by federal (75%) and state (12.5%) clean water grants, as well as local shares (12.5%) from the four local agencies and SQSP.

The CMSA wastewater treatment facility became operational in January 1985. The treated wastewater discharged into central San Francisco Bay as clean effluent consistently meets and exceeds all federal, state, and regional regulatory requirements. Since that time, CMSA has successfully carried out its mission of protecting public health and the environment through the planning, administration, and coordination of wastewater services throughout central Marin County. CMSA also provides other services that benefit its customers and the environment through 1) participating in federal pretreatment and regional pollution prevention programs, 2) serving as the lead agency for administering a comprehensive safety program with another wastewater agency in the county, 3) managing a countywide public educational program, and 4) providing collection system maintenance, source control, and other services under contract to several local agencies in the county.

The Agency's governing body, a Board of Commissioners (Board), comprises individuals appointed by the JPA agencies. San Rafael Sanitation District and Sanitary District No. 1 of Marin County each have two members on the Commission while the City of Larkspur and Sanitary District No. 2 of Marin County each have one member. The six-member Board sets policy for the Agency. The Board appoints the General Manager and Treasurer/Controller who serve at the pleasure of the Board. The General Manager is the chief administrative officer responsible for Agency operations and long-term planning in accordance with the Board's policies and approved budget. The Treasurer/Controller is charged with overall financial responsibility in accordance with established Agency policies.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report includes the Management's Discussion and Analysis report, the Independent Auditor's report and the Basic Financial Statements of the Agency. The financial statements also include notes that explain the information in the financial statements in more detail.

BASIC FINANCIAL STATEMENTS

The Financial Statements of the Agency report information about the Agency's accounting methods similar to those used by private sector companies. These statements have been prepared and audited using generally acceptable accounting standards. These required statements offer short-term and long-term financial information about the Agency's activities and are often used to assess the financial position and health of the organization.

<u>The Statement of Net Position</u> (formerly Statement of Net Assets) includes all of the Agency's assets, deferred outflow of resources, liabilities, and deferred inflow of resources, and provides information about the nature and amounts of investments in resources and obligations to creditors. It also provides the basis for evaluating the capital structure of the Agency.

<u>The Statement of Revenues, Expenses and Changes in Net Position</u> accounts for all revenues and expenses during the reporting period. This statement reflects the result of Agency operations over the past year as well as non-operating revenues, expenses, and contributed capital.

<u>The Statement of Cash Flows</u> provides information on the Agency's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operational, capital, and investing activities. It also identifies the sources and uses for the cash and changes in the cash balances.

FINANCIAL ANALYSIS OF THE AGENCY

One of the most important questions asked about the Agency's finances is whether or not the Agency's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Agency's activities in a way that will help answer this question. These two statements report the net position of the Agency as well as related changes. The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources (net position) is one way to measure financial health or financial position. Over time, increases or decreases in the Agency's net position is one of many indicators to ascertain if its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

During the FY 2016-17 audit, prior period adjustments were recorded which affected the FY 2015-16 financial statement numbers shown below[1]. No reissuance of the FY2015-16 audited financial statements was deemed necessary; however, the adjustments have been reflected in the tables below which were used for the comparison data throughout this management discussion and analysis. See prior period adjustment information in the Notes to the Financial Statements.

NET POSITION STATEMENT ANALYSIS

Table 1 – Summary of Net Position

Description	Fiscal Year Ended 6/30/2017	Fiscal Year Ended 6/30/2016	Amount Increase (Decrease)	Percent Increase (Decrease)
Current and other assets	$15,685,241	$15,519,819	$ 165,422	1.1%
Capital assets - net	83,554,374	85,532,754	(1,978,380)	-2.3%
Total assets	99,239,615	101,052,573	(1,812,958)	-1.8%
Deferred outflows of resources	5,961,780	4,734,100	1,227,680	25.9%
Current liabilities	4,227,638	3,381,938	845,700	25.0%
Noncurrent liabilities	57,093,549	57,205,713	(112,164)	-0.2%
Total liabilities	61,321,187	60,587,651	733,536	1.2%
Deferred inflows of resources	1,260,848	1,738,149	(477,301)	-27.5%
Net position control total	42,619,360	43,460,873	(841,513)	-1.9%
Invested in capital assets net of debt	36,400,782	36,022,116	378,666	1.1%
Unrestricted	6,218,578	7,438,757	(1,220,179)	-16.4%
Total net position	$42,619,360	$43,460,873	$ (841,513)	-1.9%

[1] The Agency's FY 2015-16 and FY 2016-17 audited financial statements are available at www.cmsa.us/finance

Net position decreased by $841,513 to $42,619,360 from FY 2015-16 to FY 2016-17 as described below:

- Total assets decreased by $1,812,958. Current assets increased by $165,422 due to an increase in accounts receivables and cash accounts. Capital assets – net decreased by $1,978,380 because of minor asset retirements as well as the excess of the provision for accumulated depreciation on capital assets, a contra-asset, over current year capital asset additions.

- Current liabilities (obligations due within 12 months) increased by $845,700. The net increase was due primarily to increase in interest payable and compensated absences payable being classified as all current in FY2016-17. Additional information can be found in Note #5 to the Financial Statements-Long-Term Obligations.

- Non-current (long-term) liabilities decreased by $112,164 as a result of FY 2016-17 increase in net pension liability and principal payments. Long-term liabilities are reduced each year as each series on the outstanding Refunding Revenue Bonds Series 2015 reach maturity and the principal amount is paid back to the bondholders. Additional information on the Agency's non-current liabilities can be found in Note #5-Long-Term Obligations.

By far the largest portion of the Agency's net position reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding. The Agency uses these capital assets to provide treatment services for the residents and businesses in its service area. Consequently, these assets are not available for future spending. Although the Agency's investment in its capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used or sold to liquidate Agency liabilities. The remaining balance of the unrestricted net position may be used to meet the Agency's ongoing obligations to its customers and creditors.

REVENUES, EXPENSES, AND CHANGE IN NET POSITION STATEMENT ANALYSIS

Table 2 – Change in Net Position

Description	Fiscal Year Ended 6/30/2017	Fiscal Year Ended 6/30/2016	Amount Increase (Decrease)	Percent Increase (Decrease)
Service charges	$15,355,475	$14,471,578	$ 883,897	6.1%
Contract maintenance revenues	1,442,550	1,546,239	(103,689)	-6.7%
Other operating revenues	437,246	477,241	(39,995)	-8.4%
Interest and investment income	113,085	62,389	50,696	81.3%
Other non-operating revenues	26,003	33,364	(7,361)	-22.1%
Total revenues	17,374,359	16,590,811	783,548	4.7%
Salaries and benefits	9,079,369	7,411,654	1,667,715	22.5%
Operations supplies and services	1,496,774	1,408,893	87,881	6.2%
Repairs and maintenance	947,285	1,373,609	(426,324)	-31.0%
Permit testing and monitoring	110,973	121,094	(10,121)	-8.4%
Depreciation and amortization	4,045,357	3,902,112	143,245	3.7%
Insurance	97,095	101,447	(4,352)	-4.3%
Utilities and telephone	318,900	346,701	(27,801)	-8.0%
General and administrative	697,499	595,639	101,860	17.1%
Interest expense	1,752,699	1,396,084	356,615	25.5%
Total expenses	18,545,951	16,657,234	1,888,717	11.3%
Income before capital contributions	(1,171,592)	(66,423)	(1,105,169)	1663.8%
Capacity fee revenue	330,079	162,705	167,374	102.9%
Increase (decrease) in net position	(841,513)	96,282	(937,795)	-974.0%
Net position - beg of year as adjusted	43,460,873	43,364,590	96,283	0.2%
Net position - end of year	$42,619,360	$43,460,872	$ (841,512)	-1.9%

See comments under Financial Analysis of the Agency regarding prior period adjustments made to the FY 2015-16 numbers presented above.

The statement of revenues, expenses, and changes in net position reflects the Agency's operating and non-operating revenues by major sources, operating and non-operating expenses by categories, and capital contributions. The Agency's change in net position was ($841,513) during FY 2016-17 as follows:

- Total revenues (operating and non-operating) increased by $783,548 from FY 2015-16 to $17.3 million in FY 2016-17. The increase in revenues was from a scheduled 4% increase in service charges, a scheduled $100,000 increase in the capital fee, and an increase in the debt service charge in the amount of approximately $400,000. Contract maintenance revenues decreased by $103,689 mainly due to changes in flow volume and strength for waste services between CMSA and SQSP. Other operating revenues decreased by $39,995 due to decreased FOG (Fats, Oils & Grease) program revenues.

- Interest and investment income increased approximately $51,000 due to increases in interest rates.

- Total expenses (operating and non-operating) increased by $1,888,717 from FY 2015-16 to FY 2016-17. Salaries and benefits are up over the prior year from a negotiated and scheduled salary increase of 4%, general benefit cost increases, and accrued expense increases in connection with employee retirement. Operations supplies and services and permit testing is very consistent between years. Repairs and maintenance is down approximately $400,000 due to less CIP transfers expensed. General and administrative costs are up approximately $100,000, insurance and utilities are consistent between years, and interest expense is up due to a lesser amount in the previous year.

- Capital contributions-capacity charges increased by $167,374 to $330,079 from FY 2015-16 to FY 2016-17 due to new construction activity wherein member agencies collect and remit the fee to the Agency.

CAPITAL ASSETS

The Agency's investment in capital assets as of June 30, 2017 totaled $83,554,374 net of accumulated depreciation. This investment in capital assets includes land and land improvements, wastewater treatment facilities, wastewater disposal facilities, general plant and administrative facilities, and construction-in-progress. During FY 2016-17, the Agency acquired/constructed $2.06 million and depreciated $4 million in capital assets. The Agency also had a prior period adjustment of ($1.3) million, net accumulated depreciation, during FY 2016-17. The total net decrease in the Agency's investment in capital assets was $1.9 million or 2.3%.

Table 3 – Summary of Net Investment in Capital Assets

Description	Fiscal Year Ended 6/30/2017	Fiscal Year Ended 6/30/2016	Amount Increase (Decrease)	Percent Increase (Decrease)
Land and land improvements	$ 4,857,321	$ 4,857,321	$ -	0.0%
Construction in progress	1,785,460	313,483	1,471,977	469.6%
Wastewater treatment fac	71,058,793	74,039,751	(2,980,958)	-4.0%
Wastewater disposal fac	3,713,081	4,017,006	(303,925)	-7.6%
Gen, plant, admin fac	2,139,719	2,305,193	(165,474)	-7.2%
Capital assets - net	$83,554,374	$85,532,754	$ (1,978,380)	-2.3%

See comments under Financial Analysis of the Agency regarding prior period adjustments made to the FY 2015-16 numbers presented above.

Construction-in-progress increased by approximately $1.5 million and there were $535 thousand in completed project transfers during the year. Major capital asset transactions and amounts for the FY 2016-17 include the following:

- Completed work on the Cogeneration (Major) Maintenance ($228,858)
- Completed work on the Gates Rehabilitation ($111,110)
- Completed work on the FOG/F2E Vault Relining ($96,709)
- Completed work on the Aeration System Rehabilitation ($51,052)

Additional information about the Agency's capital assets can be found in Note 4-Plant and Facilities.

DEBT ADMINISTRATION

As of June 30, 2017, the Agency had $45,020,000 in outstanding debt from the Refunding Revenue Bonds Series 2015, not including a premium in the amount of $4,589,019, that is amortized over the life of the bonds.

The Agency continues to expand, upgrade, and improve the quality of its treatment systems to meet current environmental regulations, manage wet weather flows, and to serve the needs of its customers. The Refunding Revenue Bonds Series 2015 were issued at a premium during FY 2014-15 to refund the 2006 Revenue Bonds originally used to expand the hydraulic and/or process capacity of the Agency's treatment, storage, and disposal facilities, and to implement other Board of Commissioners' approved capital improvement projects.

Additional information on the Agency's outstanding debt can be found in Note 5-Long-Term Obligations.

ECONOMIC FACTORS

The Agency is governed in part by provisions of the State Water Resources Control Board which specifies that rate-based revenues must at a minimum cover the costs of operation, maintenance and recurring capital replacement (OM&R). The Agency is not directly subject to general economic conditions as the main source of its sewer service revenues is received directly from three JPA member agencies (SRSD, SD1 and SD2) and not from rate payers within the service area served. The Agency does not receive property tax revenue. Accordingly, the Agency sets its charges to JPA member agencies and the State of California for SQSP to cover the costs of OM&R and debt financed capital improvements plus any increments for known or anticipated changes in program costs.

The Agency's Board of Commissioners adopts an annual budget which serves as the Agency's approved financial plan. The Board sets all fees and charges required to fund the Agency's operations and capital programs. The approved budget is used as a key control device that 1) establishes amounts by line-items accounts, identifies projects for operations and capital activities and 2) monitors expenses to ensure that approved spending levels have not been exceeded.

CONTACTING THE AGENCY

This financial report is designed to provide our joint-power members and creditors with a general overview of the Agency's finances and demonstrate the Agency's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

Administrative Services Manager
Central Marin Sanitation Agency
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San Rafael, CA 94901
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BASIC FINANCIAL STATEMENTS

Central Marin Sanitation Agency
Statement of Net Position
June 30, 2017

Assets	
Current Assets:	
Cash and cash equivalents	$ 15,047,300
Accounts receivable	455,928
Interest receivable	34,036
Prepaid expenses	73,590
Other current assets	32,678
Total Current Assets	15,643,532
Noncurrent Assets:	
Bond discount and prepaid insurance, net	41,709
Capital assets - plant and facilities - net of accumulated depreciation	83,554,374
Total Noncurrent Assets - Net	83,596,083
Total Assets	$ 99,239,615
Deferred Outflows of Resources	
Loss on Early Retirement of Long-term Debt	$ 2,455,426
Pension Adjustments	3,506,354
Total Deferred Outflows of Resources	$ 5,961,780
Liabilities	
Current Liabilities:	
Accounts payable	$ 581,065
Accrued salaries and benefits	222,203
Interest payable	581,885
Unearned revenue	5,734
Compensated absences payable	586,751
Current portion of long-term obligations	2,250,000
Total Current Liabilities	4,227,638
Noncurrent Liabilities:	
Revenue bonds payable, net of premium	47,359,019
Net pension liability	9,709,971
Net OPEB obligation	24,559
Total Noncurrent Liabilities	57,093,549
Total Liabilities	$ 61,321,187
Deferred Inflows of Resources	
Pension Adjustments	$ 1,260,848
Net Position	
Net Investment in Capital Assets	$ 36,400,782
Unrestricted	6,218,578
Total Net Position	$ 42,619,360

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

Central Marin Sanitation Agency
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Operating Revenues:	
Service charges	$ 15,355,475
Contract maintenance revenues	1,442,550
Other operating revenues	437,246
Total operating revenues	17,235,271
Operating Expenses:	
Salaries and benefits	9,079,369
Facility operations	1,496,774
Repairs and maintenance	947,285
Permit testing and monitoring	110,973
Depreciation and amortization	4,045,357
Insurance	97,095
Utilities and telephone	318,900
General and administrative	697,499
Total operating expenses	16,793,252
Operating Income (Loss)	442,019
Nonoperating Revenues (Expenses):	
Interest and investment income	113,085
Interest expense	(1,752,699)
Other nonoperating revenue (expense)	26,003
Total nonoperating revenues (expenses)	(1,613,611)
Income (loss) before contributions	(1,171,592)
Capital contributions - capacity fees	330,079
Change in net position	(841,513)
Beginning net position	45,625,458
Prior period adjustment - see note 11	(2,164,585)
Beginning net position - as adjusted	43,460,873
Ending net position	$ 42,619,360

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

Central Marin Sanitation Agency

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

Cash Flows from Operating Activities:	
Cash received from customers and users	$ 17,155,712
Cash payments to suppliers for goods and services	(3,506,432)
Cash payments to employees for services	(7,867,934)
Other cash received (paid)	21,805
Net Cash Provided (Used) by Operating Activities	5,803,151
Cash Flows from Capital and Related Financing Activities:	
Cash received from capacity charges	330,079
Cash received on the sale of capital assets	4,200
Acquisition and construction of capital assets	(2,194,827)
Principal paid on capital debt	(2,195,000)
Interest paid on capital debt	(1,773,094)
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,828,642)
Cash Flows from Investing Activities:	
Investment income	98,253
Net Cash Provided (Used) by Investing Activities	98,253
Net Increase (Decrease) in Cash and Cash Equivalents	72,762
Cash and Cash Equivalents Beginning	19,022,194
Prior Period Adjustment - See Note 11	(4,047,656)
Cash and Cash Equivalents Beginning - as Adjusted	14,974,538
Cash and Cash Equivalents Ending	$ 15,047,300
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:	
Operating Income (Loss)	$ 442,019
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	4,045,357
Projects not capitalized	131,017
Other non-operating revenue	21,805
GASB 68 pension adjustments	1,174,900
(Increase) decrease in:	
Accounts receivable	(81,447)
Prepaid expenses	452
Increase (decrease) in:	
Accounts payable	30,625
Accrued salaries and benefits	18,748
OPEB liability	17,787
Unearned revenue	1,888
Net Cash Provided (Used) by Operating Activities	$ 5,803,151

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

NOTE 1 - NATURE OF ORGANIZATION

Central Marin Sanitation Agency (CMSA) is a regional wastewater treatment agency that serves the residents, businesses and governmental institutions including the large San Quentin State Prison in central Marin County. In the 1970's, central Marin County had four small wastewater treatment plants whose operations were not able to meet the stringent new requirements of the 1972 Clean Water Act and its amendments. Accordingly, the four local wastewater agencies, San Rafael Sanitation District, Sanitary District No. 1 of Marin County, Sanitary District No.2 of Marin County, and the City of Larkspur entered into a joint powers agreement (JPA) in October 1979 to create a separate governmental entity, the Central Marin Sanitation Agency (CMSA), to oversee the construction and operation of a regional wastewater treatment facility. San Quentin State Prison chose not to join the JPA. The treatment facility was constructed at a cost of $84 million and was funded by federal (75%) and state (12.5%) clean water grants and local shares (12.5%) from the four local wastewater agencies and San Quentin State Prison. The CMSA wastewater treatment facility became operational in January 1985.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a stand-alone government, may serve as the nucleus for its financial reporting entity when the stand-alone government provides separately issued financial statements. A stand-alone government is a legally separate governmental organization that does not have a separately elected governing body and does not meet the definition of a component unit. Central Marin Sanitation Agency 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 Agency considered all potential component units in determining what organizations should be included in the financial statements. Since no other entities are controlled by, or rely upon the Agency, the reporting entity consists solely of the Agency. Based on these criteria, there are no component units to include in the Agency's financial statements.

Basis of Presentation

The Agency's Basic Financial Statements are prepared in accordance with the policies and procedures for California special districts. The accounting policies of the Agency 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 Agency 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 portion 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 from the implementation of GASB No. 68.

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 Agency 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 Agency. The Agency'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 Agency 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 Agency's principal ongoing operations. The principal operating revenues of the Agency are charges to customers for services. Operating expenses for the Agency 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.

Joint Ventures

The Agency is the locus of a joint powers agreement among its four member agencies, which provide wastewater collection and transmission to the treatment plant. Joint venture details are discussed in Note 6.

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, with the exception of the CAMP pool. Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The Agency participates in an investment pool managed by the State of California and regulated by California government code Section 16429 known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

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

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

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

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

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

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

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

Investments held with CAMP are recorded at amortized cost in accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Agency participates in the California Asset Management Program (CAMP) which is a voluntary investment alternative authorized by Section 53601(p) of the California Government Code. CAMP is managed by a seven member Board of Trustees comprised of California public agency finance officials. Investments are transacted by an investment advisor and all securities are held by a third party custodian. All securities in CAMP are purchased under the authority of Section 53601, subdivisions (a) to (n) of the California Government Code.

Statement of Cash Flows

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

Plant and Facilities Capital Assets

Capital assets are defined by the Agency as long-lived assets acquired for use, and not intended for consumption in operations. The capitalization threshold is at $5,000 or above.

Treatment plant and facilities purchased are stated at cost less accumulated depreciation. Assets contributed by member districts have been recorded at the fair value at the date received.

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

Depreciation is computed using the straight-line method based on the estimated useful lives of related asset classifications useful life in excess of one year. Depreciation of all plant and facilities 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 Agency has assigned the useful lives listed below to plant and facilities:

Waterwaste Treatment Facilities:	
Buildings	40 years
Other	5-25 years
Waterwaste Disposal Facilities	40-50 years
General Plant & Administrative Facilities:	
Buildings	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. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium and discounts are reported as noncurrent assets along with any insurance payments made during issuance of the bond. Bond issuance costs, other than prepaid insurance, are expensed in the period incurred.

Compensated Absences

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

Pensions

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

Accounting Estimates

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

Subsequent Events

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

In September 2017, the Agency signed a Clean Water State Revolving Fund (CWSFR) loan contract in the amount of up to $500,000 with a Principal Forgiveness funding. This funding is provided in full or in part through an agreement with the State Water Resources Control Board.

Implemented New Accounting Pronouncements

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

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

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

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

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

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

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

Upcoming New Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

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

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

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

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

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

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

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

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

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

The Agency doesn't believe this statement will have a significant impact on the Agency's financial statements.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

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

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

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

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

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Cash and Investments	Carrying Amount	Fair Value / Amortized Cost	Investment Rating	Maturities
Business-type Activities:				
Cash Deposits:				
Cash on hand	$ 149,822	$ 149,822	N/A	N/A
Petty Cash	462	462	N/A	N/A
Total Cash Deposits	150,284	150,284		
Investments:				
California Local Agency Investment Fund	14,456,843	14,441,528	Unrated	<1yr
Wells Fargo Escrow	80,001	80,001	Unrated	<1yr
California Assets Management Program	360,172	360,172	AAAm	<1yr
Total Investments	14,897,016	14,881,701		
Total Cash and Investments	$ 15,047,300	$ 15,031,985		

Cash Deposits

Bank balances are insured up to $250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). The actual bank statement balance of the Agency's cash in bank exceeded the insured limit by $334,981 as of June 30, 2017. The difference between the book balance and the bank statement balance was for outstanding checks. None of the Agency's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts. All of the Agency'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 Agency has the following recurring fair value measurements as of June 30, 2017:

- California Local Agency Investment Fund (LAIF) of $14,441,528; valued using Level 2 inputs.

California Local Agency Investment Fund

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

The total amount invested by all public agencies in LAIF, as of June 30, 2017, was approximately $77.6 billion. Of that amount, 99.12% is invested in non-derivative financial products and 0.88% in structured notes and asset-backed securities. The balance in LAIF is available for withdrawal on demand.

California Assets Management Program

The CAMP pool has a diverse credit risk allocation averaging a rating of AAAm, per S&P ratings. The total amount invested by all public agencies in CAMP, as of June 30, 2017, was approximately $2.7 billion. Of that amount, 83% was invested in non-derivative financial products and 17% was invested in repurchase agreements. An investment in the Trust is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the Trust are distributed by PFM Fund Distributors, Inc., member Financial Industry Regulatory Authority (FINRA) (www.finra.org) and Securities Investor Protection Corporation (SIPC) (www.sipc.org). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC. The plan has elected to be measured at amortized cost for financial reporting purposes per GASB

Statement No. 79, *Certain External Investment Pools and Pool Participants*. The plan's net assets, portfolio holdings, are valued at amortized cost based on trade date.

Investment Policy

The Agency is authorized under California Government Code and the Agency's investment policy 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 Agency are inverse floaters, range notes, mortgage pool interest-only strips, and zero interest accrual at maturity notes. The Agency's investments were in compliance with the above provisions as of and for the year ended June 30, 2017. The Agency's investment policy follows the California Government Code which authorizes the Agency to invest in the following:

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

Risk Disclosures

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

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The Agency 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 sensitivity of the Agency's investments to interest rate risk is displayed in the summary schedule of cash and cash equivalents at the top of Note 3.

- *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 investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service. The Agency's minimum legal rating is not applicable to the LAIF and CAMP investment pools.

- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency 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 fair 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. Neither the California Government Code nor the Agency's investment policy contains legal or policy requirements that would limit the exposure to custodial risk.

- *Concentration of Credit Risk* - See the chart in investment policy for the Agency's limitations on the amount that can be invested in any one issuer. As of June 30, 2017, the Agency invested 97% in LAIF. There were no other investments in any one issuer that represent five percent or more of the total investments.

NOTE 4 - PLANT AND FACILITIES (CAPITAL ASSETS)

The Agency's plant and facilities capital assets consisted of the following as of June 30, 2017:

Capital Assets	Balance July 01, 2016	Additions	Deletions/ Adjustments	Balance June 30, 2017
Non-depreciable Plant and Facilities:				
Land and land improvements	$ 4,857,321	$ -	$ -	$ 4,857,321
Construction in progress	313,483	2,138,343	(666,366)	1,785,460
Total non-depreciable plant and facilities	5,170,804	2,138,343	(666,366)	6,642,781
Depreciable Plant and Facilities:				
Wastewater treatment facilities	131,584,465	535,348	(1,445,359)	130,674,454
Wastewater disposal facilities	13,644,906	16,024	(1,277)	13,659,653
General plant and administrative facilities	8,346,633	40,460	(738,297)	7,648,796
Total depreciable plant and facilities	153,576,004	591,832	(2,184,933)	151,982,903
Less accumulated depreciation for:				
Wastewater treatment facilities	(56,525,046)	(3,516,306)	425,691	(59,615,661)
Wastewater disposal facilities	(9,611,997)	(319,949)	(14,626)	(9,946,572)
General plant and administrative facilities	(5,741,065)	(205,934)	437,922	(5,509,077)
Total accumulated depreciation	(71,878,108)	(4,042,189)	848,987	(75,071,310)
Total depreciable plant and facilities - net	81,697,896	(3,450,357)	(1,335,946)	76,911,593
Total plant and facilities - net	$ 86,868,700	$ (1,312,014)	$ (2,002,312)	$ 83,554,374

Depreciation expense for the year ended June 30, 2017 was $4,042,189.

NOTE 5 - LONG-TERM OBLIGATIONS

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

	Balance July 01, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year
2015 Refunding Revenue Bonds	$ 47,215,000	$ -	$ 2,195,000	$ 45,020,000	$ 2,250,000
2015 Refunding Revenue Bonds Discounts and Premiums - Net	4,720,424	217,128	348,533	4,589,019	-
Net Pension Liability	6,643,602	3,066,369	-	9,709,971	-
Net OPEB Liability	6,772	17,787	-	24,559	-
Compensated Absences	597,787	793,473	804,509	586,751	586,751
Total Long-term Obligations	$ 59,183,585	$ 4,094,757	$ 3,348,042	$ 59,930,300	$ 2,836,751

On March 26, 2015, the Agency issued $49,310,000 in Series 2015 Refunding Revenue Bonds at a premium of $5,344,174 with an interest rate ranging from 2.5 to 5.0 percent. The Bonds were used to refund the Series 2006 Revenue Bonds whose proceeds were used to finance improvements to the wastewater treatment and disposal system of the Central Marin Sanitation Agency, consisting primarily of improvements to the Agency's Treatment Plant to increase capacity for wet weather flows, to pay costs of issuance of the Bonds and for certain other capital projects to provide treatment capacity, replace capital assets at end of service life and to make other capital improvements as approved by the Board of Commissioners. The Bonds are fully registered with principal due annually on September 1 and interest payable semi-annually on March 1 and September 1.

The Agency's 2015 Refunding Revenue Bonds debt service requirements were as follows as of June 30, 2017:

Year Ending June 30	Principal	Interest	Total
2018	$ 2,250,000	$ 1,711,906	$ 3,961,906
2019	2,330,000	1,643,206	3,973,206
2020	2,395,000	1,572,331	3,967,331
2021	2,470,000	1,487,006	3,957,006
2022	2,580,000	1,386,006	3,966,006
2023 - 2027	14,725,000	5,055,731	19,780,731
2028 - 2032	18,270,000	1,574,978	19,844,978
Total Debt Service	$ 45,020,000	$ 14,431,164	$ 59,451,164

NOTE 6 - JOINT VENTURES

The Agency serves as a regional wastewater treatment plant for its four member agencies and San Quentin State Prison (SQ) and is governed by a six-member Board of Commissioners, two appointed by the governing board of Sanitary District No. 1 (SD 1), two appointed by the governing board of San Rafael Sanitation District (SRSD), one appointed by the governing board of Sanitary District No.2 (SD 2), and one appointed by the City Council of the City of Larkspur (Larkspur). Total project costs for the joint venture were funded from federal (75%) and state (12.5%) clean water grants and from local shares (12.5% total) allocated among the member agencies and SQ based upon the weighted average of the strength and volume of sewage flows applicable at inception of the project. Final individual local shares of total project costs were approximately $6.3 million for SD 1, $7.6 million for SRSD, $1.6 million for SD 2, $1 million for Larkspur and $1.4 million for SQ.

CMSA derives its annual funding for its operations and equipment repair and replacement programs almost exclusively from service charges to its member agencies and SQ. Beginning in fiscal year 2006-07, funding for CMSA's capital program also includes proceeds from the sale of revenue bonds which were exhausted in fiscal year 2014-15. The joint powers agreement makes no provisions for an equity interest for any of the joint venture participants' operations and stipulates that all excess capital funds and all excess administration, operations and maintenance funds, from whatever source, are the property of the Agency. Complete separate financial statements of the member agencies may be obtained by contacting their administrative offices directly.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The Agency had one significant unexpended contractual commitment as of June 30, 2017 which was related to the Maintenance Facility Modifications project. The project had an original commitment of $1,015,000, as of June 30, 2017 the Agency had a remaining commitment of $724,540.

NOTE 8 - RISK MANAGEMENT

The Agency is exposed to risks of loss from property, liability, and workers' compensation. The Agency 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 and automobile 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 agency for program participation is determined by the Executive Board upon the basis of cost allocation plan and rating formula. The premium for each participating agency includes the agency's share of expected losses, program insurance costs, and program administrative costs for the year, plus the agency's share of Authority general expense allocated to the program by the Board. Members share losses, which exceed the maximum premium assessment. Insurance purchasing pools provided property insurance and excess coverage to $15,000,000 on general liability and workers' compensation. Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2016 (most recent information available):

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Agency's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Agency 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 50 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 provisions and benefits in effect at June 30, 2017, 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	2.00%	2.00%
Required employee contribution rates	7.949%	6.250%
Required employer contribution rates	11.634%	6.555%

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

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

	Total
Contributions - employer	$ 950,859
Contributions - employee	403,496
Total	$ 1,354,355

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

As of June 30, 2017, the Agency reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 9,709,971

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the

Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	Miscellaneous
Proportion - June 30, 2015	0.2422%
Proportion - June 30, 2016	0.2795%
Change in Proportions	0.0374%

For the year ended June 30, 2017, the Agency recognized pension expense of $2,132,303. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 957,403	$ -
Changes in assumptions	-	(287,838)
Differences between expected and actual experiences	30,424	(6,971)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	105,675	(51,289)
Net differences between projected and actual earnings on plan investments	2,412,852	(914,750)
Total	$ 3,506,354	$ (1,260,848)

The Agency reported $957,403 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Fiscal Year Ending:	Deferred Outflows/(inflows) of Resources
2018	$ 92,120
2019	120,722
2020	687,235
2021	388,026
Total	$ 1,288,103

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

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

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

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Agency's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	$ 15,033,406
Current Discount Rate	7.65%
Net Pension Liability	$ 9,709,970
1% Increase	8.65%
Net Pension Liability	$ 5,310,415

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 10 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The Agency's defined benefit postemployment healthcare plan provides a post-retirement health care benefit to eligible retirees in accordance with a Memorandum of Understanding (M.O.U.) for union represented employees and Board approval for unrepresented management, supervisory, and confidential employees. For both employee groups, eligible employees retiring at or after age 50 with a minimum of 5 years CalPERS service credit may opt to continue health care coverage, with a portion of the monthly premium paid for by the Agency. Coverage may discontinue at the request of the retiree. The amount of the Agency's contribution towards retiree's medical benefit is based on the date of hire as an employee.

The Agency 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 Agency 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 Agency is also obligated to follow the actuarial assumptions established by the CalPERS Board of Administration. CalPERS issues a Comprehensive Annual Financial Report for the retirement plans. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, CA, 95814.

Funding Policy

The Agency's annual required contribution of the employer (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC is $304,638. The plan members receiving benefits currently don't make contributions.

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

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

Annual required contribution	$ 304,638
Interest on net OPEB obligation	(95)
Adjustment to annual required contribution	118
Annual OPEB cost (expense)	304,661
Contributions made	(286,874)
Increase in net OPEB obligation	17,787
Net OPEB obligation (asset) - beginning	6,772
Net OPEB obligation (asset) - ending	$ 24,559

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
June 30, 2015	$ 314,006	94.43%	$ (1,875)
June 30, 2016	$ 301,349	97.13%	$ 6,772
June 30, 2017	$ 304,661	94.16%	$ 24,559

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

Actuarial accrued liability (AAL)	$ 4,458,976
Actuarial value of plan assets	2,226,727
Unfunded actuarial accrued liability (UAAL)	$ 2,232,249
Funded ratio (actuarial value of plan assets/AAL)	50%
Projected covered payroll (active Plan members)	$ 8,921,983
UAAL as a percentage of covered payroll	25%

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 7.28 percent investment rate of return (net of administrative expenses), inflation rate of 3 percent and an annual medical cost trend rate of 6.4 percent initially, reduced by decrements to an ultimate rate of 5.5 percent after four years. The plan's unfunded actuarial accrued liability in each year is amortized on a level dollar basis over the closed 30-year period beginning July 1, 2009. The actuarial value of assets is equal to the fair value of plan assets, including any receivable contributions.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

During fiscal year 2017, the Agency had to record prior period adjustments to correct an incorrect calculation of the gain or loss on early retirement of long-term debt relating to the 2015 Refunding Bond as well as an adjustment for corrections made to the capital asset listing to exclude items under the Agency’s capitalization policy threshold. The net impact of these adjustments was a decrease to net position in the amount of $2,164,585.

The calculation to determine gain or loss on early retirement of long-term debt incorrectly included $4,047,656 of cash held in an insurance policy not paid by the Agency. As well as incorrectly excluded $44,876 in issuance cost and $217,128 in bond premium for the refunded bond, both of which were removed through interest expense in fiscal year 2016. The Agency corrected for these items, removed the incorrect gain of $749,355 listed in fiscal year 2016 financial report and recorded the corrected loss on early retirement of long-term debt of $2,641,914. After correction of these items, a prior period adjustment to net position of $828,639.

Capital assets were adjusted in fiscal year 2017 to remove previously capitalized expenditures below the Agency’s civilization threshold. A cost value of $2,169,408 with accumulated depreciation of $833,462, required an adjustment of net position in the amount of $1,335,946.

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REQUIRED SUPPLEMENTARY INFORMATION

Central Marin Sanitation Agency
Schedule of Pension Contributions - CalPERS
June 30, 2017

	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	$ 957,403	$ 950,859	$ 927,135
Contributions in Relation to Actuarially Determined Contributions	957,403	950,859	927,135
Contribution Deficiency (Excess)	-	-	-
Covered Employee Payroll	**$ 4,560,237**	**$ 4,764,021**	**$ 4,418,991**
Contributions as a Percentage of Covered Payroll	**20.99%**	**19.96%**	**20.98%**

Notes to Schedule:

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

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

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

Central Marin Sanitation Agency

Schedule of Proportionate Share of Net Pension Liability

June 30, 2017

	2017	2016	2015
Proportion of Net Pension Liability	0.27951%	0.24216%	0.24376%
Proportionate Share of Net Pension Liability	$ 9,709,971	$ 6,643,602	$ 6,024,473
Covered Employee Payroll	$ 4,560,237	$ 4,764,021	$ 4,418,991
Proportionate Share of NPL as a % of Covered Employee Payroll	**212.93%**	**139.45%**	**136.33%**
Plan's Fiduciary Net Position as a % of the TPL	**75.44%**	**82.12%**	**83.21%**

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

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

Central Marin Sanitation Agency
Schedule of Funding Progress for the Retiree Health Benefit Plan
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
7/1/2011	676,399	3,548,448	2,872,049	19.06%	3,899,232	73.66%
7/1/2013	1,255,329	4,010,474	2,755,145	31.30%	4,099,618	67.20%
7/1/2015	1,765,644	4,262,068	2,496,424	41.43%	4,611,619	54.13%

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

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 Commissioners
Central Marin Sanitation Agency

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 Central Marin Sanitation Agency (the "Agency") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 20, 2017.

Internal Control over Financial Reporting

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

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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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

October 20, 2017
San Jose, California

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