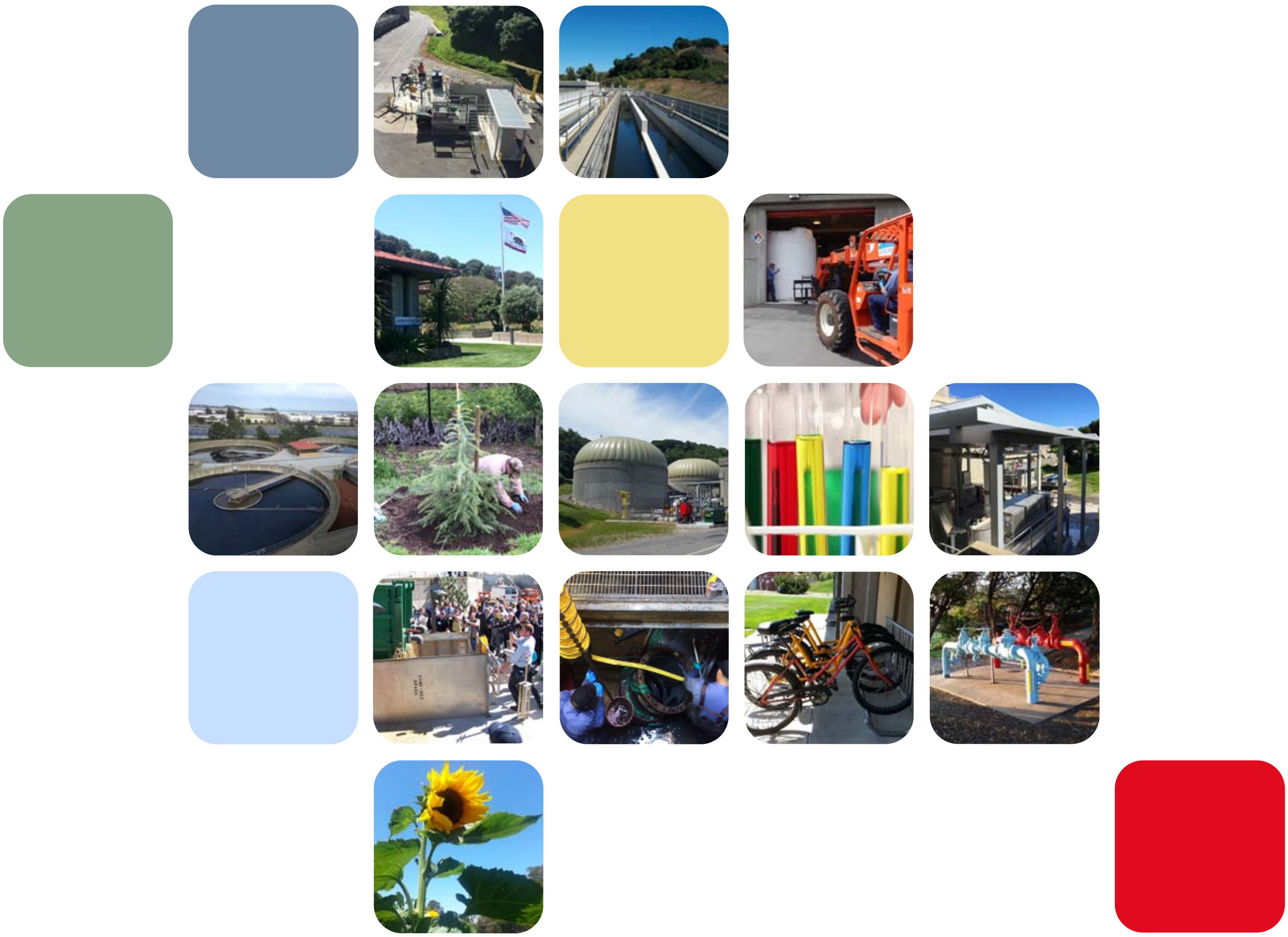
DRAFT

COMPREHENSIVE

# ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JULY 1, 2017 – JUNE 30, 2018




CENTRAL MARIN SANITATION AGENCY

P 415-459-1455 administration@cmsa.us www.cmsa.us www.facebook.com/centralmarinsa/

F 415-459-3971 1301 Andersen Drive San Rafael CA 94901

DRAFT

# Central Marin Sanitation Agency

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

## July 1, 2017 – June 30, 2018

1301 Andersen Drive, San Rafael CA 94901
Kenneth Spray, Treasurer/Controller/Administrative Services Manager
Prepared by the Finance Department and Administration Department staff

**www.cmsa.us/finance**

DRAFT

**CENTRAL MARIN SANITATION AGENCY**
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**
**FOR FISCAL YEAR JULY 1, 2017 THROUGH JUNE 30, 2018**

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November 13, 2018

Board of Commissioners
Central Marin Sanitation Agency

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Central Marin Sanitation Agency (CMSA) for the fiscal year ended June 30, 2018. This report provides an overview of the Agency's financial activities during the past fiscal year and has been prepared by CMSA staff for the benefit of the Board of Commissioners and other stakeholders who may have interest in the financial position of the Agency. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Agency. CMSA's management is responsible for the contents of the CAFR report, and to the best of our knowledge and belief, the enclosed information is accurate in all material respects, and is reported in a manner designed to present fairly the financial position and results of operations of CMSA. All disclosures necessary to enable the reader to gain an understanding of CMSA's enterprise activities have been included.

California statutes require that CMSA report on its financial position and results of operations on an annual basis. This report contains the Agency's financial statements which have been audited by an independent accounting firm, and have been accepted by the Agency's Board of Commissioners. CMSA's independent auditor, Cropper Accountancy Corporation, concluded that the Agency's financial statements present fairly the financial position of CMSA in accordance with accounting principles generally accepted in the United States of America. The independent auditor's report is located at the front of the financial section of this report.

The reporting entity for CMSA is defined as a legally separate stand-alone governmental entity that is not financially accountable for any component unit or any other organization. Financial activity for the agency is accounted for and reported as though it were a primary government in accordance with government accounting standards. This report is presented in three sections, introductory, financial, and statistical:

- Introductory Section: includes discussions of Board-approved major initiatives related to Agency capital projects, major maintenance activities, programs, policies, and financial operations. It also includes an organizational chart, as well as a listing of Agency officials.

- Financial Section: comprises the Independent Auditor's Report and the basic financial statements which include a Management Discussion and Analysis (MD&A), financial statements, and accompanying notes to the financial statements. The MD&A contains condensed financial statements and statement analyses, including an explanation of variations between fiscal years.

- Statistical Section: provides historical data on Agency finances, staffing, and operations, and service area demographics generally presented on a 10-year basis.

In submitting this Comprehensive Annual Financial Report, we express sincere appreciation to the Board of Commissioners for their ongoing oversight of the financial activities of the Agency, as well as their continued support of Agency staff. We also thank Agency staff for their ideas and contributions. Special acknowledgement is given to the administrative and finance staff for their efforts in preparing this report.

Sincerely,

Jason R. Dow, PE
General Manager

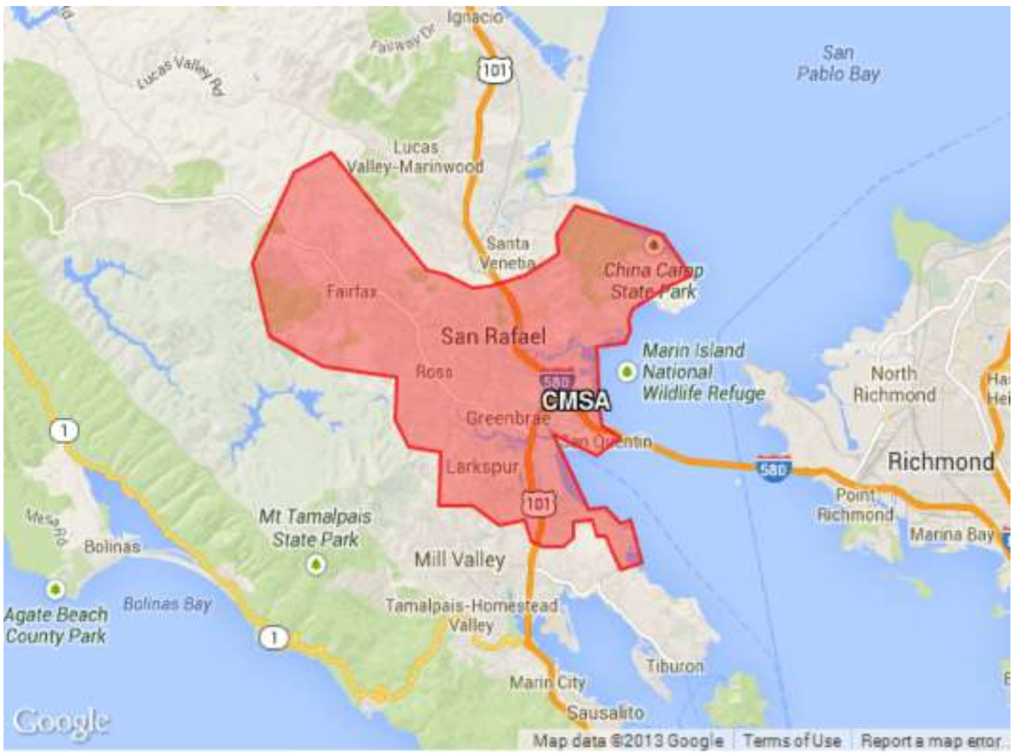
Kenneth Spray, CPA
Administrative Services Manager

# INTRODUCTORY SECTION

## LOCATION AND SERVICE AREA

Central Marin Sanitation Agency (CMSA) is a regional wastewater treatment agency that serves residents, businesses and institutions located in central Marin County. The Agency is located in San Rafael, California, adjacent to the Richmond-San Rafael Bridge. The CMSA service area is approximately 43.5 square miles, and includes the City of Larkspur, the Towns of Corte Madera, San Anselmo, Fairfax, Ross, portions of the City of San Rafael, San Quentin State Prison (SQSP) and the unincorporated areas within San Rafael, Tiburon peninsula, Ross Valley, and San Quentin Village (SQV). Marin County has a total population of 260,651. For the Fiscal Year 2017-2018 (FY 18), the Agency provided services to an approximate population of 104,500 or 52,086 equivalent dwelling units (EDUs).

The shaded area shows the location of CMSA service area.




<u>Population of Cities, Towns, and Correctional Facilities in the CMSA Service Area</u>

| | |
|---|---|
| City of San Rafael (Approximately 2/3 of the city's population) | 39,500 |
| City of Larkspur | 12,382 |
| Town of Corte Madera | 9,858 |
| Town of San Anselmo | 12,599 |
| Town of Fairfax | 7,598 |
| Town of Ross | 2,467 |
| San Quentin State Prison | 4,005 |
| Unincorporated CMSA Service Area (San Quentin Village, Greenbrae, Kentfield, Sleepy Hollow, Tiburon Peninsula) | 16,091 |

Sources: United States Census Bureau State and County Quick Facts (2010 Census), Bureau of Economic Analysis; California Department of Finance Demographic Research Census 2010 and Population Factors; Bureau of Labor Statistics

**ORGANIZATION AND BUSINESS**

In the 1970's, central Marin County had four small wastewater treatment plants whose operations were not able to meet the stringent requirements of the 1972 Clean Water Act. Four local agencies that provided wastewater services in the area, San Rafael Sanitation District (SRSD), Ross Valley Sanitary District (RVSD) of Marin County, Sanitary District No. 2 of Marin County (SD #2), and the City of Larkspur (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. SQSP, which represents the largest single customer of wastewater treatment services in the combined service area, opted not to join the JPA, but rather to contract directly with CMSA for wastewater services. The treatment facility was constructed at a cost of $84 million and was funded by federal (75%) and state (12.5%) clean water grants, as well as local shares (12.5%) from the local wastewater agencies and SQSP.

The Agency's governing body, a Board of Commissioners (Board), consists of individuals appointed by the JPA member agencies. SRSD and RVSD each have two members on the Commission while Larkspur and SD #2 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 the Agency's day-to-day 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.

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

*CMSA treats and disposes of wastewater and biosolids collected from households and businesses in central Marin County. The wastewater treatment process consists of (1) screening and grit removal, followed by (2) primary and secondary treatment processing then (3) the clean wastewater is disinfected and decholorinated before (4) being discharged into San Francisco Bay. In FY 10, the CMSA treatment facility completed the Wet Weather Improvement Program that increased the Agency's hydraulic and processing capacity from 90 million gallons per day (MGD) to over 125 MGD, and discharge capacity to over 155 MGD. The treatment* facility also produces the majority of its own electrical and heating needs by using a cogeneration system. The cogeneration system produces electricity and heats water by using methane gas that is produced by the treatment plants' anaerobic digesters.

## ECONOMIC CONDITION AND OUTLOOK

Marin County has a total population of 260,651 (source: 2016 California Employment Development Labor Market Information) with a growth rate of less than one percent annually. The county's residents continue to have California's highest average per capita income of $63,608 per household. The population growth rate and per capital household income in the CMSA service area mirrors that of the County.

Marin's 2.5% average unemployment rate is the lowest rate in California and remains below national levels (4.1%) at the end of FY 18. Six of the top ten employers as measured by the number of employees in the CMSA service area are governmental entities.

### Ten Largest Employers & Number of Employees in CMSA Service Area

| | | | | | |
|---|---|---|---|---|---|
| 1. | BioMarin | 1,700 | 6. | Restoration Hardware | 500 |
| 2. | Marin General Hospital | 1,650 | 7. | City of San Rafael | 401 |
| 3. | San Quentin State Prison | 1,600 | 8. | College of Marin | 360 |
| 4. | Dominican University | 1,000 | 9. | San Rafael Schools | 355 |
| 5. | Golden Gate Transit | 820 | 10. | Kentfield Rehabilitation Hospital | 345 |

The local housing market continued to improve during FY 18. The annual mean/median sale price for a home in Marin as reported by the Marin County Assessor Office for the year ending December 31, 2017 was $1,338,367/$1,000,000,compared to $1,271,060/$975,000 reported in December 2016. The upward trend continued January through June 2018 where the county reported $1,571,804/$1,200,000 mean/median sales data statistics for a mean home living area of 1,974 square feet.

The Agency's revenue structure is based on fee for service. The Agency invoices service charges quarterly and member agencies in turn remit the revenue to CMSA. Sewer connection fees/capacity charges are remitted upon connection to the wastewater system. In accordance with the JPA agreement, member agencies are responsible for billing and collection of sewer service charges from property owners in their service area. Member agencies place service charges on the Marin County Tax Bill, the County collects from property owners through the property tax collection system, then remits the collected revenue to JPA member agencies who in turn remit service charge revenues to CMSA.

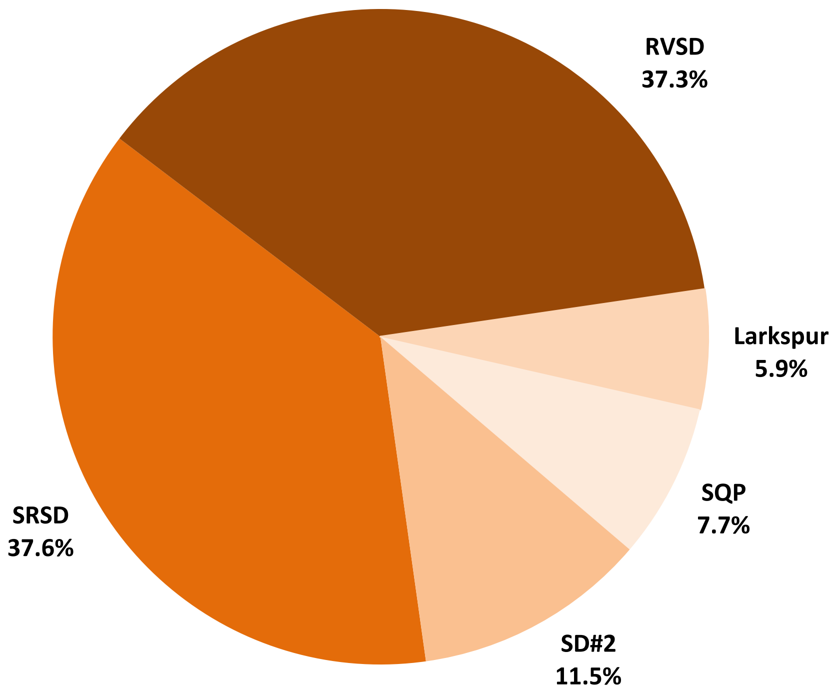
### EDU Count by Connection Types for FY 18

Source: Property Tax Reports, County of Marin

| | San Rafael Sanitation District | Ross Valley Sanitary District (RVSD) | City of Larkspur (SD#1) | San Quentin State Prison (SD#1) | Sanitary District #2 | TOTAL |
|---|---|---|---|---|---|---|
| Residential | 15,747 | 16,467 | 2,631 | N/A | 4,449 | 39,294 |
| Commercial | 3,610 | 2,485 | 402 | N/A | 1,385 | 7,882 |
| Institutional (1) | 208 | 496 | 27 | | 174 | 905 |
| SQSP | | | | 4005 | | 4,005 |
| **TOTALS** | **19,565** | **19,448** | **3,060** | **4,005** | **6,008** | **52,086** |

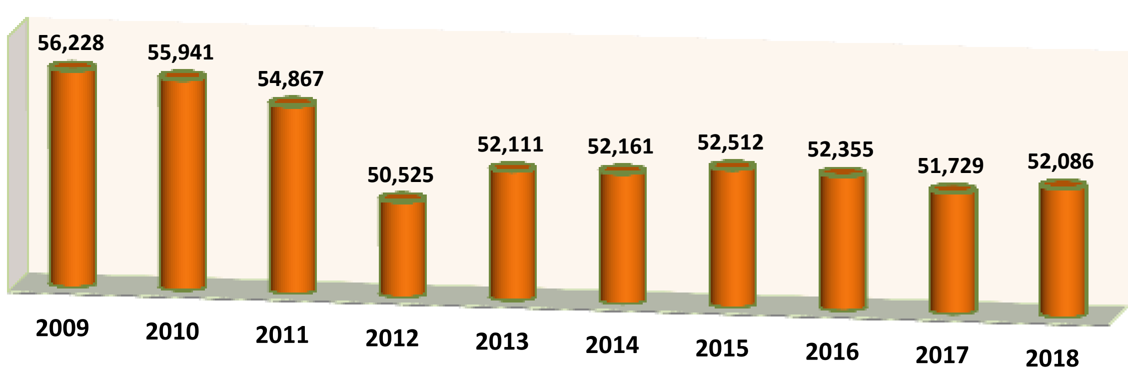
(1) Governmental entities such as federal, state, county, cities, and special districts are property tax exempt and are billed separately. EDU counts for these institutions are not included in County property tax reports and are reported separately by each JPA member.

**52,086 Total EDU by Member Agencies and San Quentin Prison as a Percentage of Total EDUs for FY 2017-18**




Sewer service connections in the service area are primarily residential, and the reported EDU is a number that remains fairly stable, as new development in the service area is minimal. Fluctuations from year to year are generally due to variable water usage by commercial properties. The chart below illustrates how the EDU count fluctuated slightly during FY 08 through FY 11.The decrease in EDU from FY 11 to FY 12 occurred as a result of a change in calculation by RVSD for SQSP and other institutional service charges during that fiscal year. Effective FY 13, CMSA entered into a wastewater services contract agreement with SQSP and CMSA is now responsible for determining the prison's EDU count. The increased EDU count in FY 13 is the result of increased residential and commercial connections in the service area. The EDU count has stabilized since then.

**EDU Totals for CMSA Service Area Fiscal Year End June 30th**



## AWARDS AND RECOGNITIONS

***Certificate of Achievement for Excellence in Financial Reporting:*** Recognition from the Government Finance Officers Association (GFOA) for the Agency's FY 17 Comprehensive Annual Financial Report (CAFR). The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting and its attainment represents a significant accomplishment by a governmental entity. This marks the sixteenth consecutive year that the Agency's CAFR has met the high standards of the GFOA for governmental accounting and financial reporting. The Agency continually strives to comply with GFOA guidelines and recommendations. All of its financial reports, including the Annual Budget, Annual Financial Statements, CAFR, monthly Treasurer's Report, and the Quarterly Budget Status Report are transparent representations of the Agency's financial operations. Each of the aforementioned reports is presented to the Board for review and acceptance, and is posted on the Agency's website (www.cmsa.us/finance).

***Outstanding Achievement in Popular Annual Financial Reporting:*** The Agency's Popular Annual Financial Report (PAFR) for FY 17 was recognized by the GFOA and received an outstanding achievement award. The PAFR Award is a prestigious national award acknowledging conformance with the highest standards for preparation of state and local government popular reports. It is specifically designed to be readily accessible and easily understandable to the general public and other interested parties who do not have a background in public finance. This marks the eighth consecutive year that the Agency's PAFR has met the high standards of the GFOA for governmental accounting and financial reporting.

***Distinguished Budget Presentation Award:*** For FY 18, the Agency's Adopted Budget received the distinguished budget presentation award by the GFOA. The award is the highest form of recognition in governmental budgeting and its attainment represents a significant accomplishment by a governmental entity. The GFOA encourages public agencies to prepare budget documents that fully explain the agency's business, are transparent, and are specifically designed to be readily accessible and easily understandable to the general public and other interested parties. In attaining this award, the Agency's budget was deemed to be proficient as a policy document, financial plan, operational guide, and communication device for the Agency's business. This marks the seventh consecutive year that the Agency's budget has met the high standards of the GFOA for budget reporting documents.

***National Association of Clean Water Agencies (NACWA) "Platinum" Peak Performance Award:*** NACWA represents the interests of the country's wastewater organizations. Members of NACWA provide wastewater treatment services for the majority of the populace in the United States, and are true environmental practitioners that collectively treat and dispose more than 18 billion gallons of wastewater each day. NACWA maintains a key role in the development of environmental legislation, and works closely with federal regulatory agencies in the implementation of environmental regulations and programs. NACWA presents annual recognition to high performing wastewater utilities through its *Peak Performance Awards* program

For calendar year 2017, CMSA received the NACWA "Silver" Peak Performance Award. The award recognizes the achievement of obtaining no more than five violations within any calendar year prerequisite upon the National Pollutant Discharge Elimination System (NPDES) permit requirements.

***California Water Environment Association (CWEA) Awards:*** The Agency was recognized by its industry peers in the CWEA Redwood Empire Section by receiving awards for various achievements in 2018. This year, the Agency applied for the following CWEA awards. Recognition of these awards will occur on January 18, 2019.

- Plant of the Year
- Safety Plant of the Year
- Engineering Achievement of the Year
- Community Engagement and Outreach, Project of the Year, Large Budget

***CWEA Staff Awards:*** Several CMSA staff members were recognized by their industry peers from the CWEA Redwood Empire Section by receiving awards in their respective disciplines in 2018.

This year, the Agency has applied for the following staff CWEA awards. Recognition of these awards will also occur on January 18, 2019.

- Outstanding Young Professional of the Year
- Electrical/Instrumentation Person of the Year
- Mechanical Technician of the Year
- Community Engagement and Outreach Person of the Year
- Pollution Prevention and Pretreatment Person of the Year
- Laboratory Person of the Year
- Operator of the Year

## STRATEGIC BUSINESS PLAN

The Agency's Strategic Business Plan (SBP) for the fiscal years ending June 30, 2017 to 2021 was adopted by the Board in July 2016. The SBP is a guide to direct the Agency in charting a strategic path to effectively maintain and improve its operations and services. CMSA's SBP has been constructed to set priorities, focus energy and resources, and guide fundamental decisions and actions that will shape the Agency for five years, in one-year increments. The fiscal year ending June 30, 2018 represents completion of the second year of the five-year plan.

The SBP contains a set of Strategic Goals developed to achieve the Board established Mission, Vision, and Values. The Board reviews the Goals annually and either reaffirms existing ones or creates new ones. Staff then prepares an annual Business Plan with associated Strategic Objectives and Actions to undertake in support of the Agency's Mission, Vision, Values, and Goals. The Agency's budget is closely aligned with the annual Business Plan, as the majority of its Actions were included in the budget development process.

***Plan Development:*** The Agency maintains a standing committee, known as the Agency Strategic Planning Committee (ASPC), to oversee the implementation of annual Business Plan activities, and develop a new Business Plan each fiscal year. The FY 18 Business Plan had 82 Strategic Actions, of which 61 were completed, 21 were ongoing (having no definable end date or are recurring), and none were delayed.

The FY 19 Business Plan was approved by the Board at the beginning of the fiscal year, in July 2018. The Plan includes 93 Actions to further the Objectives listed below as well as others identified in the SBP:

- Maintain the high performance of the treatment facility's operational processes.
- Manage the Agency's assets.
- Deliver projects from the Agency Facilities Master Plan.
- Prepare transparent financial documents.
- Plan and prepare for a bond issuance in FY 20.
- Implement steps to supply the Agency's extra power.
- Perform a digester volatile solids loading pilot study.
- Increase the Agency's energy efficiency through implementation of the power monitoring program.
- Collaborate with stakeholders on programs to comply with CalRecycle's regulations on diverting organics from landfills.
- Implement the updated Environmental Laboratory Accreditation Standard.
- Promote a culture of leadership and professional growth.
- Maintain a safe and secure work environment.

The SBP may be found at www.cmsa.us. The FY 19 SBP Year-End Report and FY 20 Business Plan will be presented to the CMSA Board in June and July 2019, respectively.

## SUCCESSION PLANNING

CMSA conducts succession planning each year to ensure the Agency is able to fulfill its mission and core values with the appropriate staff resources. To this end, the Board has authorized various activities in support of succession planning, including the creation of special positions for limited duration, the creation of temporary positions for mentoring and coaching by retiring employees, and the overstaffing of certain classifications for training and transitioning prior to an employee's retirement.

The annual update occurs by analyzing the age and length of service of each member of the workforce, and interviewing employees who meet the criteria for retirement about their retirement plans. The results of this annual update are also incorporated into the Agency's long-term financial forecast model and business plan. CMSA's workforce characteristics as of the end of the FY 18 are as follows:

- 41 full time employees, 2 open positions
- Average age is 45.4 years
- Average length of service is 9.0 years
- 16 employees have over ten years of service with CMSA
- 14 employees meet the requirements for retirement from the California Public Employees Retirement System

The Agency completed successful recruitments for three new employees and promoted one employee into a supervisory position during FY 18. These staff members were hired to fill vacancies in various classifications, including two Utility Workers, an Operator-in-Training, and an Assistant Operations Supervisor. Recruitments were in progress for a Technical Services Manager, and a Safety/Specialist Manager.

## JOINT POWER AGREEMENT REVISIONS

CMSA was formed by a Joint Powers Agreement (JPA) in 1979 and since then the JPA has been amended six times. Five of the amendments were made prior to 1990 to either clarify or update provisions after the Agency received the final construction cost reimbursements from the EPA and State Water Board. The last amendment, in 2006, extended the JPA term to 2031 to align with the term of a 2006 revenue bond issuance.

In 2016, the JPA managers reviewed the amended JPA and determined several of its provisions were outdated or not applicable, and others had been superseded by CMSA Board adopted financial and personnel policies. After that determination, through early 2017, the managers systemically revised the JPA's twenty-six provisions and then presented the preliminary proposed revisions to the CMSA Board and their respective agency Boards for discussion. Each Board agreed that the JPA needed to be revised and appointed a board representative to serve on an ad hoc JPA Review Committee, to work with the managers to prepare a new updated JPA.

At its first meeting, the committee approved a JPA review process, schedule, and plan, and set a monthly meeting to review revised and new JPA sections per the review plan. Over the course of six months, the JPA managers and ad hoc committee reviewed and revised the JPA sections per the review plan and schedule, with each completed section being presented to and accepted by the four member agency boards. Lastly, after all the revised sections were accepted, supporting attachments prepared, and a legal review final draft document completed, the revised 2018 JPA was adopted by the JPA agencies. The revised JPA accurately reflects the current state of CMSA's business and service delivery.

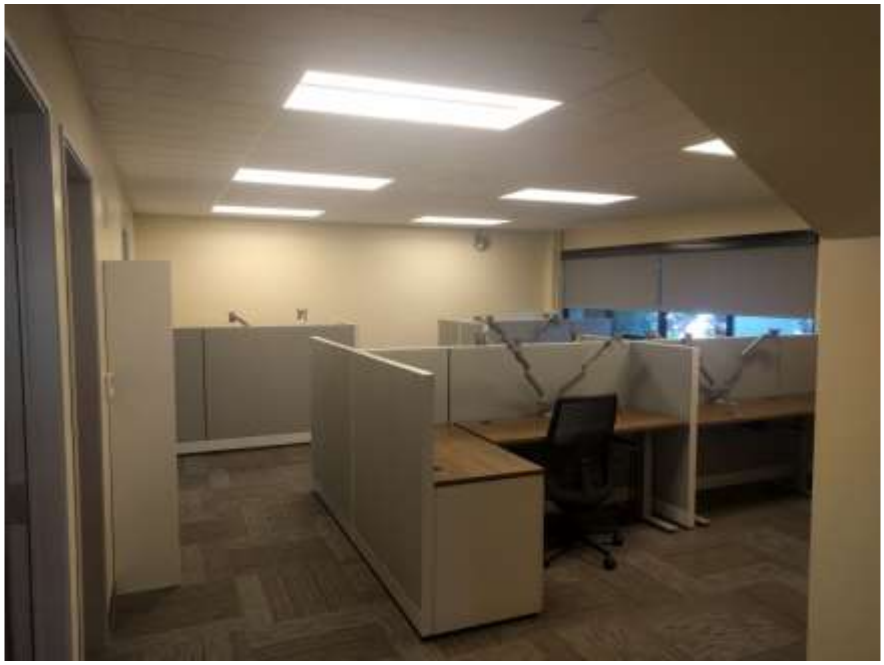
## MAJOR CAPITAL PROJECTS

Below is a discussion of the major capital projects that were underway during FY 18:

***Maintenance Facility Modifications:*** The Agency's facility includes maintenance buildings with storage space, offices, and work areas. These buildings also house tools used by Agency staff to repair various assets such as pumps, motors, and electrical equipment. Since the Maintenance Building and Maintenance Annex were constructed in 1985 and 1995, respectively, the Agency's inventory and work space needs had changed. Beginning in FY 14, the Agency began studying its office space and storage needs.

In FY 15, the Agency selected an architecture firm to prepare a formal needs assessment and to initiate the design phase of the project. In FY 16, design documents were prepared for modifications to the Maintenance Building to create office spaces and enclose the open side of the building for storage, and for construction of a new storage building adjacent to the Maintenance Annex. Grading improvements between the Administration Building and the Maintenance Building for better access were also included in the project. The design documents were approved by the San Rafael Planning, Building, and Fire Departments in August 2016.

The project was publically bid in FY 17 and a construction contract was awarded to a general contractor for $1,015,000. Construction was completed in December 2017 and the final total project cost, including design services, construction management services, architectural services during construction, and other expenses for soils testing and office temperature improvements was $1,470,389. In early 2018, maintenance and engineering staff moved into the new office spaces.



Maintenance Building New Offices

New Storage Building

***<u>Agency Facilities Master Plan</u>:*** In September 2016, the Agency contracted with an engineering consultant to develop the 2017 Agency Facilities Master Plan. A key reason for developing the plan was to have planning level information for future potential maintenance and capital projects for the Board to review, discuss, and consider including in the Agency's next multi-year revenue program. The plan included eleven technical tasks to evaluate a wide range of operational, process, and regulatory matters. These tasks included technical assessments related to equipment and facility condition, biogas utilization alternatives, organic waste receiving facility expansion alternatives, nutrient removal technology assessments, biosolids management alternatives, biosolids dewatering options, secondary treatment process operations, solar power generation, sea level rise impacts, and a treatment plant model.

The Masterplan work is completed, staff has incorporated several projects into the Agency's 10-year CIP, and the Final Report can be found on the CMSA website.

***<u>Interconnection Agreement Modification and Excess Power Sale:</u>*** Additional deliveries of organic feed stocks, such as grease and food waste, have significantly increased biogas generation in the Agency's anaerobic digesters. There were numerous days over the past year when CMSA generated enough electricity to meet the facility's power demand and could have supplied excess power to the electrical grid. As part of the Interconnection Agreement (IA) modification process, Pacific Gas & Electric (PG&E) prepared initial and supplemental review reports for its electrical transmission and distribution systems to determine the specific system upgrades necessary for CMSA to safety and reliably provide power the PG&E electrical grid.

A new IA was executed in May 2017 allowing CMSA to export excess power after the PG&E and CMSA improvements are constructed. Throughout FY 18, CMSA worked with an electrical engineer and contractor to design and construct of improvements to Agency-owned equipment to meet PG&E power delivery standards. That work is nearing completion after which PG&E will issue a Commercial Operations Date, the authorization to deliver renewable power to its system.

Concurrent with the development of the IA, Agency staff also investigated options for the Agency to sell excess renewable power to utilities, public agencies, or local businesses. In March 2018, the CMSA Board approved a Power Purchase Agreement (PPA) with Marin Clean Energy (MCE), a local energy utility.

Once CMSA receives the Commercial Operations Date from PG&E and Renewable Energy Generator Certification from the California Energy Commission, the Agency will be in position to deliver excess renewable power.

***<u>Andersen Drive Landslide Repairs:</u>*** During the major February 2017 storms, Marin County experienced historic rain and flooding. CMSA incurred multiple landslides on the eastern facing slope of the Andersen Drive hillside. The landslides filled concrete drainage ditches with soil, impeded access to a maintenance road on the hillside, and downed multiple trees.

On April 1, 2017, the President issued a major disaster declaration that provided disaster relief funding for emergency repairs and long-term restoration of damaged infrastructure. CMSA submitted a funding assistance application to the Federal Emergency Management Agency (FEMA) for the emergency work to remove landslide debris, and a subsequent funding assistance application to design and construct the permanent hillside improvements. Staff met with FEMA and California Office of Energy Services (CalOES) representatives in May and June to evaluate the landslide damage and determine the extent of the area that is eligible for repair funding.

In July, CMSA received a letter from CalOES stating the funding assistance request had been approved by FEMA. CMSA then hired a geotechnical engineering firm to evaluate permanent improvement options for the hillside. FEMA approved the alternative to construct a soldier pile retaining wall to stabilize the upper portion of each slide area and trim the slopes to conform to adjacent grades. The final construction documents are scheduled to be completed in December 2018. Subject to Board approval, the project will be released for public bidding in late winter with construction activities scheduled for early summer. FEMA's regulatory deadline to complete the permanent construction is October 1, 2019 with potential time extensions from CalOES available through April 1, 2021.

*Landslide sites on Andersen Drive with tarps for temporary weather protection*

## CENTRAL MARIN ORGANIC WASTE PROGRAM

CMSA's organic waste program is comprised of the innovative and successful Central Marin Food-to-Energy (F2E) program, where CMSA receives and processes fats, oils, and grease (FOG) from private haulers, and the occasional delivery of other organic liquid wastes, such as soy whey and brewery wastewater.

F2E was launched in January 2014, with Marin Sanitary Service (MSS) collecting pre-consumer food waste from restaurants, markets, and other similar businesses in their service area. Collected food waste is processed at MSS's local transfer station, which is approximately one-half mile from CMSA. Processing involves the removal of contaminants such as utensils, plastic containers, bones, melon rinds, metal objects, and similar items, followed by grinding the food waste into small particles. A special delivery truck then transports the cleaned ground food waste to CMSA, where it is dumped into an underground tank, mixed and processed with FOG and other liquid organic wastes, and then injected into the treatment plant's anaerobic digesters.

Once in the digesters, the organic waste mixture is co-digested with wastewater solids to produce additional biogas, a form of methane gas that is used as fuel in the Agency's power generation system. CMSA historically operated the system on biogas fuel approximately seven hours a day, producing all the Agency's energy needs during that time period. The additional biogas generated from the organic waste materials enables the Agency to run the generator longer; a future goal is to achieve full energy self-sufficiency. Attaining self-sufficiency would eliminate the need for the Agency to purchase natural gas, an alternate fuel source, and electricity from outside sources.

This collaborative and successful public-private partnership with MSS has created a program that achieves benefits both for the environment and CMSA, including diversion of food waste from the local landfill, reduction of regional greenhouse gas (GHG) emissions, reduced truck traffic on the freeway and local roads, and additional energy production at CMSA.

CMSA receives a tipping fee for each ton of food waste and gallon of liquid waste delivered, both of which assist in stabilizing wastewater service rates.

Below is a summary of several noteworthy organic waste program activities and developments over the past couple years:

- The F2E program is fully supported by elected representatives and staff from the cities and towns in the MSS and CMSA service areas, as well as by the Marin County Board of Supervisors, regulatory agencies, and environmental groups.
- Since January 2014, MSS has enrolled 210 businesses in the F2E program.
- Mill Valley Refuse, a solid waste hauler operating in southern Marin County, has initiated its own F2E program where it collects food waste from grocery stores, and transports the material to MSS for processing and then delivery to CMSA.
- CMSA currently receives approximately 7.5 tons of food waste per day, up to 25,000 gallons of FOG per day (except Sundays).
- The mixture of food waste, FOG, and other organic materials produce enough additional biogas to run the energy generation system up to an average 23 hours per day.
- CMSA and MSS prepared a new 5-year F2E program agreement, and in September 2017, it was approved by the CMSA Board.

## WASTEWATER SERVICE AGREEMENTS FOR CMSA-PROVIDED SERVICES

CMSA provides contractual services to several local agencies in Marin County for a variety of wastewater related services. These arrangements benefit both the local agencies and CMSA. For the local agency, it is more cost-effective to utilize CMSA staff expertise and resources than hiring contractors or consultants. For CMSA, the revenues incrementally reduce the amount of wastewater service fees charged to our customers. Services that CMSA provides include operating, maintaining, and monitoring wastewater pump stations and forcemains, operating and maintaining sewer collection systems, and regulating commercial and industrial businesses that discharge to the sewer system, protecting both the businesses and the environment.

The Agency's five-year Strategic Business Plan supports the Agency providing these services when CMSA has the available resources and the service will result in financial and organizational benefits to both parties. Noteworthy activities and projects this past fiscal year are noted below.

***San Quentin Prison Pump Station (SQPS):*** CMSA and the California Department of Corrections and Rehabilitation (CDCR) executed a five-year Wastewater Service Agreement that became effective on July 1, 2014. A provision in the contract required CMSA to perform a comprehensive evaluation of the San Quentin main pump station (equipment, structure, lighting, and emergency standby generator), and its 16-inch forcemain. The assessment was completed and its findings were used by CMSA to prepare a multi-year prioritized capital improvement plan (CIP) that was approved by CDCR. CMSA has completed all of the scheduled FY 18 projects. A brief summary of the two main projects is below.

- Flow Meter Replacement: Agency technicians noted in January 2016 that the flow meter serving the SQPS was beginning to fail intermittently, losing flow data. To correct this issue, the meter would have to be powered down, cycled, and returned to service. A new in-kind replacement meter was purchased in September 2016 but the early arrival of the wet weather season prohibited installation at the time. In August 2017, CMSA technicians removed the existing 12" magnetic flow meter and a failing 4" wet well isolation valve and replaced both items with equivalent new components.
- Motor Relocation: The Agency hired a mechanical contractor to relocate the shaft-driven motors for all three pumps to the lower level for easier maintenance and to eliminate risks related to exposure to rotating equipment. In order to keep the pump station fully operational, only one motor could be relocated at a time. From initial shut down of the first pump to full operation of the last pump, the work was swiftly completed in two weeks and within the original budget.

***San Quentin Village Sewer Maintenance District:*** In September 2017, the County of Marin authorized the Agency to oversee a project to treat the collection system with an herbicide to remove intrusive roots. In October, the Agency hired a contractor to root foam approximately 1,950 linear feet of 6" and 8" diameter gravity sewer pipelines and one manhole.

In June 2018, the Agency hired a septage hauling company to vacuum clean the Heron Court pump station wet well, and clean and conduct a closed circuit television (CCTV) inspection of the gravity sewer pipelines. The investigation's primary purpose was to look for additional water (down spouts, pool drains, cracks in pipes) other than household wastewater entering and impacting the sanitary sewer system. Sewer piping was surveyed utilizing a remote camera, and several private laterals, (the sewer pipe from a house to the sewer line), were documented as having noticeable water intrusion. A report of findings and video documentation was provided to the County of Marin for their review and use.

## ASSET MANAGEMENT PROGRAM AND RELATED PROJECTS

Major asset maintenance and replacement projects completed or in progress during FY 18 are detailed below.

***Inventory Project:*** The Agency has a maintenance management system in place for effective life-cycle management of Agency-owned capital assets. From initial purchase or construction and through the use of work orders, the system tracks the total cost of owning, operating, and maintaining most all capital assets utilized in the operation of the wastewater treatment facility. An area of vital importance to the maintenance management system is readily available and adequate spare parts and supplies inventory. Agency maintenance staff has diligently worked to find the optimal level of inventory and set up well functioning methods of tracking and maintaining inventory. These methods include dedicated storage buildings, strategically located parts stores to service critical equipment, assigned shelves and bins to keep parts separate and not commingled, part number labeling, the maintenance management system adds new parts to inventory, and work orders remove parts from inventory. Agency maintenance staff is pleased to announce that the inventory project for the maintenance management system is complete and in place, and spare parts inventory has been added to the balance sheet as an asset.

***Aeration Tank Gate Replacement***: This past year, staff worked to realign, adjust, and apply a spot repair to a large sluice gate that is used to isolate flow leaving an aeration tank. After the repair, water was still leaking back through the gate, so technicians installed a spare gate from inventory at the same time a secondary clarifier 4 was out of service for its annual maintenance. Completing both tasks at the same time allowed the Agency to avoid a process flow diversion as both the basin and clarifier are designed to work in conjunction as part of normal operations.

***Sodium Bisulfite (SBS) Metering Pump Refurbishments:*** Over a five month period, the Agency dechlorinated approximately 3.1 billion gallons of water prior to its discharge into San Francisco Bay. Our dechlorination system pumps are required to work under a wide range of flows to completely dechlorinate the final effluent, and they need to be periodically inspected to verify operational and mechanical integrity. This task coincidently coincided with an Agency improvement project to completely rehabilitate these pumps. Five SBS metering pumps were removed from their mounting bases, one at a time, and the pump heads were disassembled, inspected for wear and corrosion, and new replacement parts were installed. After rebuilding the heads, the pump housings were coated with chemical resistant coating, reassembled, and new lubricants added.

***Aeration Fine Bubble Diffuser Replacements:*** The aeration system uses EPDM membranes (synthetic rubber) to diffuse fine bubbles of air into the aeration tanks. The diffusers have a service life of approximately five years, after which they are replaced and properly disposed. Staff replaced a total of 720 diffusers (180 diffusers per tank), and inspected the air supply piping and fittings, making these critical process tanks ready for another five years of service.

***San Quentin Prison Pump Station Flow Meter Replacement:*** Over the past year, the originally installed San Quentin Prison pump station flow meter had become less reliable and staff was spending additional maintenance time to keep the meter operating properly. The meter replacement was performed during the night, in coordination with San Quentin engineering staff and two specialty contractors, to limit disruptions to prison operations. Agency staff performed the removal and installation of the new meter as vacuum trucks removed water from the upstream collection system and the pump station's wet well. Once the old meter was removed, an engineering company performed wall thickness evaluations on the forcemain piping within the pump station, and determined the pipe thickness was sound.

***Secondary Clarifier Pipe Corrosion Repair:*** During the Agency's Masterplan condition assessment work, the assessment team discovered severe corrosion on the return activated sludge (RAS), scum, and tank drain pipes for secondary clarifier No. 3. All three pipes are located in an extremely small corner sump in the pump room below the clarifier. Corrosion engineers were called in to evaluate the extent of the corrosion, and they recommended immediate corrective action. A mechanical contractor that has worked on several Agency projects performed the rehabilitation work. The severely corroded metal was removed, and concrete around the outside of the pipes was chipped back and removed to expose sound metal for welding. Agency staff was charged with developing short- and long-term system operating plans and overseeing the work. The pipes were successfully repaired and the clarifier was returned to service.

***Outfall Sluice Gate Electric Actuator Replacement:*** During high flow and high tide events, a sluice gate at the entrance to the 84" outfall closes and the chlorinated effluent is routed to an effluent pump station, allowing the Agency to discharge large volumes of treated water that exceed the capacity of the gravity outfall. Functional testing of the sluice gate asset is performed twice annually due to the corrosive environment in which it operates. In FY 16 staff inspected the motor operated valve (MOV) that raises and lowers the sluice gate, and noted that the valve body required an industrial coating to prevent further oxidation, and internal electrical components were also showing signs of exposure to moisture. In FY 18, a new MOV was procured and installed by staff. The replaced unit was sent back to its original manufacturer for refurbishment, and once this work was completed, the rehabilitated MOV became the critical spare. Moving forward, this equipment will be placed on a two-year preventative maintenance cycle which includes a factory service.

***Slurry Mixing Pumps:*** The organic waste receiving facility utilizes two pumps, typically one operating at a time, to mix the organic materials into slurry that is pumped to the anaerobic digesters. This past year, during routine preventative maintenance, technicians noted that internal wear and tear on both pieces of equipment had reached the point that replacement was warranted. CMSA receives animal and plant based organic wastes that are taxing on processing equipment, requiring their regular maintenance. To address this, staff worked with the pump manufacturer to put develop an equipment specific "replacement assembly" that allows removal and replacement of targeted high wear sections of the pump, versus purchasing an entirely new pump and motor package. This cost-effective approach streamlines the equipment change-out process and reduces labor costs.

***Piping Expansion Joint Replacement Project:*** Expansion joints are short sections of molded rubber that connect piping together at various intervals to allow for movement or expansion. A majority of the Agency's expansion joints can be found in the underground galleries connected to long runs of piping. Most were installed as part of the facility's original construction in 1984, and all of these joints were assessed and found to be nearing the end of their service lives. In FY 17, a multi-year project began to replace these joints as part of routine annual facility maintenance work. This past fiscal year, nine expansion joints, all within the gallery system, were replaced. Each joint was custom made to ensure a proper fit and proper application. This project will be ongoing for the next several years to replace over 100 joints throughout the treatment plant.

***New Influent Samplers:*** The Agency utilizes samplers to collect raw wastewater coming into the facility which is tested for various constituents. The challenging environment where this equipment is located, combined with technology obsolescence, typically limits the sampler's useful life span to about ten years. Recently, staff completed a project which involved replacing the existing samplers, rehabilitating the sample delivery pumps, and removing the remains of previous generations of samplers, wiring, piping, and instrumentation. This project was performed in stages with the cooperation of several departments, resulting in uninterrupted facility operation. Staff also rebuilt the pumps providing water samples to these new units and replaced their original base frames with stainless steel to reduce corrosion.

***New Process Control Samplers:*** These new sampler installations provide staff the ability to increase monitoring throughout the facility providing better process control analysis. These process control samplers were installed at the primary effluent, biotower and secondary effluent locations. Staff removed the remains of previous generations of samplers, wiring, piping, and instrumentation and installed new sample delivery, wiring and instrumentation. This project was also performed in stages with the cooperation of several departments, resulting in uninterrupted facility operation.

***Heat Exchanger Replacement:*** The facility's cogeneration system is a combined heat and power system that utilizes three separate heat exchangers. The waste heat exchanger uses reclaimed water to draw heat away from the coolant that circulates through the engine. In May 2017, during a routine inspection, staff noted a pinhole leak developing on the discharge end of the exchanger. The leak was repaired, but staff noted several rust perforations after removing the insulated protective cover. In December 2017, after the peak power demand season and prior to shutting down the engine and isolating this system, staff installed lifting points in the ceiling above the heat exchanger and prepared the unit for removal. Advanced preparation for this work saved considerable time, and technicians replaced the exchanger and returned the cogeneration system to service in less than a day.

***Hot Water Pump Replacement Project:*** Heated water from the cogeneration system's primary heat exchanger is circulated through sludge heat exchangers to keep the facility's anaerobically digested sludge temperature at an optimal 100°F. A condition assessment was performed in 2016 on the hot water loop's equipment, and based on the assessment's findings, a project was scheduled to replace key pieces of equipment and complete needed repairs. In February 2018, both recirculation pumps were replaced along with four isolation valves and associated equipment. Once this work was completed, equipment and process pipe lines were painted with a rust-inhibiting coating.

***Biogas Scrubber Vessel Media Replacement:*** Prior to biogas being used as a fuel in the cogeneration engine, it requires a level of cleaning in order to meet Bay Area air quality fuel standards. The first stage of the cleaning process is the removal of hydrogen sulfide gas utilizing a media scrubber. The media used in these scrubbers periodically require replacement as it removes H2S from the gas stream. This past year, and prior to the peak power demand season, a contractor was hired to perform the media exchange. Work consisted of purging the vessel of methane, removing both vessel service ports, and completing a confined space entry to chip and vacuum out 22,000 pounds of media. Once the vessel was empty, new media was installed along with a new filter element which keeps loose media from entering the gas piping. This process took approximately two days to complete. The contractor then off-hauled the old media for regeneration, and the unit was returned to service.

***Solids Handling Building Ferric Chloride Tank Replacement:*** Ferric chloride has several uses in the solids handling processes including pipeline struvite control, hydrogen sulfide reduction in the anaerobic digesters, and as a flocculent/coagulant in centrifuge dewatering operations. This past year a project was completed to rehabilitate the Solids Handling Building's Ferric Chloride handling facility. To limit disruptions to area operations, a temporary ferric chloride storage and conveyance system was installed that utilized a series of small, 250 gallon storage containers to supply product to equipment during the system rehabilitation work. This work included emptying and removing the old tank and its attached piping, rehabilitating and recoating the concrete containment structure, installing a new 6,500 gallon polyethylene tank, installing double-walled supply and discharge piping, and installing electronic level indicating equipment. Once the new tank was placed, it was tested for leaks, and earthquake restraints and hazard ID placards were installed.

## NEW DISCHARGE PERMIT IN DEVELOPMENT

This year CMSA received a new NPDES permit with the San Francisco Regional Water Board (RWB) containing all the regulatory requirements, limitations, and authorization for CMSA to discharge treated water to the San Francisco Bay. CMSA was able to successfully negotiate this new permit with CMSA permit limits remaining relatively unchanged, while permit monitoring requirements were reduced. The new permit was issued on March 1st 2018 and has a five-year term. CMSA staff believes that the new permit requirements are reasonable and that the Agency can comply with the various sampling, monitoring, and reporting requirements. CMSA has been in full compliance with the new NPDES permit since it was issued.

An important provision that was included within the permit is the authorization to continue wastewater blending during wet weather events for this permit term, without a requirement to perform planning, design, or construction of new treatment infrastructure to reduce the frequency and/or volume of blending events. The RWB authorized this blending provision by making a determination that the only feasible alternative to reduce blending is to require CMSA's JPA member agencies to implement sanitary sewer system infiltration/inflow (I/I) reduction activities over the permit term. Towards this goal, each JPA agency that owns and operates a wastewater collection system was added as a co-permittee in the new CMSA permit and was given specific I/I project requirements which are listed in the permit. CMSA is also required to perform the following tasks over the course of the permit term to reduce blending: replace influent flow meters for improved flow monitoring, report on the JPA member agencies' I/I installation work in CMSA's annual Self-Monitoring Report, and continue to report blending events on the CMSA website.

## ENVIRONMENTAL COMPLIANCE PROGRAMS

The Agency's NPDES permit includes a federally mandated Pretreatment Compliance Program and a state RWB mandated Pollution Prevention Program. The purpose of each program is to regulate businesses and industries that discharge waste into the wastewater collection system so the discharged water will not detrimentally affect the CMSA treatment processes and biosolids quality, or the cleaned water that is discharged into San Francisco Bay. There are three dischargers in the CMSA service area that are regulated under the Pretreatment Program. CMSA staff performs the required monitoring of these dischargers at least quarterly, and conducts an annual comprehensive inspection of each business to ensure their wastewater meets stringent discharge limits.

The Agency's Pollution Prevention Program regulates smaller dischargers that could cumulatively impact the overall biosolids and final treated water quality. All of these dischargers are inspected at least annually, and wastewater samples are collected and tested to ensure that they meet discharge limits. CMSA has one of the most comprehensive programs in the San Francisco Bay Area in terms of the inspections conducted and water sampling frequencies. The Pollution Prevention Program has been recognized locally, regionally, and at the state level as an important component of the Agency's award-winning public education and outreach program. During FY 18, the Agency continued to perform annual inspections of all industrial dischargers, dental offices covered under the Mercury Source Control Program, as well as all restaurants covered under the FOG source control program.

***Mercury Reduction Program:*** The regional Mercury Watershed Permit requires a reduction of mercury discharges from all controllable sources to the San Francisco Bay. The permit's goal was to eventually, over decades, lower the mercury concentration and sediment in San Francisco Bay water, and mandates a 20% mercury reduction by 2018. It specifically states that wastewater agencies must regulate dental offices using source control techniques, because dental amalgam (~ 50% mercury) used to fill cavities in teeth is the largest controllable source of mercury discharged to the sanitary sewer in unindustrialized areas. Amalgam use has steadily declined in recent years with dentists using porcelain and plastic alternatives, though evidence shows that even if a dentist does not use mercury amalgams, the compound is still discharged in very significant quantities during removal or repair of mercury amalgam fillings.

CMSA's Mercury Reduction Ordinance requires dental offices to install and maintain of dental amalgam separators, and to properly handle and dispose of dental amalgam. All dentists within the CMSA service area have installed the required dental amalgam separators as required under the ordinance. During the annual compliance inspections, Agency staff determines the amount of amalgam that is removed from the waste stream in the dental offices, and that information is reported to the RWB. In 2017, 16.7 pounds of mercury were removed and properly disposed within CMSA's service area.

***Novato Sanitary District (NSD) and Las Gallinas Valley Sanitary District (LGVSD) Mercury Reduction Programs:*** NSD and LGVSD contracted with CMSA to set up and maintain dental amalgam programs to control the release of dental amalgam to their service areas. The programs are similar to the program implemented at CMSA that has been recognized for our outreach, annual compliance inspections, and comprehensive record keeping. Compliance inspections show that all dentists were in compliance with program requirements. In total, the programs were responsible for the removal of 19.25 pounds of mercury last year.

***FOG Control Programs*:** CMSA has served in a consultative capacity to assist local wastewater agencies in the development and implementation of FOG source control programs within their jurisdictions. The goal of the FOG programs is to reduce sewer blockages and prevent sanitary sewer overflows caused when grease is discharged directly into sanitary sewers. When FOG is improperly disposed it can build up, and if unchecked over time, can harden, combine with sand, roots and debris, and clog the sewer system. Many of the smaller wastewater agencies in Marin County do not have the trained staff resources to administer a comprehensive FOG control program for their jurisdiction.

Local agencies that retain CMSA to manage and administer their FOG control programs utilize CMSA staff to perform required permitting, inspection, and enforcement activities of the food service establishments (FSEs) operating in their jurisdictions. CMSA has developed and implemented FOG control programs for the Las Gallinas Valley Sanitary District, San Rafael Sanitation District, Ross Valley Sanitary District, Sanitary District #2 of Marin County, Tamalpais Community Services District, and Almonte Sanitary District in Southern Marin. All of the programs listed above include routine inspections; documentation of grease removal device cleaning; and requirements to install grease removal devices for new restaurants, those undergoing a remodel, or a change of ownership involving upgrades to the kitchen plumbing or fixtures.

## REGULATORY INSPECTIONS BY FEDERAL AND STATE REGULATORS

***NPDES Permit Inspection:*** The RWB conducted an inspection on February 15, 2018 of the Agency's facility, the laboratory, and its NPDES reporting files. The final inspection results were issued and indicated that the CMSA facility was well maintained by staff and that NPDES reporting files were in order. No audit findings or recommendations were provided with this inspection.

***NPDES Pretreatment Compliance Inspection:*** The RWB conducted a Pretreatment Compliance Audit in FY 17, to verify the Agency's compliance with requirements specified in the Federal Pretreatment Regulations and requirements specified in our NPDES permit. The inspectors visited two industrial facilities that CMSA regulates, and reviewed our records and procedures. The final inspection results were issued and recommended several revisions to the Agency's Sewer Use Ordinance. Agency staff are currently revising the Ordinance and anticipate its adoption by the Board by the end of 2018.

## PUBLIC EDUCATION

As the lead agency in administering the county-wide public education program for the six Marin County wastewater agencies that have treatment plants, CMSA continues to be innovative in developing public outreach measures to educate the general public of ways to reduce pollutants into the sanitary sewer and storm drain systems. Public outreach activities for the past year are summarized below.

***Pharmaceutical Take-Back Program:*** For many years, the Agency has provided financial support to the Marin County Pharmaceutical Take-Back Program which reduces the amount of unused pharmaceutical products from being discharged directly into the sanitary sewers. In

Marin County, 9,000 pounds of unused pharmaceutical products were collected and properly disposed in calendar year 2017.

***Outreach Events:*** CMSA participated in many Marin County public education and outreach events including the Marin County Fair, Earth Day at Marin Academy, Fairfax Ecofest, Spring Marin Home and Garden Expo, Trunk or Treat, Scream on the Green, Novato Business Showcase, Wetlands Days in Mill Valley, and local farmers markets around the county for Earth Day and Pollution Prevention Week. A total of 3,473 environmental quizzes were administered to both adults and children that visited the outreach booths, to educate them about pollutants, what is safe to flush down the drain, and the proper use of storm drains. Participants who took the quiz received a prize and gained valuable knowledge on sustainable pollution prevention practices.

***School Presentations and Performances:*** CMSA staff coordinated school outreach programs that reached 3,288 elementary school students in Marin County. The program consists of an interactive and entertaining performance that educates students about what happens to water after it goes down household drains. The show includes juggling, comedy, and magic acts to teach the students about wastewater and other sanitation issues, and promotes awareness of our most precious natural resource, water. Environmental Services staff also visited classrooms to educate students about wastewater treatment at Ross Elementary School, Marin Academy, and Marin School of Environmental Leadership high school program.

## WORKPLACE SAFETY INITIATIVES

***Health & Safety Program***: CMSA and the Novato Sanitary District partner in a collaborative Health & Safety Program. The program focus is to promote and assist each agency in developing and maintaining workplace safety programs, while managing employee injury/return-to-work initiatives. The program includes providing employee safety training, developing and maintaining safety policies and procedures, performing safety assessments of facilities and employee work practices, monitoring changes in Cal/OSHA safety regulations, and providing a variety of other safety services.

Since inception, the program has been very successful, and has received favorable reviews by the California Sanitation Risk Management Authority (CSRMA) and the Californian Water Environment Association. Over the past year, the safety manager resigned and NSD/CMSA completed a successful recruitment and hired a Senior Safety Specialist to work with the Program’s Safety Director.

***Safety Incentive Program***: The CMSA Safety Incentive Program was designed to enhance overall employee safety through active employee participation. It involves acknowledging employee contributions in several of the key aspects of a sound safety culture, and awards points for employee contributions in providing hazard alerts, safety suggestions, leading tailgate training sessions, and participating in outside (non-required) safety training activities such as webinars and conferences. At the end of the fiscal year, employees are awarded monetary awards for achieving specific point levels.

CMSA developed a tracking system to collect participation metrics to provide valuable documentation for demonstrating longer-term regulatory compliance. Program data for FY 18 shows continued robust participation in training and formal safety communications.

- Tailgate Training: Initially, tailgates averaged one tailgate session every two months, and included nominal employee participation. Each year, employee participation continues to grow, and for FY 18, it increased to 15.6 tailgates per employee from 12.8 in the previous year. Since FY14, CMSA employees have led an average of 21 tailgate training sessions per year.
- Communications: Hazard alerts and safety suggestions are submitted on a Health and Safety Communication Form for evaluation. These suggestions are then reviewed for implementation, and can include correction of a hazard or development of a new safety policy. Since FY 18, an average of 34 Health and Safety Communications were submitted for review and action.

The total incentive program points that are earned by each employee provides a fair indication of the level of participation in the program. The number of employees qualifying for awards increased by 7% in FY 18.

***Safety Training***: In addition to informal safety “tailgate” sessions, the Agency provides continuous reinforcement of proper safety procedures with regular, formal safety training. This formal training, unless required or warranted more frequently, is refreshed every three years. For scheduling purposes, the required Safety training is placed into a 48-month training plan to accommodate 12-, 24- and 36-month renewal cycles, with make-up training provided on an ad hoc basis. In FY 18, CMSA conducted 30 formal safety training sessions on 15 separate topics, including confined space entry, blood borne pathogens, first aid and CPR, Bobcat industrial truck safety, hearing conservation, traffic control, and many others, which, combined with tailgates added up to a total of 404 training-hours.

## HUMAN RESOURCES, FINANCIAL MANAGEMENT, AND LONG-TERM FINANCIAL PLANNING

The Agency undertook the following initiatives to address its business practices and long-term financial stability for the FY 18 and beyond.

***Operations Control Room Transformed:*** The Maintenance Facility Modifications Project, previously discussed in the major capital projects section, was completed during FY 18. The engineering staff relocated to the remodeled maintenance building last spring, and their old office in the Administration Building was repurposed and outfitted as the Agency’s main operations control room. Control rooms serve as a central space where both on-and-off-site facilities can be monitored and controlled via computer. This move required extensive remodeling, wiring upgrades, and furniture layout design and installation. Eleven operations staff members, on three shifts, share this space which is equipped with multiple electronic displays, communications and network software, and enhanced desk space for individual project work. This space replaces the original control room, a busy open corridor that also doubles as the facility's main network server room.

***Facebook Live***: CMSA now has a live Facebook page. With help from a communications consultant, project team members developed key messaging for engaging and sharing information and ideas with stakeholders, partners, and the public. The page follows a variety of local and related entities. We will continue to add photos, posts, and videos to highlight the exceptional work we do and how we engage our customers. Visit us at https://www.facebook.com/centralmarinsa/

***Policy and Procedure Review:*** CMSA regularly reviews its Personnel, Financial, and Administrative Policies and Procedures. Each set of policies is reviewed every three years. The review of Administrative Policy was completed during the fiscal year 2018 as a carryover from the previous year, and the review of Financial Policy Manual is underway and set for completion in FY 19. These reviews benefit the Agency through keeping up-to-date with ever changing laws, rules, and regulations, and changes in the use of the policies as they relate to practical work situations.

***Pension and Other Post Employment Benefits (OPEB):*** Retirement costs have come under scrutiny in recent years due to increasing costs in connection with the California Public Employee's Retirement System (CalPERS). Total employer pension obligation has been reduced for new employees hired after January 1, 2013 under what is known as PEPRA, Public Employees' Pension Reform Act. CalPERS is now essentially a two-tiered system for Classic members hired before January 1, 2013 and PEPRA for those hired on or after January 1, 2013. CalPERS continues to revise its actuarial assumptions, such as the discount rate and life expectancy, among others, that often leads to increased employer contribution rates. Because of the sensitivity of rates and their relationship as a percentage of revenue, the Agency has elected to disclose this information on its website for transparency. Approximately 30% of Agency employees were hired under the lower-cost PEPRA plan.

One of the requirements of a recent governmental accounting pronouncement, GASB 68, is to reflect a liability for total pension obligation on the face of the balance sheet and for increases or decreases in the obligation to flow through the income statement. Differences between the total change in obligation and actual cash paid are an accounting procedure known as accruals. For transparency, the Agency will describe details of significant cash versus accrual items when they occur to ensure clarity for large changes in benefits expense.

The Agency provides other post-employment benefits (OPEB) for eligible employees also on a two-tiered basis. Tier-1 employees hired before July 1, 2010 receive a fully paid lifetime medical insurance benefit for the employee only, while Tier-2 employees hired after July 1, 2010, may receive a lifetime medical insurance benefit, currently in the amount of $133 per month and adjusted annually thereafter, with the remainder of the monthly insurance premium paid by the retiree. During active years, tier-2 employees also receive an employer provided health savings account (HSA) used to accumulate funding to pay for medical costs after retirement. The Agency contributes 1 ½ percent of gross base salary to the HSA plan that is not taxed as compensation upon transfer to the trust or upon receipt of benefits from the trust.

The Agency is subject to the provisions of a new accounting pronouncement known as GASB 75 that became effective for the fiscal year 2018 for its post-retirement health care plan. Similar to pension, the total obligation for the OPEB plan will be reflected as a liability on the balance sheet. The plan currently is approximately 50% funded with an unfunded liability remaining in the amount of approximately $2.1M. Increases or decreases in the obligation will now flow through the income statement and, if material, will be described in its two components of cash payments made as well as non-cash accruals recorded. For transparency, the Agency has also elected to post its OPEB actuarial valuation reports on the website.

***Future Revenue Planning:*** The Agency updates a 10-year financial forecast each fiscal year to accompany the annual budget. These forecasts are a long-term budgetary examination of Agency operations and program revenues, operating expenses, capital costs, and reserve balances. The examination is the result of a collaborative process between Agency staff and the CMSA Board Finance Committee. It provides a strategic perspective to guide the Board in making decisions on the direction for future budgets, revenues, and funding and uses of Agency reserves.

The prior five-year revenue plan for the FY 13 to 18 closed, and a new five-year revenue plan for FY 19 to FY 23 was established and incorporated into the 2019 budget. During the new plan's development, staff met with the Finance Committee several times to evaluate funding options for the operating and capital programs, and formulate a recommended program for presentation to the full Board. Operating program revenue is funded by discretionary regional service charges, contract service fees, other non-capital general sources, and general operating reserves, which are maintained at 25% of operating expenditures. Operating expenditures escalate from the base year by estimated general increases for pro-forma, annual reasonable costs. The Capital program is funded by capacity charges, a debt service coverage charge, a discretionary capital fee, and general capital reserves. The revenue program is fixed for the five-year duration unless unforeseen or unanticipated circumstances arise. Scheduled increases for regional service charges are set at 3.5% annually for the duration of the five-year revenue plan.

***Future Debt Planning:*** The Agency is considering to issue debt in either the FY 20 or FY21 to finance construction of certain large capital projects. The new debt issue was contemplated in conjunction with the Finance Committee at the time of the 2019 budget preparation, and it will consist of construction funds estimated at approximately $9M for certain specific capital projects, plus a provision for costs of issue. The amount of annual debt service will be set as of transaction close depending upon such factors as the debt principal amount, the repayment term, the interest rate, and credit worthiness. The estimated increase in debt service is included in the financial forecast and budgeted in the five-year revenue plan.

**FINANCIAL INFORMATION**

***Accounting System and Budgeting Controls:*** The Agency's management team is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, management staff makes decisions to assess the expected benefits and related costs of control procedures. The objectives of the system are (1) to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and 2) to ensure that transactions are executed in accordance with management and Board authorization, and are properly recorded in accordance with generally accepted accounting principles (GAAP). CMSA believes that its internal accounting controls adequately address both goals.

CMSA is a regional utility plant organized as a joint powers agency to provide wastewater treatment services to four member agencies. CMSA accounts for its financial activities in a single enterprise fund charging for services to members based upon flow and strength contribution to the wastewater system. Members charge user fees to service connections within collection system areas. The Agency's account structure, insofar as is practical, and in accordance with GAAP, follows the California State Controller's System of Accounts for a Waste Disposal Enterprise. This is a set of procedures that provides general accounting and reporting guidelines to be used by all California Special Districts performing waste disposal enterprise activities.

The Agency's Board of Commissioners adopts an annual budget to serve as the approved financial plan for the fiscal year. Provisions within the JPA agreement authorize the Board to set the regional service charge assessed on the JPA member agencies. Total revenues received by CMSA from the JPA member agencies, as well as other revenue sources, fund the Agency's annual operations, capital programs, and debt service. The budget is used as a key control device to: (1) ensure Board oversight for operations and capital expenditures, and (2) monitor expenses and project their progress. All operating and capital activities of the Agency are included in the approved annual budget, along with a 10-year capital improvement program and 10-year financial forecast model.

***Financial Condition:*** The maintenance of adequate cash reserves is an essential element of the Agency's prudent financial management practices and a key component of the Agency's sound financial position. An appropriate level of reserves ensures that resources are available for unforeseen emergencies, future capital improvement projects, and unanticipated revenue fluctuations. The Board has adopted a comprehensive reserve policy that includes specific guidance on reserve designations, funding levels, and the accumulation and uses for the established reserves. The accumulated balance in each reserve designation is reported in the monthly Investment and Treasurer's Report to the Board and is available in the Agenda Packet posted on the website at http://www.cmsa.us/board/agendas-and-minutes.

***Cash Management:*** The Agency utilizes the services of (1) the Local Agency Investment Fund (LAIF), (2) Westamerica Bank, and (3) California Asset Management Program (CAMP) to manage its cash and cash equivalent assets. LAIF is a pooled investment fund, administered by the Office of the State Treasurer of California and available to California local government agencies. LAIF investments are considered liquid and provide competitive short-term rates. Westamerica Bank serves the Agency's general banking requirements in processing the Agency disbursements and receipts.

Additionally, the Agency also invests some or a portion of its budgeted reserves in CAMP. CAMP is a Joint Powers Authority established in 1989 to provide professional investment services to public agencies at a reasonable cost. Specifically, CAMP offers its investors a money market trust for the investment of public funds.

**FINANCIAL INFORMATION** (Continued)

Total interest income earned and recognized during FY 18 was $218,516, an increase of $105,431 over FY 17. The increase is attributable to a rise in historically low interest rates on cash balances held in LAIF and CAMP.

***Agency Funding:*** The Agency began its FY 18 annual budget development process with the review of the funding requirements for salaries, benefits, materials, supplies, debt service, reserves, and capital project activities. It next assessed the different sources of revenues to fund those requirements. Regional service charges to JPA member agencies and the contract services revenues received for providing wastewater services to SQSP account for the two major sources of Agency revenues. These are set annually by the Board or through contract agreement. Guided by Financial Policy #520-Revenue Management, the Agency allocates sewer service charges to each JPA member agency based on their respective volume and strength of delivered wastewater treated. This methodology represents a measurable and fair assignment of treatment costs, using the cost-of-service principal as applied, to measure influent flow received from each JPA member.

An EDU rate of $95.16 was used to allocate debt service to each JPA member agency. Historic EDU rates for the last ten years are displayed in Schedule 8 of the Statistical Section. During FY 18 the Agency received a total of $10,893,165 for sewer service charges and $4,952,382 for debt service from the JPA member agencies.

***Operating & Non-Operating Revenues:*** The following table shows a summary of revenues by source for the fiscal year ended June 30, 2018 and compares dollar and percentage changes over FY 17. The amounts shown in the table below differ from the audited Statement of Revenues and Expenses as it provides additional detail for revenues by source.

***Significant Non-Cash Transactions:*** While most financial transactions involve the receipt or payment of cash, some transactions known as accruals involve the recognition of revenue or expense on a different time period than with the receipt or payment of cash.

| Non-Cash Transactions | Fiscal Year Ended June 30, 2018 | Increase (Decrease) from FY 17 | Percent Increase (Decrease) |
|---|---|---|---|
| GASB 68 non-cash pension accrual | $1,040,765 | ($134,135) | (11.4%) |

**FINANCIAL INFORMATION** (Continued)

| Operating & Non-Operating Revenues | Fiscal Year Ended June 30, 2018 | FY 18 Percent of Total | Increase (Decrease) from FY 17 | Percent Increase (Decrease) |
|---|---|---|---|---|
| Regional Service Charge | $ 10,893,165 | 61.8% | $ 497,807 | 4.8% |
| Debt Service Charge | 4,952,382 | 28.1% | (7,735) | (0.2)% |
| Contract Service & Program Revenue | 1,229,433 | 6.8% | (403,775) | (24.7%) |
| Permit and Inspection Fees | 8,925 | 0.1% | (9,321) | (51.1%) |
| Revenue from Haulers & RV | 270,061 | 1.5% | 41,719 | (18.3%) |
| **Total Operating Revenues** | **17,353,966** | **98.3%** | **118,695** | **0.7%** |
| Interest and Investment Income | 218,516 | 1.2% | 105,431 | 93.2% |
| Non-Operating revenue (expense) | 85,212 | 0.5% | 59,209 | 227.7% |
| **Total Non-Operating Revenues** | **303,728** | **1.7%** | **164,640** | **118.4%** |
| **Total Revenues** | **$ 17,657,694** | **100.0%** | **$ 283,335** | **1.6%** |

Total operating and non-operating revenues, excluding capital contributions for capacity charges, increased by $283,335. Increases and decreases in revenue categories are summarized as follows:

- Regional service charges increased by $497,807 per a scheduled increase in the amount of 4% for wastewater treatment services, plus a $100,000 increase in the capital fee that is a component of the regional service charge. The capital fee amounts to $630,000 to fund future capital improvement projects.
- Debt service charges decreased ($7,735) due to declining loan amortization of the outstanding 2015 Refunding Revenue Bonds.
- Contract service and program revenues decreased in the amount of approximately ($404,000). The decrease was due to decreases in wastewater treatment services for San Quentin State Prison and San Quentin Village in the amount of approximately ($270,000). The remaining significant decrease was revenues from the fats, oils and grease (FOG) and dental amalgam programs in the amount of approximately ($76,000).
- Permit and Inspection Fees is consistent between years.
- Revenue from septic, food waste, and liquid waste disposal haulers increased approximately $42,000 due to less loads of organic wastes delivered to the Agency's facilities.
- Interest and investment income increased approximately $105,000 due to increases in interest rates.
- Miscellaneous revenues increased approximately $59,000 due mainly to insurance dividends received and FEMA proceeds received.

***Capital Contributions for Capacity Charges:*** The following schedule presents a summary of capital contributions for capacity charges for the fiscal year ended June 30, 2018 with a dollar and percentage comparison for changes over FY 17. Capacity charges received during FY 18 totaled $197,753 for new residential, commercial, and additional fixture unit fee connections in the combined JPA service area.

| Capital Contributions | Fiscal Year Ended June 30, 2018 | Increase (Decrease) from FY 17 | Percent Increase (Decrease) |
|---|---|---|---|
| Capacity charges | $197,753 | ($132,326) | (40.1%) |

The California Government Code requires certain disclosures regarding capacity charges. The Code requires separate accounting of capacity charges and the application of interest to outstanding balances at year end. The Agency's practice is to utilize capacity charges received on a first-in-first-out basis to finance capital projects during the fiscal year. Accordingly, no interest was posted to capacity charges and there was no outstanding balance of capacity charges at year-end. Other required disclosures for the fiscal year ended June 30, 2018 are as follows:

- Total amount of capacity charges collected: $197,753
- Listing of FY 18 Maintenance and Capital Projects for which capacity charges were applied:
    - Maintenance Facility Modification Project $197,753

**FINANCIAL INFORMATION** (Continued)

***Expenses Related to General Operations:*** The following schedule presents a summary of general operating expenses, excluding non-operating expenses, capital assets, depreciation, and debt service expenses, for the fiscal year ended June 30, 2017. It also includes a comparison of dollar and percentage changes over FY 16.

| **Operating Expenses** | **Fiscal Year Ended June 30, 2018** | **FY 18 Percent of Total** | **Increase (Decrease) from FY 17** | **Percent Increase (Decrease)** |
|---|---|---|---|---|
| Salaries and Benefits | $ 8,877,307 | 71.8% | $ (202,062) | (2.2%) |
| Operations Supplies & Services | 1,366,871 | 11.1% | (129,903) | (8.7%) |
| Repairs and Maintenance | 886,312 | 7.2% | (60,973) | (6.4)% |
| Permit Testing and Monitoring | 149,815 | 1.2% | 38,842 | 35.0% |
| Insurance | 95,517 | 0.8% | (1,578) | (1.6)% |
| Utilities and Telephone | 311,191 | 2.5% | (7,709) | (2.4)% |
| General and Administrative | 669,900 | 5.4% | (27,599) | (4.0%) |
| **Total Expenses** | **$ 12,356,913** | **100.0%** | **$ (390,982)** | **(3.1%)** |

Total operating expenses decreased by ($390,982) and are summarized as follows:

- Salaries and Benefits decreased by ($202,062) due to a smaller cost of living adjustment of 2%, salary and benefit savings from unfilled positions, and a decrease in the pension accrual in the amount of approximately $130,000 related to GASB 68.
- Operations supplies and services decreased by approximately $130,000 due to mainly to less treatment chemicals used.
- Repairs and Maintenance expenses are generally consistent between with a small decrease in the amount of ($60,973), due mainly to less parts used on internal projects as well as less parts used on contracted maintenance services.
- Permit Testing and Monitoring increased by $38,842 due mainly to an increase in lab supplies purchased.
- Insurance is very consistent between years for insurance premiums that are purchased directly during the year as well as premiums that are amortized to expense.
- The ($7,709) decrease in utility expenses was attributable to less pickups for garbage collection.
- General and administrative expenses reflect a net decrease of ($27,599). The decrease was attributable to a large extent to a flow monitoring study that was completed in FY17 with no expense in FY18. A number of other expenses

**FINANCIAL INFORMATION** (Continued)

***Revenue Bonds Assets and Liabilities:*** The Agency issued Refunding Revenue Bonds Series 2015 in the principal amount of $49,310,000 at premium of $5,344,174 in an advance refunding (1) to prepay the outstanding principal of 2006 Revenue Bonds, (2) to purchase a surety policy to replace the previous cash funded reserve, and (3) to pay certain costs of issuing the bonds. The Bonds are fully registered, with principal due annually on September 1, and interest payable semi-annually on March 1 and September 1. The bonds maturing on or after September 1, 2025 are subject to optional redemption on any date on or after September 1, 2024, together with accrued interest to the redemption date, without a premium.

The transaction advance refunded the principal amount of $55,510,000 plus interest in the amount of $3,251,467 due on the 2006 Revenue Bonds by placing in escrow the amount of $58,761,467. The escrow amount will be used to redeem the entire outstanding amount of the Revenue Bonds, Series 2006 in full on September 1, 2016. The transaction resulted in a deferred amount on refunding of $2,859,484, and a decrease in total cash flows of $5,212,685. The deferred amount on refunding is carried as a deferred outflow of resources, and the premium is carried as a net reduction to the 2015 revenue bonds. The deferred amount on refunding and the premium are amortized on a straight-line basis over the life of the Bonds as components of interest expense. There is no balance in the refunding escrow account at June 30, 2017.

Each JPA member agency is obligated to pay its share of the semi-annual debt service and 25 percent debt coverage payments to CMSA, pursuant to a Debt Service Payment Agreement between CMSA and the JPA members, and the Master Indenture between CMSA and the Bond Trustee. The allocation of the debt service payment and coverage to each member is based on the number of EDUs reported for the member's service area. Debt Service Charges per EDU are fixed for each member agency's service area for consistency beginning with the fiscal year 2017-18. Service Charge Revenue reflects the actual semi-annual debt service payments received from the JPA member agencies and is based solely on 125% of the scheduled semi-annual debt payments to the bond holders.

The following schedule is a summary of debt service activities related to Refunding Revenue Bond Series 2015 for the fiscal year ended June 30, 2018.

| **Revenue Related to Debt Service** | **Fiscal Year Ended June 30, 2018** |
|---|---|
| Service charge revenue - principal | $2,250,000 |
| Service charge revenue - interest | 1,711,906 |
| Service charge revenue - coverage | 990,477 |
| Service Charge Revenue: Debt Service | $4,952,383 |
| | |
| **Outstanding Debt** | |
| Current Maturity (due in one year) | 2,330,000 |
| Long-term debt (greater than one year) | 40,440,000 |
| **Total Outstanding Debt** | **$42,770,000** |

**FINANCIAL INFORMATION** (Continued)

***Capital Assets:*** The following schedule presents a summary of capital assets for the fiscal year ended June 30, 2017 with a dollar and percentage comparison for changes over FY 16.

| **Capital Assets** | **Fiscal Year Ended June 30, 2018** | **Increase (Decrease) from FY 17** | **Percent Increase (Decrease)** |
|---|---|---|---|
| Plant and facilities at cost | $160,647,659 | $2,021,975 | 1.3% |
| Accumulated depreciation and disposition | (79,310,086) | (4,238,776) | 5.3% |
| **Net Plant and Facility** | **$81,337,573** | **($2,216,801)** | **(2.7%)** |

The Agency's investment in capital assets as of June 30, 2018 totaled $81,337,573, net of accumulated depreciation. The 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 17, the Agency acquired approximately $2,043,000 in capital assets, transferred approximately $2,066,000 from construction-in-progress into service, recorded an additional approximately $3,992,000 for depreciation of capital assets and a depreciation adjustment to increase accumulated depreciation in the amount of $268,080. Depreciation expense decreased $50,277, as there were less assets placed in service in FY 17 versus FY 18. Major capital asset transactions and including amounts spent during the fiscal year include the following:

- Completed work on the Maintenance Building Modifications Project, $1,727,716
- Completed work on various pump refurbishments and replacements, $94,687
- Completed work on various machinery and equipment, $372,506
- Purchased and placed in service various hardware, software, and lab equipment, $228,606
- Purchased and placed in service various vehicles, $41,573

***Other Post-Employment Benefits (OPEB):*** CMSA has complied with requirements to disclose its OPEB liability starting with its FY 10 financial statements originally reported under the now previous GASB Statement No. 45. GASB Statement No. 75 has replaced 45 and is effective for the current fiscal year ended June 30, 2018. In connection with OPEB, the Board determined in its benefit planning to set aside funding in a multi-employer trust fund administered by the California Public Employees Retirement System (CalPERS) to pay for future post-employment health benefit obligations for certain eligible active employees and retirees. The Agency has prefunded its actuarially determined OPEB contributions since FY 10. The notes to the financial statements more fully describe the Agency's OPEB plan description, covered employees, funding contributions, plan investments, the net OPEB liability, assumptions used in the OPEB actuarial valuation, and sensitivity analysis of using different assumptions.

Below is a table of the Agency's actual annual retiree health expenditures and contributions to the California Employers' Retirement Benefit Trust (CERBT). The accumulated balance in the CERBT is used in the notes to the financial statements to calculate the net OPEB liability that is reported as a liability of the Agency. The net OPEB liability is the total OPEB liability less the value of the plan assets. OPEB plan funding is at approximately 50%, and the unfunded accrued liability is approximately $2.1M for FY 18, and is shown in the table in Note 10, Other Post Employment Benefits, in the Notes to the Financial Statements.

**FINANCIAL INFORMATION** (Continued)

| | # of Retirees as of June 30 | Retiree Health Expenditures | Contributions To CERBT | Ending CERBT Balance* |
|---|---|---|---|---|
| FY 09-10 | 24 | $121,003 | $300,086 | $ 298,158 |
| FY 10-11 | 24 | 135,040 | 276,332 | 676,399 |
| FY 11-12 | 28 | 147,745 | 240,259 | 925,988 |
| FY 12-13 | 29 | 147,782 | 217,142 | 1,255,329 |
| FY 13-14 | 31 | 159,603 | 150,200 | 1,649,590 |
| FY 14-15 | 30 | 176,905 | 119,600 | 1,765,644 |
| FY 15-16 | 30 | 171,822 | 120,880 | 1,903,765 |
| FY 16-17 | 30 | 170,419 | 116,455 | 2,226,727 |
| FY 17-18 | 32 | 180,592 | 111,441 | 2,511,858 |

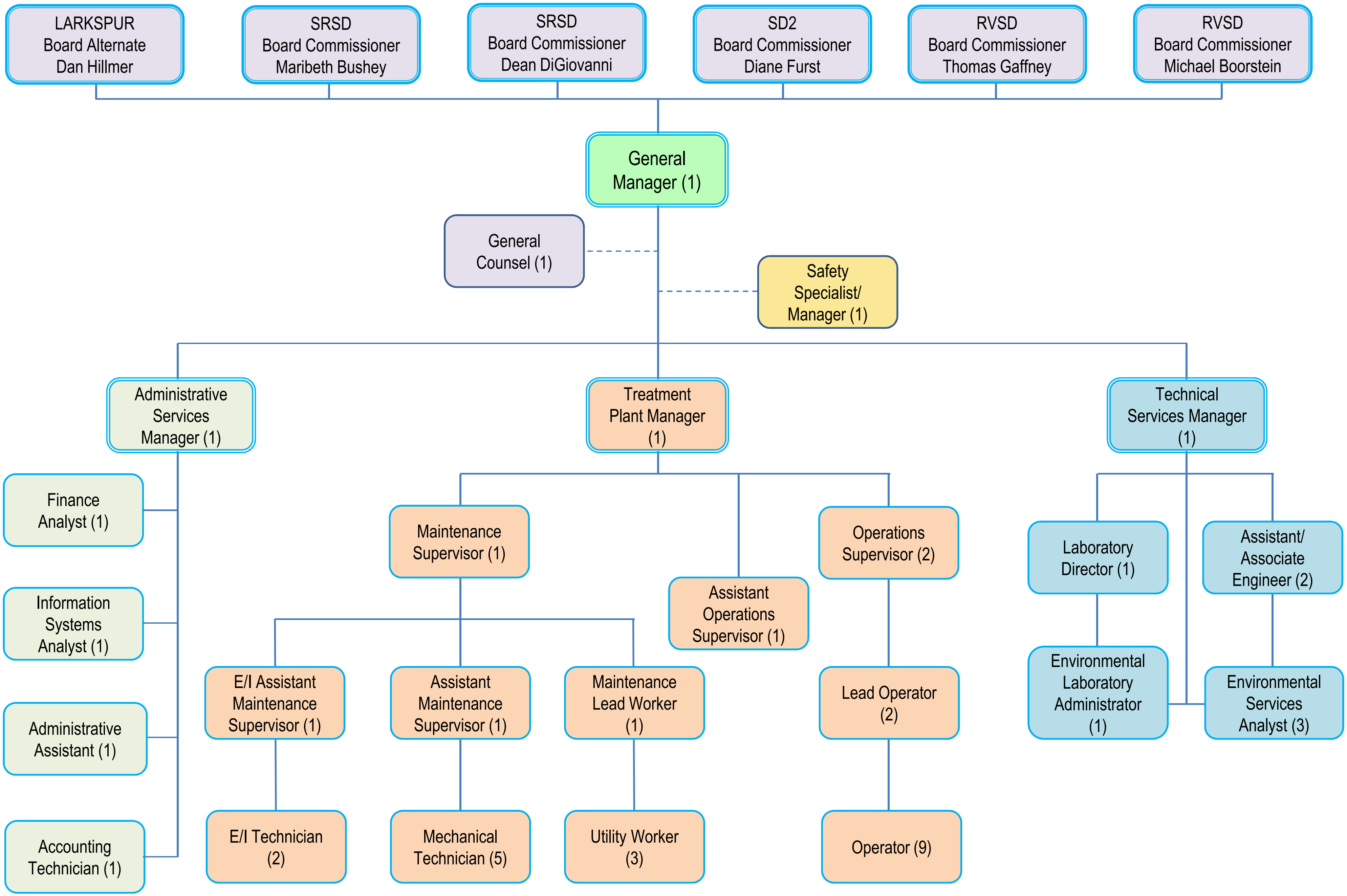
* Includes CERBT administration expenses and gains or losses on investments.

***Risk Management:*** The Agency maintains a comprehensive risk management program which encompasses risk retention and/or transfer, and risk reduction or avoidance. In the area of risk retention and/or transfer, the Agency transfers risk through the use of insurance policies, while retaining a manageable portion of risk through deductibles. The Agency is a member of the California Sanitation Risk Management Authority (CSRMA), a joint powers authority established for the operation of common risk management and loss prevention programs for its workers' compensation, general liability and auto liability, employment practice, and property insurance needs. Risk is transferred whenever possible through the use of hold harmless (indemnification) clauses in all Agency-related contracts and agreements.

In the area of risk reduction or avoidance, the Agency utilizes an in-house safety committee, the cooperative Safety Director program, and outside risk management and safety consultants. Much attention is focused on safety at CMSA. Training is provided to educate employees on all aspects of workplace safety. It includes proper workplace performance procedures for everyday duties such as the proper usage of tools and machinery, and safe driving programs for employees using Agency vehicles. Additional recognition is given to the safety committee and safety director for their ongoing efforts to ensure workplace safety.

***Independent Audit:*** State statutes require an annual audit by independent Certified Public Accountants. The accounting firm of Cropper Accountancy Corporation performed the audit of the Agency’s FY 18 financial statements. Cropper Accountancy Corporation specializes in governmental and non-profit audit engagements. In addition to meeting the requirements set forth in state statutes, the auditor also reviewed the Agency’s financial policies and procedures, as well as the Agency’s adherence to them in conducting financial transactions. The auditor’s report on the general purpose financial statements and accompanying notes are included in the financial section of this report.

CENTRAL MARIN SANITATION AGENCY






43 Full Time Authorized Positions as of June 30, 2018

Government Finance Officers Association

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**June 30, 2017**

Christopher P. Morrill

Executive Director/CEO

## FINANCIAL SECTION

## Audited Financial Statements

CROPPER
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CERTIFIED PUBLIC ACCOUNTANTS

# CENTRAL MARIN SANITATION AGENCY

# FINANCIAL STATEMENTS

# JUNE 30, 2018

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CROPPER
an accountancy corporation
CERTIFIED PUBLIC ACCOUNTANTS

office location
2700 Ygnacio Valley Road, Ste 270
Walnut Creek, CA 94598

(925) 932-3860 tel

mailing address
2977 Ygnacio Valley Rd, PMB 460
Walnut Creek, CA 94598

(925) 476-9930 efax

www.cropperaccountancy.com

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of Central Marin Sanitation Agency as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

Agency 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. 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 entity'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 entity'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 business-type activities of Central Marin Sanitation Agency, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 – 10), schedule of the District's proportionate share of the net pension liability and Schedule of Contributions (page 42), Schedule of Changes in the Net OPEB Liability and Related Ratios (page 43) and Schedule of OPEB Contributions (page 44) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Marin Sanitation Agency's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
October 19, 2018

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, 2018. 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 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 2017-18 reporting period, the Agency provided services to 48,081 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), Ross Valley Sanitary District (RVSD), 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, 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 approximately $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), is comprised of individuals appointed by the JPA agencies. San Rafael Sanitation District and Ross Valley Sanitary District 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 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 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> 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 2017-18 audit, prior period adjustments were recorded which affected the current financial statement numbers shown below[1]. The FY 2016-17 was not affected and no reissuance of the FY 2016-17 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 June 30, 2018 | Fiscal Year Ended June 30, 2017 | Amount Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| Current and other assets | $17,753,712 | $15,685,241 | $2,068,471 | 13.2% |
| Capital assets – net | 81,337,573 | 83,554,374 | (2,216,801) | (2.7) |
| Total assets | 99,091,285 | 99,239,615 | (148,330) | (0.1) |
| Deferred outflows of resources | 7,332,920 | 5,961,780 | 1,371,140 | 23.0 |
| Current liabilities | 4,072,318 | 4,227,638 | (155,320) | (3.7) |
| Noncurrent liabilities | 58,075,281 | 57,093,549 | 981,732 | 1.7 |
| Total liabilities | 62,147,599 | 61,321,187 | 826,412 | 1.3 |
| Deferred inflows of resources | 2,056,973 | 1,260,848 | 796,125 | 63.1 |
| Net position – | | | | |
| Net investment in capital assets | 36,596,025 | 36,400,782 | 195,243 | 0.5 |
| Unrestricted | 5,623,608 | 6,218,578 | (594,970) | (9.6) |
| Total net position | $42,219,633 | $42,619,360 | $(399,727) | (0.9)% |

[1] The Agency's FY 2016-17 and FY 2017-18 audited financial statements are available at www.cmsa.us/finance

Net position decreased by $(399,727) to $42,219,633 from FY 2016-17 to FY 2017-18 as described below:

- Total assets decreased by $(148,330). Current assets increased by $2,068,471 due mainly to an increase in cash in the amount of approximately $574,000 and the addition of inventory in the amount of $1,615,597, with the remaining current asset items very consistent between years. Capital assets – net decreased by $(2,216,801) 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.

- Deferred outflow amounts increased for both pension and OPEB over the prior year in the amount of $1,371,141.

- Current liabilities (obligations due within 12 months) decreased by $155,320. The net decrease was due primarily to a decrease in accounts payable, $243,877, offset by an increase in accrued salaries, $40,321, and the current portion of long-term debt, $80,000. Additional information can be found in Note #5 to the Financial Statements-Long-Term Obligations.

- Non-current (long-term) liabilities increased by $981,732 as a result of an increase in net pension liability of $1,565,400 and a increase in the net OPEB liability in the amount of $2,094,865. 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 to the bondholders. Additional information on the Agency's non-current liabilities can be found in Note #5-Long-Term Obligations.

- Deferred inflows of resources increased by $796,125 for increases in both pension and OPEB 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 wastewater & biosolids treatment and reuse, and power generation 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 June 30, 2018 | Fiscal Year Ended June 30, 2017 | Amount Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| Service charges | $15,845,548 | $15,355,475 | $490,073 | 3.2% |
| Contract maintenance revenues | 1,114,680 | 1,442,550 | (327,870) | (22.7) |
| Other operating revenues | 393,738 | 437,246 | (43,508) | (10.0) |
| Interest and investment income | 218,516 | 113,085 | 105,431 | 93.2 |
| Other non-operating revenues | 85,212 | 26,003 | 59,209 | 227.7 |
| Total revenues | 17,657,694 | 17,374,359 | 283,335 | 1.6 |
| Salaries and benefits | 8,877,307 | 9,079,369 | (202,062) | (2.2) |
| Operations supplies and services | 1,366,871 | 1,496,774 | (129,903) | (8.7) |
| Repairs and maintenance | 886,312 | 947,285 | (60,973) | (6.4) |
| Permit testing and monitoring | 149,815 | 110,973 | 38,842 | 35.0 |
| Depreciation and amortization | 3,995,080 | 4,045,357 | (50,277) | (1.2) |
| Insurance | 95,517 | 97,095 | (1,578) | (1.6) |
| Utilities and telephone | 311,191 | 318,900 | (7,709) | (2.4) |
| General and administrative | 669,900 | 697,499 | (27,599) | (4.0) |
| Interest expense | 1,527,361 | 1,752,699 | (225,338) | (12.9) |
| Total expenses | 17,879,354 | 18,545,951 | (666,597) | (3.6) |
| Income (loss) before cap contrib | (221,660) | (1,171,592) | 1,240,983 | 105.9 |
| Add: capacity fee revenue | 197,753 | 330,079 | (132,326) | (40.1) |
| Increase (decrease) in net position | (23,907) | (841,513) | 1,108,657 | 131.7 |
| Net position – beg as restated | 42,619,360 | 43,460,873 | (841,513) | (2.0) |
| Prior period adjustments - net | (375,820) | - | (375,820) | - |
| Net position – beg as restated | 42,243,540 | 43,460,873 | (1,217,333) | (2.8) |
| Net position – end | $42,219,633 | $42,619,360 | $(399,727) | (0.9)% |

See comments under Financial Analysis of the Agency regarding prior period adjustments made to the FY 2017-18 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 decrease in net position was $(399,727) during FY 2017-18 as follows:

- Total revenues (operating and non-operating) increased by $283,335 from FY 2016-17 to $17.6 million in FY 2017-18. The increase in revenues was from a scheduled 4% increase in service charges, a scheduled $100,000 increase in the capital fee, and a decrease in the debt service charge in the amount of approximately $8,000. Contract maintenance revenues decreased by $327,870 mainly due to changes in flow volume and strength for waste services between CMSA and SQSP. Other operating revenues decreased by $43,508 due to decreased FOG (Fats, Oils & Grease) program revenues.

- Interest and investment income increased approximately $105,000 due to increases in interest rates. The increase in other non-operating revenues is due primarily to FEMA proceeds received for landslide repairs.

- Total expenses (operating and non-operating) decreased by $(666,597) from FY 2016-17 to FY 2017-18. Salaries and benefits are down from the prior year due to a smaller scheduled salary increase of 2%, savings of both salary and benefits from unfilled authorized positions, and accrued expense adjustments in connection with employee retirement. Operations supplies and services decreased approximately $130,000 due mainly to less dechlorinating agent use. Repairs and maintenance, permit testing and monitoring, insurance, utilities and telephone, and general and administrative are all generally down and consistent between years. Interest expense is down due to declining principal balances.

- Capital contributions-capacity charges decreased by $(132,326) to $197,753 from FY 2016-17 to FY 2017-18 due to less new construction activity in the service area wherein member agencies collect and remit the capacity charge to the Agency.

## CAPITAL ASSETS

The Agency's investment in capital assets as of June 30, 2018 totaled $81,337,573 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 2017-18, the Agency acquired/constructed $2.04 million and depreciated approximately $4 million in capital assets. The Agency also had a prior period adjustment to beginning accumulated depreciation of approximately $268,000 to correct accumulated depreciation during FY 2017-18. The total net decrease in the Agency's investment in capital assets was $2,216,801 or 2.7%.

**Table 3 – Summary of Net Investment in Capital Assets**

| Description | Fiscal Year Ended June 30, 2018 | Fiscal Year Ended June 30, 2017 | Amount Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| Land and land improvements | $4,857,321 | $4,857,321 | | 0.0% |
| Construction in progress | 1,363,564 | 1,785,460 | ($421,896) | (23.6) |
| Wastewater treatment facilities | 67,789,514 | 71,058,793 | (3,269,279) | (4.6) |
| Wastewater disposal facilities | 3,380,347 | 3,713,081 | (332,734) | (9.0) |
| General, plant, & admin facilities | 3,946,827 | 2,139,719 | 1,807,108 | 84.5 |
| Capital assets – net | $81,337,573 | $83,554,374 | ($2,216,801) | (2.7) |

See comments under Financial Analysis of the Agency regarding prior period adjustments made to the FY 2016-17 numbers presented above.

Construction-in-progress decreased by approximately $400,000 and there were approximately $2,066,000 in completed project transfers during the year. Major capital asset completed project transfers and new acquisitions and amounts for the FY 2017-18 include the following:

- Completed work on Maintenance Facility Modifications and other buildings ($1,727,716)
- Completed work on various pump refurbishments and replacements ($94,687)
- Completed work on various machinery and equipment ($372,506)
- Purchased and placed in service various hardware, software, and lab equipment ($228,606)
- Purchased and placed in service various vehicles ($41,573)

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

## DEBT ADMINISTRATION

As of June 30, 2018, the Agency had $42,770,000 in outstanding debt from the Refunding Revenue Bonds Series 2015, not including a premium in the amount of $4,240,486 that is amortized over the life of the bonds.

The Agency continues to expand, upgrade, and improve the quality of its wastewater systems to meet current environmental regulations, manage wet weather flows, reuse renewable resources, and generate green power 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.

**Table 4 – Summary of Long Term Debt**

| Description | Fiscal Year Ended June 30, 2018 | Fiscal Year Ended June 30, 2017 | Amount Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| 2015 Revenue bonds, net | $47,010,486 | $49,609,019 | ($2,598,533) | (5.2) |
| Long-term debt – net | $47,010,486 | $49,609,019 | ($2,598,533) | (5.2) |

## 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, RVSD 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-item accounts, (2) identifies projects for operations and capital activities, and 3) monitors expenses to ensure that approved spending levels have not been exceeded.

## CONTACTING THE AGENCY

This financial report is designed to provide JPA member agencies, the public, 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
1301 Andersen Drive
San Rafael, CA 94901
(415) 459-1455

*FINANCIAL STATEMENTS*

## CENTRAL MARIN SANITATION AGENCY
### Statement of Net Position
### June 30, 2018

| | |
|---|---|
| **Assets** | |
| Current Assets | |
| Cash and cash equivalents | $ 15,621,011 |
| Accounts receivable | 347,600 |
| Accrued interest receivable | 66,820 |
| Prepaid expenses | 63,332 |
| Inventory - parts and fuel | 1,615,597 |
| Other current assets | 811 |
| Total Current Assets | 17,715,171 |
| Noncurrent Assets | |
| Bond discount and prepaid insurance, net | 38,541 |
| Capital assets, net of accumulated depreciation (Note 4) | 81,337,573 |
| Total Noncurrent Assets | 81,376,114 |
| Total Assets | 99,091,285 |
| **Deferred Outflows of Resources** | |
| Loss on early retirement of long-term debt | 2,268,938 |
| Relating to pension | 4,771,949 |
| Relating to OPEB | 292,033 |
| Total Deferred Outflows of Resources | 7,332,920 |
| **Liabilities** | |
| Current Liabilities | |
| Accounts payable | 337,188 |
| Accrued salaries and employee benefits | 262,524 |
| Interest payable on revenue bonds | 559,385 |
| Unearned revenue | 144 |
| Current portion of compensated absences payable | 291,190 |
| Current portion of revenue bonds payable | 2,330,000 |
| Total Current Liabilities | 3,780,431 |
| Noncurrent Liabilities: | |
| Compensated absences payable, net of current portion | 291,887 |
| Revenue bonds payable, net of premium | 44,680,486 |
| Net pension liability | 11,275,371 |
| Net OPEB liability | 2,119,424 |
| Total Noncurrent Liabilities | 58,367,168 |
| Total Liabilities | 62,147,599 |
| **Deferred Outflows of Resources** | |
| Pension adjustments | 2,001,808 |
| Other post-employment benefits | 55,165 |
| Total Deferred Inflows of Resources | 2,056,973 |
| **Net Position** | |
| Net investment in capital assets | 36,596,025 |
| Unrestricted | 5,623,608 |
| Total Net Position | $ 42,219,633 |

The accompanying notes are an integral part of the financial statements

**CENTRAL MARIN SANITATION AGENCY**
**Statement of Revenues, Expenses and Changes in Net Position**
**Year Ended June 30, 2018**

| | |
|---|---|
| **Operating Revenues:** | |
| Service charges | $ 15,845,548 |
| Contract maintenance revenues | 1,114,680 |
| Other operating revenues | 393,738 |
| Total operating revenue | 17,353,966 |
| **Operating Expenses:** | |
| Salaries and benefits | 8,877,307 |
| Operations supplies and services | 1,366,871 |
| Repairs and maintenance | 886,312 |
| Permit testing and monitoring | 149,815 |
| Insurance | 95,517 |
| Utilities and telephone | 311,191 |
| General and administrative | 669,900 |
| Depreciation and amortization | 3,995,080 |
| Total operating expenses | 16,351,993 |
| Operating Income (Loss) | 1,001,973 |
| **Nonoperating Revenues (Expenses):** | |
| Interest and investment income | 218,516 |
| Interest expense | (1,527,361) |
| Other non-operating revenues (expenses) | 85,212 |
| Total non-operating revenues (expenses) | (1,223,633) |
| Income before contributions | (221,660) |
| Capital contributions - capacity fees | 197,753 |
| Change in Net Position | (23,907) |
| Net Position - Beginning of Year, as previously stated | 42,619,360 |
| Prior period adjustment - Correction of errors | 1,521,039 |
| Prior period adjustment - Change in accounting principle | (1,896,859) |
| Net Position - Beginning of Year, as restated | 42,243,540 |
| Net Position - Ending | $ 42,219,633 |

The accompanying notes are an integral part of the financial statements

# CENTRAL MARIN SANITATION AGENCY
## Statement of Cash Flows
## Year Ended June 30, 2018

| | | |
|---|---|---|
| **Casg Flows from Operating Activities:** | | |
| Receipts from customers and users | $ | 17,456,704 |
| Payments to suppliers | | (3,507,836) |
| Payments to employees and related benefits | | (7,838,757) |
| Other non-operating revenue | | 84,212 |
| Net cash provided by operating activities | | 6,194,323 |
| **Cash Flows from Capital and Related Financing Activities:** | | |
| Capacity charges | | 197,753 |
| Acquisition and construction of capital assets | | (2,043,191) |
| Sales of assets | | 1,000 |
| Principal payments on long-term debt | | (2,250,000) |
| Interest on long-term debt | | (1,711,906) |
| Net cash used in capital and related financing activities | | (5,806,344) |
| **Cash Flows from Investing Activities** | | |
| Investment income | | 185,732 |
| Net cash provided by investing activities | | 185,732 |
| Net increase in cash and cash equivalents | | 573,711 |
| Cash and cash equivalents, July 1 | | 15,047,300 |
| Cash and Cash equivalents, June 30 | $ | 15,621,011 |
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | | |
| Operating income (loss) | | 1,001,973 |
| *Adjustments to reconcile operating income to net cash used in operating activities:* | | |
| Depreciation expense | | 3,995,080 |
| Other non-operating income | | 84,212 |
| *(Increase) decrease in:* | | |
| Accounts receivable | | 108,328 |
| Inventory | | 204,074 |
| Prepaid expenses | | 10,258 |
| Other current assets | | 1,315 |
| Deferred outflows | | (1,270,506) |
| *Increase (decrease) in:* | | |
| Accounts payable | | (243,877) |
| Accrued salaries and benefits | | 40,321 |
| Unearned revenue | | (5,590) |
| Accrued compensated absences | | (3,674) |
| Net Pension Liability | | 1,565,400 |
| Net OPEB Obligation | | (89,116) |
| Deferred inflows | | 796,125 |
| Net cash provided by operating activities | $ | 6,194,323 |

The accompanying notes are an integral part of the financial statements

## *NOTES TO THE FINANCIAL STATEMENTS*

## 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 GASBS No. 68 and No. 75.

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 asset's 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 (fiscal 2016).

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 aquisition 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:

Wastewater Treatment Facilities:

| | |
|---|---|
| Buildings | 40 years |
| Other | 5 – 25 years |
| Wastewater 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.

*Other Post-Employment Benefits (OPEB)*

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Agency's plan (OPEB plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|---|---|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Measurement Period | July 1, 2016 to June 30, 2017 |

*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.

*Implemented New Accounting Pronouncements*

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

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 implementation of this pronouncement resulted in a prior period adjustment to the financials. See Note 11 for more detailed information

**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 implementation of this pronouncement did not 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 was encouraged. The implementation of this pronouncement did not have a significant impact on the Agency's financial statements.

**GASB Statement No. 85, *Omnibus 2017.* -** The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other post-employment benefits [OPEB]). The implementation of this pronouncement did not 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 implementation of this pronouncement did not have a significant impact on the Agency's financial statements.

*Upcoming New Accounting Pronouncements*

**GASB Statement No. 83, *Certain Asset Retirement Obligations.* -** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018 (fiscal 2019). 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 Activities.* -** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement 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 the financial statements for periods beginning after December 15, 2018 (fiscal 2020). 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. 87, *Leases.* -** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (fiscal 2021). Earlier application is encouraged.

**GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*** - The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (fiscal 2019). Earlier application is encouraged

**GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.*** - The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (fiscal 2021). Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

**GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61.*** - The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously was reported inconsistently. In addition, requiring reporting of information about component units if the government acquires a 100 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (fiscal 2020). Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

## NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

| Cash and Investments | Carrying Amount | Fair Value / Amortized | Investment Rating | Maturities |
|---|---|---|---|---|
| **Business-type Activities:** | | | | |
| Cash Deposits: | | | | |
| Cash on hand | $ 1,639,329 | $ 1,639,329 | N/A | N/A |
| Petty Cash | 661 | 661 | N/A | N/A |
| Total Cash Deposits | 1,639,990 | 1,639,990 | | |
| Investments: | | | | |
| California Local Agency Investment Fund | 13,535,265 | 13,509,911 | Unrated | < 1 year |
| Wells Fargo Escrow | 80,317 | 80,317 | Unrated | < 1 year |
| California Asset Management Program | 365,439 | 365,439 | AAAm | < 1 year |
| Total Investments | 13,981,021 | 13,955,667 | | |
| Total Cash and Investments | $ 15,621,011 | $ 15,595,657 | | |

*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 $1,576,499 as of June 30, 2018. 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, 2018:

- California Local Agency Investment Fund (LAIF) of $13,509,911; 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, 2018, was approximately $88.8 billion. Of that amount, 97.33% is invested in non-derivative financial products and 2.67% 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, 2018 was approximately $3.6 billion. Of that amount, 76% was invested in non-derivative financial products and 24% 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, 2018. 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, 2018, 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, 2018:

| Capital Assets | Balance July 01, 2017 | Additions | Disposals & Adjustments | Transfers | Balance June 30, 2018 |
|---|---|---|---|---|---|
| **Non-depreciable Plant and Facilities:** | | | | | |
| Land and land improvements | $ 4,857,321 | - | - | | $ 4,857,321 |
| Construction in progress | 1,785,460 | 1,644,482 | - | (2,066,378) | 1,363,564 |
| Total non-depreciable plant and facilities | 6,642,781 | 1,644,482 | - | (2,066,378) | 6,220,885 |
| **Depreciable Plant and Facilities:** | | | | | |
| Wastewater treatment facilities | 130,674,454 | 191,378 | - | 275,815 | 131,141,647 |
| Wastewater disposal facilities | 13,659,653 | - | - | - | 13,659,653 |
| General plant and administrative facilities | 7,648,796 | 207,332 | (21,217) | 1,790,563 | 9,625,474 |
| Total depreciable plant and facilities | 151,982,903 | 398,710 | (21,217) | 2,066,378 | 154,426,774 |
| **Less accumulated depreciation for:** | | | | | |
| Wastewater treatment facilities | (59,615,661) | (3,435,756) | (300,716) | - | (63,352,133) |
| Wastewater disposal facilities | (9,946,572) | (320,928) | (11,806) | - | (10,279,306) |
| General plant and administrative facilities | (5,509,077) | (235,228) | 65,658 | - | (5,678,647) |
| Total accumulated depreciation | (75,071,310) | (3,991,912) | (246,864) | - | (79,310,086) |
| Total depreciable plant and facilities - net | 76,911,593 | (3,593,202) | (268,081) | 2,066,378 | 75,116,688 |
| Total plant and facilities - net | $ 83,554,374 | (1,948,720) | (268,081) | - | $ 81,337,573 |

Depreciation expense for the year ended June 30, 2018 was $3,991,912.

## NOTE 5 - LONG-TERM OBLIGATIONS

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

| | Balance July 1, 2017 | Additions | Deductions | Balance June 30, 2018 | Due Within One Year |
|---|---|---|---|---|---|
| 2015 Refunding Revenue Bonds | $ 45,020,000 | - | $2,250,000 | $ 42,770,000 | $ 2,330,000 |
| 2015 Refunding Revenue Bonds Discounts and premiums, net | 4,589,019 | - | 348,533 | 4,240,486 | - |
| Net Pension Liability | 9,709,971 | 1,565,400 | | 11,275,371 | - |
| Net OPEB Liability | 24,559 | 2,094,865 | | 2,119,424 | - |
| Compensated Absences | 586,751 | 181,965 | 185,639 | 583,077 | 291,190 |
| Total Long-term Obligations | $ 59,930,300 | 3,842,230 | 2,784,172 | $ 60,988,358 | $ 2,621,190 |

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, 2018:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 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 | 2,685,000 | 1,280,706 | 3,965,706 |
| 2024 - 2028 | 15,380,000 | 4,381,531 | 19,761,531 |
| 2029 - 2032 | 14,930,000 | 968,774 | 15,898,774 |
| Total Debt Service | $ 42,770,000 | $ 12,719,560 | $ 59,489,560 |

## 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 no significant unexpended construction-related contractual commitments as of June 30, 2018. Contingencies of an interminable amount include normal recurring pending claims and litigation. Agency management is of the opinion that the resolution of these matters will not result in a material liability to the Agency. No provision has been made for a contingent liability that meets the criteria for accrual set forth in current government accounting standards.

## 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, 2017 (most recent information available):

| | June 30, 2017 |
|---|---|
| Total Assets | $ 28,419,707 |
| Total Liabilities | 17,241,037 |
| Total Equity | 11,178,670 |
| Total Revenues | 11,843,583 |
| Total Expenditures | 11,588,811 |
| Retrospective Contribution | (630,063) |

## 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, 2018, are summarized as follows:

| | **Miscellaneous** | |
|---|---|---|
| | Tier 1 | PEPRA |
| Benefit formula | 2.7% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 Years | 5 Years |
| Benefit payments | Monthly for Life | Monthly for Life |
| Retirement age | 55 | 62 |
| Monthly benefits as a % of eligible compensation | 2.70% | 2.00% |
| Required employee contribution rates | 7.951% | 6.250% |
| Required employer contribution rates | 11.675% | 6.533% |

**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, 2018, the contributions recognized as part of pension expense for the Plan were as follows:

| | |
|---|---|
| Employer contributions | $ 957,403 |

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

As of June 30, 2018, 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 | $ 11,275,371 |

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, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The 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, 2017 and 2016 was as follows:

| | Miscellaneous |
|---|---|
| Proportion – June 30, 2016 | 0.2795% |
| Proportion – June 30, 2017 | 0.2680% |
| Change in Proportions | 0.0115% |

For the year ended June 30, 2018, the Agency recognized pension expense of $2,008,424. At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 957,403 | $ - |
| Changes in assumptions | 1,820,553 | (127,928) |
| Differences between expected and actual experiences | 13,522 | (209,842) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 242,561 | (228,846) |
| Net differences between projected and actual earnings on plan investments | 1,737,910 | (1,435,192) |
| Total | $ 4,771,949 | $ (2,001,808) |

Of the $4,771,949 reported as deferred outflows of resources, $957,403 related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

| Fiscal Year Ending: | Deferred Outflows/(inflows) of Resources |
|---|---|
| 2019 | 445,759 |
| 2020 | 1,012,272 |
| 2021 | 599,162 |
| 2022 | (244,455) |

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

| | |
|---|---|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Measurement Period | July 1, 2016 to June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal in accordance with the requirements of GASB No. 68 |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Investment rate of Return | 7.15% Net of Pension Plan investment and administrative expenses; includes inflation |
| Mortality Rate Table | Derived using CalPERS' membership data for all funds. |
| Post-retirement benefit increase | Contract COLA up to 2.75% until Purchasing Power Protection allowance floor on purchasing power applies, 2.75% thereafter |

The underlying mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website at https://www.calpers.ca.goc/docs/forms-publications/calpers-experience-study-2014.pdf.

**Change of Assumptions** – In the fiscal year 2016-17, the financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represent the unamortized portion of this assumption change.

**Discount Rate -** The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan, net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS the amortization and smoothing methods adopted by the CalPERS board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results can be found on the CalPERS' website at: https://www.calpers.ca.gov/page/employers/actuarial-services/gasb.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which ranges of expected future real rates of return (expected returns, net of pension plan investment expenses 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+ 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 adjusted to account for assumed administrative expenses.

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.

| Allocation by Asset Class | New Strategic Allocation | Real Return Years 1 – 10 (a) | Real Return Years 11+ (b) |
|---|---|---|---|
| Global Equity | 47.0% | 4.90% | 5.38% |
| Global Fixed Income | 19.0% | 0.80% | 2.27% |
| Inflation Assets | 6.0% | 0.60% | 1.39% |
| Private Equity | 12.0% | 6.60% | 6.63% |
| Real Estate | 11.0% | 2.80% | 5.21% |
| Infrastructure and Forestland | 3.0% | 3.90% | 5.36% |
| Liquidity | 2.0% | -0.40% | -0.90% |
| Total | 100.00% | | |

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

| Discount Rate – 1% (6.15%) | Current Discount Rate (7.15%) | Discount Rate +1% (8.15%) |
|---|---|---|
| $ 17,276,437 | $ 11,275,371 | $ 6,305,180 |

**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 (OPEB)

*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 defined benefit 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.

*Employees Covered*

As of the January 1, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the Plan:

| | |
|---|---|
| Active employees | 43 |
| Inactive employees or beneficiaries currently receiving benefits | 32 |
| Inactive employees entitled to, but not yet receiving benefits | - |
| Total | 75 |

*Contributions*

The Agency's plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the Agency and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year June 30, 2018, the Agency’s cash contributions were $111,441 to the CERBT trust and the implied subsidy was $180,592 resulting in total payments of $292,033.

*Net OPEB Liability*

The Agency's Net OPEB Liability was measured on June 30, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation dated January 1, 2018 that was rolled back June 30, 2016, and to June 30, 2017 to determine the total OPEB liability, based on the following actuarial methods and assumptions:

| Actuarial Assumptions: | |
|---|---|
| Discount Rate | 7.28% |
| Inflation | 2.75% per year |
| Salary Increases | 3.0% per annum, in aggregate |
| Investment rate of Return | 7.28% |
| Mortality Rate (1) | Derived using CalPERS' membership data for all funds. |
| Pre-retirement turnover (2) | Derived using CalPERS' membership data for all funds. |
| Healthcare trend rate | Increase 5.50% per year after 2018. |

Notes:

(1) Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website (www.calpers.ca.gov) under Forms and Publications.

(2) The pre-retirement turnover information was developed based on CalPERS' specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website (www.calpers.ca.gov) under Forms and Publications.

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

| Asset Class | Target Allocation | Long-term expected real rate of return |
|---|---|---|
| Inflation assets | 5.0% | 1.25% |
| Global debt securities | 27.0% | 2.25% |
| Global equities | 57.0% | 5.25% |
| REITs | 8.0% | 4.50% |
| Commodities | 3.0% | 1.25% |
| Total | 100% | |

*Discount Rate*

The discount rate used to measure the total OPEB liability was 7.28 percent. The cash flows of the OPEB plan were projected to future years, assuming that CMSA will contribute an amount so that the assets always exceed expected benefits to retirees. Under that projection, the plan assets are projected to be adequate to pay all benefits to retirees in all future years, so the discount rate has been set equal to the long-term expected rate of return on investments, 7.28%.

*Changes in the OPEB Liability*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Obligation (Asset) = (a) – (b) |
| Balance at June 30, 2017 (Valuation date June 30, 2016) | $4,112,305 | $ 1,903,765 | $ 2,208,540 |
| Changes recognized for the measurement period | | | |
| Service cost | 111,349 | - | 111,349 |
| Interest | 293,164 | - | 293,164 |
| Employer contributions | - | 287,122 | (287,122) |
| Net investment income | - | 207,513 | (207,513) |
| Benefit payments to retirees | (170,667) | (170,667) | - |
| Administrative expense | - | (1,006) | 1,006) |
| Net changes | 233,846 | 322,962 | (89,116) |
| Balance at June 30, 2018 (Valuation date January 1, 2018) | $ 4,346,151 | $ 2,226,727 | $ 2,119,424 |

*Sensitivity of the Net OPEB Liability to the Changes in the Discount Rate*

The following presents the Net OPEB Liability of the Agency if it were calculated using a discount rate that is one percentage point higher or lower than the current discount rate, for the measurement period ended June 30, 2017:

| | 1% Decrease (6.28%) | Current Discount Rate (7.28%) | 1% Increase (8.28%) |
|---|---|---|---|
| Net OPEB Liability | $ 2,729,159 | $ 2,119,424 | $ 1,619,079 |

*Sensitivity of the Net OPEB Liability to the Changes in the Health Care Cost Trend Rates*

The following presents the net OPEB liability of the Agency if it were calculated using health care cost trend rates that are one percentage point higher or lower than the current rate, for the measurement period ended June 30, 2017:

| | 1% Decrease (4.5%) | Current Trend Rate (5.5%) | 1% Increase (6.5%) |
|---|---|---|---|
| Net OPEB Liability | $ 1,669,462 | $ 2,119,424 | $ 2,659,476 |

*OPEB Plan Fiduciary Net Position*

CERBT issues a publicly available financial report that may be obtained from CalPERS, Prefunding Programs, CERBT (OPEB), P.O. Box 1494, Sacramento, CA 95812-1494.

*Recognition of Deferred Outflows and Deferred Inflows of Resources*

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

| | |
|---|---|
| Net difference between projected and actual earnings on OPEB plan investments | 5 years |
| All other amounts | Expected average remaining service lifetime (EARSL) |

*OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB*

For the year ended June 30, 2018, the Agency recognized OPEB expense of $253,171. At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of | Deferred Inflows of Resources |
|---|---|---|
| OPEB contributions subsequent to measurement date | $ 292,033 | $ - |
| Net differences between projected and actual earnings on plan investments | - | (55,165) |
| Total | $ 292,033 | $ (55,165) |

The $292,033 reported as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

| Fiscal Year Ending: | Deferred Outflows/(inflows) of Resources |
|---|---|
| 2019 | (13,791) |
| 2020 | (13,791) |
| 2021 | (13,791) |
| 2022 | (13,792) |

## NOTE 11 – PRIOR PERIOD ADJUSTMENT

As a result of implementing GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB), the Agency is restating beginning net position in the Statement of Net Position, effectively decreasing the net position by $1,896,859 as of July 1, 2017. The decrease resulted from recognizing the net other postemployment benefits liability, a noncurrent liability. See Note 10 for additional disclosures regarding this presentation.

At June 30, 2018, the Agency did a full retroactive inventory count and cost analysis. As a result, the value of inventory was increased. This resulted in an increase to beginning net position of $1,789,119 for items which had previously been expensed but are now presented on the Statement of Net Position.

Upon review of the capital asset report, it was discovered that some assets were over-depreciated while others were under-depreciated. The Agency reviewed the beginning accumulated depreciation asset by asset basis and increased it by a net $268,080.

The net impact of these adjustments was a decrease to net position in the amount of $375,820 as follows:

| | |
|---|---|
| Beginning net position, as previously stated | $ 42,619,360 |
| Prior period adjustments: | |
| Implementation of GASB No. 75 | (1,896,859) |
| Inventory | 1,789,119 |
| Fixed assets | (268,080) |
| Total prior period adjustments | (375,820) |
| Beginning net position, as restated | $ 42,243,540 |

***REQUIRED SUPPLEMENTARY INFORMATION***

# CENTRAL MARIN SANITATION AGENCY
## Required Supplementary Information
## June 30, 2018

### Schedule of Proportionate Share of Net Pension Liability
### Last 10 Years*

| | Fiscal Year End June 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 |
| Measurement date | 6/30/2017 | 6/30/2016 | 6/30/2015 | 6/30/2014 |
| Proportion of net pension liability | 0.26795% | 0.27951% | 0.24216% | 0.24376% |
| Proportionate share of the net pension liability | $ 11,275,371 | $ 9,709,971 | $ 6,643,602 | $ 6,024,473 |
| Covered employee payroll | $ 4,765,978 | $ 4,560,237 | $ 4,764,021 | $ 4,418,991 |
| Proportionate share of the net pension liability as a percentage of covered employee payroll | 236.58% | 212.93% | 139.45% | 136.33% |
| Plan's fiduciary net position | $ 32,353,864 | $ 29,830,921 | $ - | $ - |
| Plan's fiduciary net position as a percentage of the Plan's total pension liability | 74.16% | 75.44% | 82.12% | 83.21% |

### Schedule of Agency's Pension Plan Contributions
### Last 10 Years*

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contributions (actuarially determined) | $ 967,659 | $ 957,403 | $ 950,859 | $ 927,135 |
| Contributions in relation to actuarially determined contributions | (967,659) | (957,403) | (950,859) | (927,135) |
| Contribution deficiency (excess) | - | - | - | - |
| Covered-employee payroll | $ 4,782,506 | $ 4,922,326 | $ 4,719,834 | $ 4,430,705 |
| Contributions as a percentage of covered payroll | 20.23% | 19.45% | 20.15% | 20.93% |

**Notes to Schedule:**

| | |
|---|---|
| Valuation Date: | June 30, 2015 |

Methods and assuptions used to determine contribution rates:

| | |
|---|---|
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll |
| Asset valuation method | Actuarial value of assets |
| Inflation | 2.75% |
| Salary increase | Varies by age and service |
| Investment rate of return | 7.50%, net of pension plan investment and administrative expense, including inflation |
| Retirement age | The probabilities of retirement are based on the 2014 CalPERS experience study for the period 1997-2011 |
| Mortality | CalPERS mortality table using membership data for all funds |

* Fiscal year ending June 30, 2015, was the first year of implementation, therefore only four years are shown.

## CENTRAL MARIN SANITATION AGENCY
## Schedule of Changes in the Net OPEB Liability and Related Ratios
## for the Measurement Periods Ended June 30

| | | 2017 |
|---|---|---|
| **Total OPEB Liability** | | |
| Service cost | | $ 111,349 |
| Interest on the OPEB liability | | 293,164 |
| Benefits paid to retirees | | (170,667) |
| **Net change in total OPEB liability** | | 233,846 |
| **Total OPEB Liability - beginning** | | 4,112,305 |
| **Total OPEB Liability - ending** | **(a)** | $4,346,151 |
| **Plan Fiduciary Net Position** | | |
| Employer contributions | | $ 287,122 |
| Net investment income | | 207,513 |
| Benefits paid to retirees | | (170,667) |
| Administrative expense | | (1,006) |
| **Net change in plan fiduciary position** | | 322,962 |
| **Plan fiduciary net position- beginning** | | 1,903,765 |
| **Plan fiduciary net position- ending** | **(b)** | $2,226,727 |
| **Net OPEB liability- ending** | **(a) - (b)** | $2,119,424 |
| Plan fiduciary net position as a percentage of the total OPEB liability | | 51.23% |
| Covered-employee payroll | | $4,716,585 |
| Net OPEB liability as a percentage of covered-employee payroll | | 44.94% |

**Notes to Schedule:**

Historical information is required only for measurement periods for which GASB No. 75 is applicable. Future years' information will be displayed, up to 10 years, as information becomes available

**CENTRAL MARIN SANITATION AGENCY**
**Schedule of OPEB Contributions**
**Last Ten Fiscal Years***

| Fical Year Ended June 30, | 2018 |
|---|---|
| Actuarially determined contributions (ADC) | $ 292,033 |
| Contributions in relation to the ADC | (292,033) |
| Contribution deficiency (excess) | **$ -** |
| Covered-employee payroll | 4,716,585 |
| Contributions as a percentage of covered-employee payroll | 6.19% |

**Notes to Schedule:**

*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were selected by the Agency after consultation with the actuary.

**Method and assumptions used to determine contribution:**

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method/Period | Level percent of payroll |
| Asset valuation method | Market value |
| Inflation | 2.75% |
| Long-term investment rate of return | 7.28% |
| Discount rate | 7.28% per annum |
| Healthcare cost-trend rates | 5.5% per annum |
| Payroll growth | 3.0% per annum |
| Coverage elections | 100% of eligible employees assumed to elect coverage upon retirement, remaining covered for life. Employees with no current medical assumed to elect employee-only medical upon retirement. |
| Mortality | Taken from the 2014 CalPERS OPEB Assumptions Model for *Public Agency Miscellaneous* |
| Retirement rates | Taken from the 2014 CalPERS OPEB Assumptions Model for *Public Agency Miscellaneous* with a 2.7% at 55 retirement plan. |
| Turnover (withdrawal) | Taken from the 2014 CalPERS OPEB Assumptions Model for *Public Agency Miscellaneous* |

CROPPER
an accountancy corporation
CERTIFIED PUBLIC ACCOUNTANTS

office location
2700 Ygnacio Valley Road, Ste 270
Walnut Creek, CA 94598

(925) 932-3860 tel

mailing address
2977 Ygnacio Valley Rd, PMB 460
Walnut Creek, CA 94598

(925) 476-9930 efax

www.cropperaccountancy.com

# INDEPENDENT AUDITORS' 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 the 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 business-type activities of Central Marin Sanitation Agency, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Central Marin Sanitation Agency's basic financial statements, and have issued our report thereon dated October 19, 2018.

## Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Marin Sanitation 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 Central Marin Sanitation Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Central Marin Sanitation 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 Central Marin Sanitation Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
October 19, 2018

## STATISTICAL SECTION

# STATISTICAL SECTION
# Overview

This part of the Agency's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Agency's overall financial health.

**Contents** **Page**

**Schedules 1-7: Financial Trends**

These schedules contain trend information to help the reader understand how the Agency's financial performance and well-being has changed over time.



**Schedules 8-10: Revenue and Equivalent Dwelling Units**

These schedules contain information to help the reader assess the Agency's most significant local revenue sources.



**Schedules 11-12: Debt Capacity and Revenue Coverage**

These schedules contain information to help the reader assess the affordability of the Agency's current levels of outstanding debt and the Agency's ability to issue additional debt in the future.



**Schedule 13-14: Demographic and Economic Information**

These schedules provide demographic and economic indicators to help the reader understand the local environment within which the Agency's financial activities take place.



**Schedule 15-16: Operational Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the Agency's financial report relates to the services the Agency provides and the activities it performs.

**Central Marin Sanitation Agency**
**Statement of Net Position**

**Schedule 1**

**Fiscal Year Ending June 30**

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Investment in Capital Assets | $ 36,596,025 | $ 36,400,782 | $ 36,022,116 | $ 38,085,361 | $ 36,352,645 | $ 38,592,778 | $ 39,015,640 | $ 39,424,680 | $ 40,913,010 | $ 42,776,891 |
| Restricted | - | - | - | - | - | - | - | - | - | - |
| Unrestricted | 5,623,608 | 6,218,578 | 7,438,757 | 7,259,794 | 14,201,829 | 13,337,772 | 12,651,278 | 11,513,682 | 10,264,178 | 6,896,628 |
| Total Net Position * | $ 42,219,633 | $ 42,619,360 | $ 43,460,873 | $ 45,345,155 | $ 50,554,474 | $ 51,930,550 | $ 51,666,918 | $ 50,938,362 | $ 51,177,188 | $ 49,673,519 |

* During the FY 2016-17 audit, prior period adjustments were recorded which affected the FY 2015-16 financial statements. No reissuance of the FY 2015-16 audited financial statements was deemed necessary, however the adjustments have been reflected in this schedule for accurate comparison data and analysis.

Notes:

The Agency implemented GASB No. 68 Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (Issued 06/12), in FY 2015 as of July 1, 2014 which resulted in a prior period adjustment that reduced the beginning net position.

Source: Central Marin Sanitation Agency Audited Financial Statements

**Central Marin Sanitation Agency**
**Statement of Revenues, Expenses and Changes in Net Position**

**Schedule 2**

| Fiscal Year Ended June 30 | Operating Revenues | Operating Expenses | Operating Income (Loss) | Non-operating Revenues (Expenses) | Capital Contributions - Capacity Charges | Change in Net Position | Beginning Net Position | Prior Period Adjustment | | Ending Net Position |
|---|---|---|---|---|---|---|---|---|---|---|
| 2018 | $ 17,353,966 | $ (16,351,993) | $ 1,001,973 | $ (1,223,633) | $ 197,753 | $ (23,907) | $ 42,619,360 | $ (375,820) | * | $ 42,219,633 |
| 2017 | 17,235,271 | (16,793,252) | 442,019 | (1,613,611) | 330,079 | (841,513) | 43,460,873 | - | | 42,619,360 |
| 2016 | 16,495,058 | (15,257,981) | 1,237,077 | (1,119,479) | 162,705 | 280,303 | 45,345,155 | (2,164,585) | ** | 43,460,873 |
| 2015 | 17,000,940 | (13,419,393) | 3,581,547 | (1,928,681) | 415,845 | 2,068,711 | 50,554,474 | (7,278,030) | *** | 45,345,155 |
| 2014 | 16,333,444 | (15,847,769) | 485,675 | (2,450,002) | 588,251 | (1,376,076) | 51,930,550 | - | | 50,554,474 |
| 2013 | 15,610,414 | (13,582,756) | 2,027,658 | (2,560,242) | 970,596 | 438,012 | 51,666,918 | (174,380) | **** | 51,930,550 |
| 2012 | 15,081,377 | (13,059,540) | 2,021,837 | (2,541,893) | 93,919 | (426,137) | 50,938,362 | 1,154,693 | ***** | 51,666,918 |
| 2011 | 15,416,348 | (13,064,390) | 2,351,958 | (2,664,933) | 74,149 | (238,826) | 51,177,188 | | | 50,938,362 |
| 2010 | 15,248,891 | (11,438,099) | 3,810,792 | (2,520,271) | 213,148 | 1,503,669 | 49,673,519 | | | 51,177,188 |
| 2009 | 14,893,481 | (11,371,776) | 3,521,705 | (1,994,842) | 64,666 | 1,591,529 | 48,081,990 | | | 49,673,519 |

* The Agency restated beginning net position. There was a net decrease in net position as a result of implementing GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB) and a correction of depreciation on fixed assets. The decrease was offset with an increased value of inventory resulting from a full retroactive inventory count and cost analysis.

** During the FY 2016-17 audit, prior period adjustments were recorded which affected the FY 2015-16 financial statements. No reissuance of the FY 2015-16 audited financial statements was deemed necessary, however the adjustments have been reflected in this schedule for accurate comparison data and analysis.

*** The Agency implemented GASB No. 68 Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (Issued 06/12), as of July 1, 2014 which resulted in a prior period adjustment that reduced the beginning net position.

**** The Agency had simultaneously implemented GASB 65 with GASB 63, two new Government Accounting Standards Board statements, as of July 1, 2012. This had resulted in a $(174,380) change in net position to expense Revenue Bond Series 2006 debt issuance costs. See Note #2 Summary of Significant Accounting Policies for additional information available on http://www.cmsa.us/finance/FY2012-13 CAFR.

***** Salary expense for time worked on the Agency's treatment plant expansion projects during fiscal years 2009-2012 were reclassified to capital assets.

Source: Central Marin Sanitation Agency Audited Financial Statements

# Central Marin Sanitation Agency
## Operating Revenue by Source

### Schedule 3

| Fiscal Year Ended June 30 | Service Charge* | Contract Maintenance Revenue | Other Operating Revenue | Total Operating Revenues |
|---|---|---|---|---|
| 2018 | $ 15,845,548 | $ 1,114,680 | $ 393,738 | $ 17,353,966 |
| 2017 | 15,355,475 | 1,442,550 | 437,246 | 17,235,271 |
| 2016 | 14,471,578 | 1,546,239 | 477,241 | 16,495,058 |
| 2015 | 15,215,367 | 1,352,202 | 433,371 | 17,000,940 |
| 2014 | 14,722,581 | 1,226,428 | 384,435 | 16,333,444 |
| 2013 | 14,095,054 | 1,112,190 | 403,170 | 15,610,414 |
| 2012 | 14,396,006 | 296,377 | 388,994 | 15,081,377 |
| 2011 | 14,851,193 | 314,917 | 250,238 | 15,416,348 |
| 2010 | 14,587,726 | 351,621 | 309,544 | 15,248,891 |
| 2009 | 14,216,948 | 401,257 | 275,276 | 14,893,481 |

Note:
The Agency had simultaneously implemented GASB No. 65 with GASB 63, two new Governmental Accounting Standards Board statements, in FY 2013 as of July 1, 2012.

* Includes regional sewer service and capital debt service charges.

Source: Central Marin Sanitation Agency Audited Financial Statements

**Central Marin Sanitation Agency**
**Operating Expenses by Function**

**Schedule 4**

| Fiscal Year Ended June 30 | Salaries & Benefits | Operations Supplies and Services | Repairs & Maintenance | Permit Testing & Monitoring | Depreciation | Insurance | Utilities & Telephone | General & Administrative | | Prior Period Adjustment | Total Operating Expenses |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2018 | $ 8,877,307 | $ 1,366,871 | $ 886,312 | $ 149,815 | $ 3,995,080 | $ 95,517 | $ 311,191 | $ 669,900 | * | | $ 16,351,993 |
| 2017 | 9,079,369 | 1,496,774 | 947,285 | 110,973 | 4,045,357 | 97,095 | 318,900 | 697,499 | ** | | 16,793,252 |
| 2016 | 7,411,654 | 1,408,893 | 1,373,609 | 121,094 | 3,898,944 | 101,447 | 346,701 | 595,639 | *** | 3,168 | 15,261,149 |
| 2015 | 6,343,530 | 1,341,798 | 1,035,053 | 130,687 | 3,491,240 | 97,622 | 429,324 | 550,139 | | | 13,419,393 |
| 2014 | 8,585,875 | 1,340,334 | 1,175,412 | 110,372 | 3,562,656 | 97,325 | 471,656 | 504,139 | **** | | 15,847,769 |
| 2013 | 6,722,315 | 1,300,266 | 917,318 | 107,459 | 3,506,137 | 98,494 | 431,932 | 498,835 | | | 13,582,756 |
| 2012 | 6,340,897 | 1,317,942 | 593,504 | 90,890 | 3,633,904 | 93,614 | 383,934 | 604,855 | | | 13,059,540 |
| 2011 | 6,520,619 | 1,195,913 | 581,293 | 87,863 | 3,605,777 | 84,014 | 364,646 | 624,265 | | | 13,064,390 |
| 2010 | 6,107,007 | 1,268,649 | 545,498 | 89,672 | 2,263,687 | 90,282 | 379,155 | 694,149 | | | 11,438,099 |
| 2009 | 5,939,269 | 1,174,508 | 633,339 | 95,717 | 2,235,936 | 74,536 | 521,803 | 696,668 | | | 11,371,776 |

* Salaries & Benefits decreased over the prior year due to a smaller scheduled salary increase of 2% and additional savings from unfilled authorized positions.

** Salaries & Benefits increased over the prior year from a 4% negotiated salary increase and from a $1.17 million GASB 68 accrued pension expense.

*** During the FY 2016-17 audit, prior period adjustments were recorded which affected the FY 2015-16 financial statements. No reissuance of the audited financial statements was deemed necessary, however the adjustments to amortization have been reflected in this schedule for accurate comparison data and analysis.

**** The Board approved a $1.5 million CalPERS pension side-fund payment in FY 2013-14 which reduced reduced the employer contribution rate from 23.1% to 15.6%

Notes:

The Agency implemented GASB No. 68 Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (Issued 06/12), as of July 1, 2014.

The Agency had simultaneously implemented GASB No. 65 with GASB 63, two new Governmental Accounting Standards Board statements, in FY 2013 as of July 1, 2012.

Source: Central Marin Sanitation Agency Audited Financial Statements

**Central Marin Sanitation Agency**
**Non-Operating Revenues and Expenses**

**Schedule 5**

| Fiscal Year Ended June 30 | Interest & Investment Income | Other Non-operating Revenues | | Interest Expense | Other Non-operating Expenses | | Prior Period Adjustment | Total Non-operating Revenues (Expenses) |
|---|---|---|---|---|---|---|---|---|
| 2018 | $ 218,516 | $ 85,212 | | $ (1,527,361) | $ - | | | $ (1,223,633) |
| 2017 | 113,085 | 26,067 | | (1,752,699) | (64) | | | (1,613,611) |
| 2016 | 376,752 | 80,717 | | (1,577,466) | 518 | * | (180,852) | (1,300,331) |
| 2015 | 41,950 | 830,223 | | (2,108,649) | (692,205) | | | (1,928,681) |
| 2014 | 40,744 | 47,496 | | (2,536,490) | (1,752) | | | (2,450,002) |
| 2013 | 102,856 | 46,773 | | (2,702,688) | (7,183) | | | (2,560,242) |
| 2012 | 65,417 | 113,436 | * | (2,703,231) | (17,515) | ** | | (2,541,893) |
| 2011 | 90,322 | 30,786 | | (2,781,096) | (4,945) | | | (2,664,933) |
| 2010 | 133,558 | 195,638 | | (2,849,065) | (402) | | | (2,520,271) |
| 2009 | 865,160 | 58,034 | | (2,918,036) | - | | | (1,994,842) |

Note:
The Agency simultaneously had implemented GASB No. 65 with GASB 63, two new Governmental Accounting Standards Board statements, in FY 2013 as of July 1, 2012.

* During the FY 2016-17 audit, prior period adjustments were recorded which affected the FY 2015-16 financial statements. No reissuance of the audited financial statements was deemed necessary, however the adjustments to Interest income, other non-operating revenue and interest expense have been reflected in this schedule for accurate comparison data and analysis.

** Audited financial statements reported other non-operating revenue (expense) - net $95,921

Source: Central Marin Sanitation Agency Audited Financial Statements

## Central Marin Sanitation Agency
## Capital Contributions

### Schedule 6

| Fiscal Year Ended June 30 | Connection Fee (Capacity Charges) |
|---|---|
| 2018 | $ 197,753 |
| 2017 | 330,079 |
| 2016 | 162,705 |
| 2015 | 415,845 |
| 2014 | 588,251 |
| 2013 | 970,596 |
| 2012 | 93,919 |
| 2011 | 74,149 |
| 2010 | 213,148 |
| 2009 | 64,666 |

Source: Central Marin Sanitation Agency Audited Financial Statements

**Central Marin Sanitation Agency**
**Capital Additions**

## Schedule 7

| Fisal Year Ended June 30 | Capital Additions |
|---|---|
| 2018 | $ 2,043,192 |
| 2017 | 2,730,175 |
| 2016 | 4,372,405 |
| 2015 | 2,244,858 |
| 2014 | 2,180,163 |
| 2013 | 3,953,437 |
| 2012 | 5,736,508 |
| 2011 | 2,835,289 |
| 2010 | 14,947,046 |
| 2009 | 17,781,193 |

Contributed capital additions reflect the value for the acquisition and/or construction of fixed assets for the reporting period.

Source: Central Marin Sanitation Agency Audited Financial Statements

## Central Marin Sanitation Agency
## Major Revenue Rates and Base

### Schedule 8

| Fiscal Year Ended June 30 | Effective Sewer Service Charge Rate per EDU | Total Service Charge Revenue | Debt Service Charge per EDU | Total Debt Service Charge Collected | Total Sewer & Debt Charges | EDUs Reported by JPA Members | EDUs Assigned SQSP | Total Connected Equivalent Dwelling Units (EDU's) (1) |
|---|---|---|---|---|---|---|---|---|
| 2018 | 226.56 | $ 10,893,165.00 | $ 95.16 | $ 4,952,383 | N/A | 48,081 | 4,005 | 52,086 |
| 2017 | 217.82 | 10,395,358.00 | 94.74 (3) | 4,960,117 | N/A | 47,724 | 4,005 | 51,729 |
| 2016 | 204.71 | 9,897,549.00 | 87.10 | 4,574,029 | N/A | 48,350 | 4,005 | 52,355 |
| 2015 | 193.78 | 9,399,740.01 | 111.49 | 5,815,627 | N/A | 48,507 | 4,005 | 52,512 |
| 2014 | 184.86 | 8,901,932.00 | 111.69 | 5,820,649 | N/A | 48,156 | 4,005 | 52,161 |
| 2013 | 172.00 (2) | 8,274,123.00 | 113.51 | 5,820,931 | N/A (2) | 48,106 | 4,005 | 52,111 |
| 2012 | 169.74 | 8,576,113.51 | 115.19 | 5,819,892 | 284.93 | 50,525 | | 50,525 |
| 2011 | 164.64 | 9,032,808.96 | 103.95 | 5,818,384 | 268.59 | 54,867 | | 54,867 |
| 2010 | 156.80 | 8,771,161.62 | 103.44 | 5,816,564 | 260.24 | 55,941 | | 55,941 |
| 2009 | 149.33 | 8,396,527.24 | 104.19 | 5,820,421 | 253.52 | 56,228 | | 56,228 |

Note (1):

EDU counts are provided annually to CMSA by the member agencies. An EDU generally is one household. In the case of multiple dwellings, the number of EDU's varies by units. Commercial EDU is based on water use. Industrial EDU is based on volume and strength of the wastewater flow. Included in this total is 4,005 EDU assigned to SQSP for the debt service allocation. Prior to FY 13, SQSP's EDU was included in the total EDU reported by JPA members.

Note (2):
Beginning in FY 13, the Agency changed its service charge allocation methodology which is now calculated using wastewater strength and flow from each JPA member. SQSP's EDU count is excluded from the service charge per EDU calculation since FY 13 when SQSP contracted with CMSA to provide waste water services. The EDU count is still used to allocate debt service to each member agency and to establish Waste Hauler Charges and Industrial Monitoring Fees as set forth in CMSA Ordinance No. 2016-1 (see http://www.cmsa.us/documents/ordinances).

Note (3):

Historically, the Debt Service Charge per EDU rate is equal to the adopted budget rate. The FY 17 Adopted Budget EDU rate was $94.74 using the 2016 final EDU count for the FY 17 Budget. Upon receiving the final year end increased EDU count for 2017, the rate was adjusted accordingly to correctly allocate debt service revenue to each JPA member agency based on their final EDU count. Debt service revenue is the funding source for the debt service obligation.

Source: Annual Agency Budgets

## Central Marin Sanitation Agency
## Annual Flows into CMSA in Million Gallons and Pounds
## Volume and Strength of Wastewater Treated
## April 1 to March 31

### Schedule 9

The wastewater flow (volume) and strength (BOD & TSS) for each JPA member agency is used to determine its allocation of the CMSA regional service charge (SC). Additional information about the how the initial SC is calculated can be found in the Agency's FY 2018 Budget available on www.cmsa.us/finance. Reported below is actual data for the reporting period.

**A. Total Volume of Wastewater Flow into CMSA in million gallons**

| 12-Month Period | SRSD | RVSD | SD #2 | SQSP | Influent Flow |
|---|---|---|---|---|---|
| April 1, 2016 to March 31, 2018 | 1,411.51 | 1,913.07 | 357.66 | 166.12 | 3,848.36 |
| April 1, 2016 to March 31, 2017 | 1,844.03 | 2,597.79 | 472.68 | 136.90 | 5,051.40 |
| April 1, 2015 to March 31, 2016 | 1,435.31 | 1,912.90 | 422.01 | 129.48 | 3,899.70 |
| April 1, 2014 to March 31, 2015 | 1,521.91 | 1,953.05 | 424.90 | 143.97 | 4,043.83 |
| April 1, 2013 to March 31, 2014 | 1,387.11 | 1,737.97 | 397.52 | 158.51 | 3,681.11 |
| April 1, 2012 to March 31, 2013 | 1,528.91 | 1,993.15 | 422.70 | 160.46 | 4,105.22 |
| April 1, 2011 to March 31, 2012 | 1,482.20 | 1,916.90 | 381.20 | 186.60 | 3,966.90 |
| April 1, 2010 to March 31, 2011 | 1,814.70 | 2,389.80 | 471.20 | 244.80 | 4,920.50 |

**B. Total Mass of Biological Oxygen Demand (BOD in pounds)**

| 12-Month Period | SRSD | RVSD | SD #2 | SQSP | Influent BOD |
|---|---|---|---|---|---|
| April 1, 2016 to March 31, 2018 | 3,603,210 | 4,142,759 | 578,870 | 403,835 | 8,728,674 |
| April 1, 2016 to March 31, 2017 | 4,293,860 | 4,450,865 | 674,224 | 355,347 | 9,774,296 |
| April 1, 2015 to March 31, 2016 | 3,892,566 | 4,358,760 | 592,658 | 306,804 | 9,150,788 |
| April 1, 2014 to March 31, 2015 | 4,451,240 | 5,101,508 | 447,649 | 509,759 | 10,510,156 |
| April 1, 2013 to March 31, 2014 | 4,716,353 | 3,522,352 | 694,504 | 1,121,446 | 10,054,655 |
| April 1, 2012 to March 31, 2013 | 4,242,574 | 3,532,865 | 748,430 | 457,428 | 8,981,297 |

**C. Total Mass of Total Suspended Solids (TSS) in pounds**

| 12-Month Period | SRSD | RVSD | SD #2 | SQSP | Influent TSS |
|---|---|---|---|---|---|
| April 1, 2016 to March 31, 2018 | 4,656,989 | 5,435,656 | 814,651 | 486,679 | 11,393,975 |
| April 1, 2016 to March 31, 2017 | 5,543,868 | 5,629,170 | 905,498 | 457,495 | 12,536,031 |
| April 1, 2015 to March 31, 2016 | 5,569,476 | 6,827,531 | 934,372 | 398,325 | 13,729,704 |
| April 1, 2014 to March 31, 2015 | 7,812,006 | 8,343,902 | 699,225 | 1,503,385 | 18,358,518 |
| April 1, 2013 to March 31, 2014 | 7,573,120 | 5,341,885 | 1,361,000 | 1,320,534 | 15,596,539 |
| April 1, 2012 to March 31, 2013 | 6,396,936 | 4,325,587 | 1,171,099 | 1,067,135 | 12,960,757 |

Notes:
Allocation of treatment costs by Flow and Strength is: Flow - 50.6%, BOD - 24.7%, TSS - 24.7%. The allocation for the Agency's annual net revenues was accepted by the Board in April 2013.

Allocation of FY 2016 and future years SC is based on 36-month flow (April 1, 2013 to March 31, 2016) and 36 month strength (April 1, 2013 to March 31, 2016

Allocation of FY 2015 SC is based on 36-month flow (April 1, 2012 to March 31, 2015) and 24 month strength (April 1, 2013 to March 31, 2015).

Allocation of FY 2014 SC is based on 36-month flow (April 1, 2011 to March 31, 2014) and 12 month strength (April 1, 2013 to March 31, 2014).

**Central Marin Sanitation Agency**
**Member Agencies and San Quentin Equivalent Dwelling Units (EDU's)**

**Schedule 10**

| Fiscal Year Ended June 30 | Ross Valley Sanitary District (RVSD) | City of Larkspur | San Quentin Prison | Sanitary District #2 | San Rafael Sanitation District | Total EDUs | EDU Change from Prior Year | % Change from Prior Year |
|---|---|---|---|---|---|---|---|---|
| 2018 | 19,448 | 3,060 | 4,005 | 6,008 | 19,565 | 52,086 | 357 | 0.7% |
| 2017 | 19,298 | 3,039 | 4,005 | 6,055 | 19,332 | 51,729 | (626) | -1.2% |
| 2016 | 19,700 | 3,019 | 4,005 | 6,076 | 19,555 | 52,355 | (157) | -0.3% |
| 2015 | 19,666 | 2,982 | 4,005 | 6,216 | 19,643 | 52,512 | 351 | 0.7% |
| 2014 | 19,498 | 2,949 | 4,005 | 6,006 | 19,703 | 52,161 | 50 | 0.1% |
| 2013 | 19,511 | 2,997 | 4,005 | 6,116 | 19,482 | 52,111 | 1,586 | 3.1% |
| 2012 | 18,835 | 3,079 | 3,247 | 5,955 | 19,409 | 50,525 | (4,342) | -7.9% |
| 2011 | 19,261 | 3,021 | 7,209 | 5,975 | 19,401 | 54,867 | (1,074) | -1.9% |
| 2010 | 19,709 | 3,050 | 7,529 | 6,078 | 19,575 | 55,941 | (287) | -0.5% |
| 2009 | 19,295 | 3,116 | 7,936 | 6,196 | 19,685 | 56,228 | (30) | -0.1% |

EDU counts are provided annually to CMSA by the member agencies. An EDU generally is one household. In the case of multiple dwellings, the number of EDU's varies by units. Commercial EDU is based on water use. Industrial EDU is based on volume and strength of the wastewater flow. The EDU becomes the basis of revenue allocation when determining debt service charge revenue which is the funding source to repay debt service. The EDU count also is used to establish Waste Hauler Charges and Industrial Monitoring Fees as set forth in CMSA Ordinance No. 2016-1 (see http://www.cmsa.us/documents/ordinances).

Source: Annual Agency Budgets

# Central Marin Sanitation Agency
## Revenue Bonds
## Principal Debt Outstanding

### Schedule 11

| Fiscal Year Ended June 30 | | 2015 **(1)** Revenue Bonds | 2006 **(2)** Revenue Bonds | Total Outstanding Debt | Total Debt Per EDU | Total Debt Per Capita **(3)** |
|---|---|---|---|---|---|---|
| 2018 | **(4)** | $ 47,010,486 | $ - | 47,010,486 | $ 903 | $ 450 |
| 2017 | | 49,609,019 | - | 49,609,019 | 959 | 475 |
| 2016 | | 52,152,552 | - | 52,152,552 | 996 | 499 |
| 2015 | | 54,596,085 | - | 54,596,085 | 1,040 | 522 |
| 2014 | | | 58,438,189 | 58,438,189 | 1,120 | 559 |
| 2013 | | | 60,524,389 | 60,524,389 | 1,161 | 579 |
| 2012 | | | 62,525,589 | 62,525,589 | 1,238 | 598 |
| 2011 | | | 64,451,789 | 64,451,789 | 1,175 | 617 |
| 2010 | | | 66,302,989 | 66,302,989 | 1,185 | 634 |
| 2009 | | | 68,084,189 | 68,084,189 | 1,211 | 652 |
| 2008 | | | 69,800,389 | 69,800,389 | 1,241 | 668 |

Note: Personal income for all Marin County is shown on Schedule 13. It is not a relevant statistic to report principal balance as a percent of total income because that data is not available for the Agency's service area. Marin covers 520 square miles, of which 43.5 are within the Agency's service area.

**(1)**: The Refunding Revenue Bonds Series 2015 was issued to retire the Revenue Bonds Series 2006 during FY 15. The revenue bond was issued at lower borrowing rates which resulted in an average annual savings of approximately $866,000 over the 17 year repayment period. Details regarding the Agency's outstanding debt can be found in Note 5 in the financial statements. Principal payments are due September 1 each year.

**(2)**: The Agency refunded and retired the Revenue Bonds Series 2006 through the Refunding Revenue Bonds Series 2015 issuance during FY 15. A total of $57.6M principal was refunded.

**(3)**: Total population for all Marin County shown on Schedule 13 is 260,651. Using US Census Bureau QuickFacts, it is estimated 104,500 reside within CMSA's service area.

**(4)**: Effective FY 2018 the Agency fixed its debt service cost allocation to the JPA members based upon their 10-year average dwelling unit counts to smooth fluctuations. The total fixed EDU count is 52,044.

Source: Central Marin Sanitation Agency Audited Financial Statements

# Central Marin Sanitation Agency
## Pledged Revenue Coverage

### Schedule 12

| Fiscal Year Ended June 30 | Utility Service Charges | Less Operating Expenses | Net Revenues Available | 2015 Revenue Bonds | 2006 Revenue Bonds | Total Annual Debt Service | Debt Service Coverage |
|---|---|---|---|---|---|---|---|
| 2018 | $ 17,855,447 | $ 11,355,010 | $ 6,500,437 | $ 3,777,361 | | $ 3,777,361 | 1.72 |
| 2017 | 17,704,438 | 11,424,190 | 6,280,248 | 3,947,699 | | 3,947,699 | 1.59 |
| 2016 | 16,753,516 | 11,359,037 | 5,394,479 | 3,672,466 | | 3,672,466 | 1.47 |
| 2015 | 17,596,753 | 9,928,153 | 7,668,600 | | $ 4,243,649 | 4,243,649 | 1.81 |
| 2014 | 17,008,183 | 10,731,313 | 6,276,870 | | 4,576,490 | 4,576,490 | 1.37 |
| 2013 | 16,723,456 | 10,076,619 | 6,646,837 | | 4,657,688 | 4,657,688 | 1.43 |
| 2012 | 15,336,634 | 9,425,636 | 5,910,998 | | 4,583,231 | 4,583,231 | 1.29 |
| 2011 | 15,606,660 | 9,458,613 | 6,148,047 | | 4,586,096 | 4,586,096 | 1.34 |
| 2010 | 15,790,833 | 9,174,412 | 6,616,421 | | 4,584,065 | 4,584,065 | 1.44 |
| 2009 | 15,881,341 | 9,135,840 | 6,745,501 | | 4,588,036 | 4,588,036 | 1.47 |

Source: Central Marin Sanitation Agency Audited Financial Statements

**Central Marin Sanitation Agency**
**Demographic and Economic Statistics**

**Schedule 13**

| Fiscal Year Ended June 30 | Marin County Population **(1)** | US Census Bureau Marin County Population **(2)** | Personal Income (in thousands) **(3)** | | Per Capita Personal Income **(3)** | | Marin County Unemployment Rate **(1)** | |
|---|---|---|---|---|---|---|---|---|
| 2018 | N/A | N/A | N/A | | N/A | | 2.5% | **(b)** |
| 2017 | N/A | N/A | N/A | | N/A | | 3.1% | |
| 2016 | 260,651 | N/A | $30,222,883 | **(a)** | $115,952 | **(a)** | 3.3% | |
| 2015 | 261,221 | N/A | 29,227,230 | | 111,959 | | 3.8% | |
| 2014 | 258,324 | N/A | 27,176,774 | | 104,319 | | 4.6% | |
| 2013 | 255,778 | N/A | 25,045,431 | | 96,885 | | 5.6% | |
| 2012 | 254,882 | N/A | 24,619,594 | | 96,146 | | 6.9% | |
| 2011 | 254,359 | N/A | 23,009,440 | | 90,072 | | 8.1% | |
| 2010 | 252,731 | 252,409 | 21,049,598 | | 83,218 | | 8.4% | |
| 2009 | 259,772 | N/A | 20,810,155 | | 82,955 | | 6.2% | |

Note **(a)**: Bureau of Economic Analysis Marin County CA1 Personal Income and CA1-3 Per Capita Personal Income last updated by November 16, 2017

Note **(b)**: Unemployment rate figure is the Marin County average monthly unemployment rate for the period July 2017 through June 2018 (www.labormarketinfo.edd.ca.gov)

Source: **(1)** State of California Employment Development Department Labor Market Info website:
www.labormarketinfo.edd.ca.gov
**(2)** California Department of Finance from data files released by the US Census Bureau website:
http://www.dof.ca.gov/research/demographic/
http://2010.census.gov/2010census/
**(3)** US Department of Commerce Bureau of Economic Analysis (BEA) website:
www.bea.gov/iTable

## Central Marin Sanitation Agency
## Ten Largest Employers Statistic

### Schedule 14

| Ten Largest Employers in the CMSA Service Area (1) | Type of Entity | Number of Employees FY 18 | Percentage of Total Marin County Employment (2) | Number of Employees FY 17 | Percentage of Total Marin County Employment | Number of Employees FY 16 | Percentage of Total Marin County Employment | Number of Employees FY 15 | Percentage of Total Marin County Employment | Number of Employees FY 14 | Percentage of Total Marin County Employment |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BioMarin **(3)** | Biotech | 1,700 | 1.25% | 1,700 | 1.25% | | | | | | |
| San Quentin State Prison | State Government | 1,600 | 1.18% | 1,662 | 1.22% | 1,832 | 1.35% | 1,832 | 1.35% | 1,832 | 1.34% |
| Marin General Hospital | Hospital | 1,650 | 1.21% | 1,650 | 1.22% | 1,650 | 1.21% | 1,650 | 1.22% | 1,650 | 1.20% |
| Dominican University | University | 1,000 | 0.74% | 1,000 | 0.74% | 1,000 | 0.73% | 1,000 | 0.74% | 745 | 0.54% |
| Golden Gate Transit | Transit District | 820 | 0.60% | 810 | 0.60% | 775 | 0.57% | 775 | 0.57% | 775 | 0.57% |
| College of Marin | College District | 360 | 0.26% | 507 | 0.37% | 332 | 0.24% | 328 | 0.24% | 354 | 0.26% |
| Restoration Hardware **(3)** | Home Furnishings | 500 | 0.37% | 500 | 0.37% | | | | | | |
| City of San Rafael | Government | 404 | 0.30% | 401 | 0.30% | 390 | 0.29% | 390 | 0.29% | 383 | 0.28% |
| San Rafael City Schools | School District | 355 | 0.26% | 355 | 0.26% | 355 | 0.26% | 355 | 0.26% | 355 | 0.26% |
| Kentfield Rehabilitation & Hospital | Hospital | 345 | 0.25% | 345 | 0.25% | 344 | 0.25% | 344 | 0.25% | 344 | 0.25% |
| Tamalpais Union High School District (TUHSD) | School District | | | | | 417 | 0.31% | 310 | 0.23% | 353 | 0.26% |
| Marin Muncipal Water District (MMWD) | Water District | | | | | 246 | 0.18% | 246 | 0.18% | 244 | 0.18% |

| | | Number of Employees FY 13 | Percentage of Total Marin County Employment | Number of Employees FY 12 | Percentage of Total Marin County Employment | Number of Employees FY 11 | Percentage of Total Marin County Employment | Number of Employees FY 10 | Percentage of Total Marin County Employment | Number of Employees FY 09 | Percentage of Total Marin County Employment |
|---|---|---|---|---|---|---|---|---|---|---|---|
| San Quentin State Prison | State Government | 1,832 | 1.36% | 2,058 | 1.60% | 2,058 | 1.65% | 2,058 | 1.68% | 2,058 | 1.69% |
| Marin General Hospital | Hospital | 1,650 | 1.22% | 1,505 | 1.17% | 1,505 | 1.21% | 1,505 | 1.23% | 1,506 | 1.23% |
| Dominican University | University | 745 | 0.55% | 745 | 0.58% | 838 | 0.67% | 838 | 0.68% | 838 | 0.69% |
| Golden Gate Transit | Transit District | 838 | 0.62% | 838 | 0.65% | 745 | 0.60% | 777 | 0.63% | 705 | 0.58% |
| College of Marin | College District | 474 | 0.35% | 650 | 0.51% | 344 | 0.28% | 307 | 0.25% | 307 | 0.25% |
| City of San Rafael | Government | 387 | 0.29% | 387 | 0.30% | 355 | 0.28% | 355 | 0.29% | 355 | 0.29% |
| San Rafael City Schools | School District | 355 | 0.26% | 355 | 0.28% | 650 | 0.52% | 650 | 0.53% | 696 | 0.57% |
| Kentfield Rehabilitation & Hospital | Hospital | 344 | 0.25% | 344 | 0.27% | 353 | 0.28% | 353 | 0.29% | 353 | 0.29% |
| Tamalpais Union High School District | School District | 353 | 0.26% | 353 | 0.27% | 400 | 0.32% | 416 | 0.34% | 437 | 0.36% |
| Marin Muncipal Water District (MMWD) | Water District | 239 | 0.18% | 238 | 0.19% | 236 | 0.19% | 265 | 0.22% | 262 | 0.21% |

**(1)** CMSA service area largest employers: FY 09 was the first year the Ten Largest Employers was reported in the CAFR.

**(2)** Total Marin County employment for June 2017 was 136,000. The data source is from www.labormarketinfo.edd.ca.gov/data/interactive-labor-market-data-tools.html. Employment statistics by cities within Marin County are not available.

**(3)** BioMarin and Restoration Hardware were identified as two of the top 10 employers in CMSA's service area in FY 17 replacing MMWD and TUHSD. MMWD's and TUHSD's employee headcounts for the previous 8 years remain on the schedule.

# Central Marin Sanitation Agency
# Authorized Staffing by Department Function

## Schedule 15

| Authorized Staffing by Department | FY 2018 | FY 2017 | FY 2016 | FY 2015 | FY 2014 | FY 2013 | FY 2012 | FY 2011 | FY 2010 | FY 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Administration **(4)** | 7 | 7 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 7 |
| Maintenance **(1)** | 14 | 14 | 14 | 13 | 14 | 13 | 13 | 13 | 13 | 12 |
| Operations | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 14 | 14 | 14 |
| Technical Services **(4)** | 8 | 8 | | | | | | | | |
| Environmental Services **(4)** | - | - | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Engineering **(2)** | - | - | 4 | 3 | 3 | 3 | 3 | 2 | 2 | 2 |
| Safety Director Program **(3)** | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Agency Total | 43 | 43 | 43 | 41 | 42 | 41 | 41 | 41 | 41 | 41 |

Note **(1)**: FY 2016 Addition of one Utility Worker.
Note **(2):** FY 2016 Addition of one new Associate Engineer position.
Note **(3)**: The Safety Director Program is a shared services position with CMSA Administration and one local wastewater agency.
Note **(4)**: The Board approved a department reorganization plan at the November 10, 2016 meeting. Three Engineering and four Environmental Services positions were reorganized into Technical Services. One Engineering position was transferred into Administration.

Source: Central Marin Sanitation Agency records

# Central Marin Sanitation Agency
# Treatment Capacity and Wastewater Treatment

## Schedule 16

Millions of Gallons per Day

| Treatment Plant | FY 2018 | FY 2017 | FY 2016 | FY 2015 | FY 2014 | FY 2013 | FY 2012 | FY 2011 | FY 2010 | FY 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Treatment Plant Permitted Capacity | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Average Dry Weather Flow **(1)** | 7.0 | 8.2 | 4.6 | 4.7 | 5.6 | 5.8 | 6.1 | 6.2 | 6.2 | 6.9 |
| Wastewater Treated per day **(2)** | 9.3 | 12.9 | 7.8 | 7.0 | 7.9 | 8.9 | 8.0 | 10.6 | 10.3 | 8.7 |

Wet Tons per Year

| | FY 2018 | FY 2017 | FY 2016 | FY 2015 | FY 2014 | FY 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Biosolids Treated | 6,517 | 6,500 | 6,231 | 5,882 | 5,450 | 6,107 | 6,344 | 6,267 | 6,013 | 6,217 |

Note **(1)**: Average Dry Weather Flow is based on the average of the 3 lowest months of flow (generally July, August and September).

Note **(2)**: CMSA adjusted its final effluent weir coefficient utilizing a consultant's recommended recalculation of the weir discharge equation, which provides an optimal correlation between the reported flow rates.

Source: Central Marin Sanitation Agency records

**CENTRAL MARIN SANITATION AGENCY**
**Agency Information**
**June 30, 2018**

**1301 Andersen Drive**
**San Rafael, CA 94901**
**415 459-1455**

| | |
|---|---|
| Authority | Joint Powers Agreement |
| Date of formation | October 1979 |
| Governing body | Board of Commissioners appointed by member agencies: |
| | Ross Valley Sanitary District - 2 appointees |
| | Sanitary District No. 2 of Marin County - 1 appointee |
| | San Rafael Sanitation District - 2 appointees |
| | City of Larkspur - 1 appointee |
| Chief Executive Officer | General Manager, Jason Dow |
| Chief Fiscal Officer | Administrative Services Manager, Kenneth Spray |
| Type of service | Wastewater collection, treatment and disposal |
| Number of Authorized Positions | 43 |

Member Agency Contact Information:

Ross Valley Sanitary District
2960 Kerner Blvd
San Rafael, CA 94901
415) 259-2949

Sanitary District No. 2 of Marin County
300 Tamalpais Drive
P.O. Box 159
Corte Madera, CA 94976-0159
(415) 927-5057

San Rafael Sanitation District
111 Morphew Street
P.O. Box 151560
San Rafael, CA 94915-1560
(415) 454-4001

City of Larkspur
400 Magnolia Street
Larkspur, CA 94939
(415) 927-5032

Retirement Plans Contact Information:

California Public Employee's Retirement System
Lincoln Plaza North
400 Q Street
Sacramento, CA 95814
(888) 225-7377

Source: Central Marin Sanitation Agency

# Appendix A

## Agency's Mission, Vision, and Values

# Agency’s Mission, Vision, and Values

MISSION

## MISSION

### WHAT THE AGENCY DOES

Central Marin Sanitation Agency will protect the environment and public health by providing wastewater, environmental, and resource recovery services of exceptional quality and value to its customers.

VISION

## VISION

### WHERE THE AGENCY WANTS TO BE IN THE FUTURE

Central Marin Sanitation Agency will be an industry leader by providing innovative, efficient, and sustainable wastewater services, capturing and utilizing renewable resources, and delivering renewable power.

VALUES

## VALUES

### KEY STATEMENTS THAT DESCRIBE THE IDEALS OF THE AGENCY

CMSA values...

- Consistent and continuous regulatory compliance to protect San Francisco Bay.
- Sound financial practices to safeguard the Agency’s assets.
- Effective asset management through appropriate short- and long-term planning and sustainable practices.
- A safe and healthy workplace for its employees and stakeholders.
- Professional growth, teamwork, and job satisfaction within a diverse workforce.
- Quality public outreach and education to promote environmental stewardship.
- Partnerships which further common water quality and resource recovery interests.

## Appendix B

## Key Terms and Financial Glossary with Acronym Listing

**Key Terms and Financial Glossary with Acronym Listing**

- **ASSETS**: Anything of material and economic value or usefulness that is owned by the entity.
- **BOND PREMIUM**: A bond that is priced higher than its stated face (par) value.
- **CAPITAL ASSETS**: Includes Agency land, treatment plant, facilities, buildings, and equipment net of depreciation.
- **CAPITAL EXPENDITURE**: An expenditure of $2,500 or more that is used to newly purchase a capital asset with a useful life of one year or more or an investment that improves the useful life of an existing asset.
- **CAPITAL IMPROVEMENT PROGRAM (CIP)**: A plan that describes and explains the Agency's capital projects, delineated by type of capital project and funding source, over ten fiscal years. The CIP is a planning document that provides the Agency with an opportunity to evaluate and assess its capital needs from financial, engineering, operational and planning perspectives.
- **CONTRACT SERVICE REVENUES**: Services provided by the Agency under contract to other local agencies for pump station and collection system maintenance and the FOG & Pollution Prevention Programs.
- **CURRENT AND OTHER ASSETS**: Assets that can easily be converted to cash or consumed within one year. Includes cash, investments, receivables, prepaid expenses, deposits with others (example: OPEB asset).
- **CURRENT LIABILITIES**: Payment obligations owed by the Agency within the next 12 months.
- **DEPRECIATION**: A current year non-cash expense that reduces the value of an asset as a result of wear and tear, age or obsolescence. Accumulated depreciation is the total amount expensed since the asset was placed in service.
- **ENTERPRISE FUND**: A government accounting fund that provides goods or services to the public for a fee that makes the entity self-supporting.
- **EQUIVALENT DWELLING UNIT (EDU)**: An EDU is one single-family residence.
- **FLOW(S)**: The total incoming sewage flow(s) to CMSA from JPA member agencies, measured in millions of gallons and collected for the previous April 1 to March 31 will be used to calculate the sewer service charge and allocate to each JPA member agency for its respective portion of the sewer charge beginning FY 2013.
- **HAULERS, PERMITS & INSPECTION REVENUE**: Fees and charges for use of Agency septage receiving facility; permit fees to discharge commercial and industrial waste; reimbursement of Agency labor and administrative costs for performing inspections and other services.
- **JOINT POWERS AUTHORITY (JPA)**: An agreement between two or more local government agencies to form a separate governmental entity distinct from the member governments authorizing the powers the JPA is allowed to exercise.
- **LIABILITIES**: What the Agency owes others.
- **NET INVESTMENTS IN CAPITAL ASSETS**: Represents amounts invested in capital assets less accumulated depreciation and any outstanding debt used to acquire the assets.
- **NON-CURRENT LIABILITIES**: Payment obligations owed by the Agency more than 12 months in the future.
- **OTHER NON-OPERATING REVENUE**: Includes CSRMA dividends, CalCARD prompt payment incentive rebates, settlement claims, the occasional sale of assets, SDI disability reimbursements, and other miscellaneous revenue sources.
- **PROGRAM REVENUES**: The Agency is the lead coordinator for the Safety Director, Countywide Education, and Outside Safety Training programs. Costs incurred by CMSA are allocated to the districts that participate in the

programs. The Agency invoices participating Districts quarterly for Safety Director and Countywide Education expenditures in accordance with agreements with program participants.

- **REVENUE BOND**: Debt obligation for which interest and principal payments are secured by the debt service portion of service charge revenues generated for the treatment plant project being financed.
- **SERVICE CHARGE (SC)**: A fee for wastewater treatment service and payment of the revenue bond debt service.
- **SEWER SERVICE CHARGE (SSC)**: A fee for wastewater treatment service and payment of the revenue bond debt service. The SSC is typically the fee collected by JPA members and the term is used inter-changeably with the service charge.
- **TOTAL NET POSITION**: Equity associated with general government assets and liabilities. The difference between total assets and total liabilities.
- **UNRESTRICTED CASH**: Cash and investments available to use for operations and not tied to a specific obligation.
- **UNRESTRICTED (NET POSITION)**: The net amount of 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.

**ACRONYM LISTING**

| | |
|---|---|
| ADC | Alternate Daily Cover |
| AM | Asset Management |
| B2E | Biosolids-to-Energy |
| BACC | Bay Area Chemical Consortium |
| BACWA | Bay Area Clean Water Agencies |
| BAPPG | Bay Area Pollution Prevention Group |
| BAAQMD | Bay Area Air Quality Management District |
| BOD | Biochemical Oxygen Demand |
| BWA | Bartle Wells Associates |
| CalOES | California Office of Energy Services |
| CAMP | California Asset Management Program (see Interest Income) |
| CASA | California Association of Sanitation Agencies |
| CCT | Chlorine Contact Tank |
| CEC | California Energy Commission |
| CERBT | California Employers' Retirement Benefit Trust |
| CIP | Capital Improvement Program |
| CMMS | Computerized Maintenance Management System |
| CMSA | Central Marin Sanitation Agency |
| COLA | Cost of Living Adjustment |
| CPI | Consumer Price Index |
| CSRMA | California Sanitation Risk Management Authority |
| CUPA | Certified Unified Program Agencies |
| CWEA | California Water Environment Association |
| DBOO | Design, Build, Own, Operate |
| DDSD | Delta Diablo Sanitation District |
| EDU | Equivalent Dwelling Unit |
| ELAP | Environmental Laboratory Approval Program |
| EPMC | Employer Paid Member Contribution |
| F2E | Food-to-Energy |
| FEMA | Federal Emergency Management Agency |

| | |
|---|---|
| FOG | Fats, Oils and Grease program (see Contract Service Revenues) |
| FSE | Food Service Establishment(s) |
| FTE | Full Time Equivalent (a position converted to decimal equivalent of a full time position) |
| FY | Fiscal Year |
| G&A | General & Administrative |
| GASB | Government Accounting Standards Board |
| GHG | Greenhouse Gas |
| JEPA | Joint Exercise of Powers Agreement |
| JPA | Joint Powers of Authority |
| LARK | City of Larkspur, JPA Member |
| LBNL | Lawrence Berkeley National Laboratories |
| LED | Light-emitting Diodes |
| LGVSD | Las Gallinas Sanitary District (see Contract Service Revenues) |
| MCE | Marin Clean Energy |
| MOU | Memorandum of Understanding |
| MSS | Marin Sanitary Service |
| NACWA | National Association of Clean Water Agencies |
| NBWA | North Bay Watershed Association |
| NPDES | National Pollutant Discharge Elimination System |
| NSD | Novato Sanitary District (see Contract Service Revenues) |
| OPEB | Other Post-Employment Benefits |
| PCA | Pretreatment Compliance Audit |
| PIER | Public Interest Energy Research |
| PPA | Power Purchase Agreement |
| RAS | Return Activated Sludge |
| RFP | Request for Proposal |
| RFQ | Request for Qualifications |
| ROWD | Report of Waste Discharge |
| RWB | Regional Water Board |
| RVSD | Ross Valley Sanitary District, JPA Member |
| SAMP | Strategic Asset Management Program |
| SBP | Strategic Business Plan |
| SC | Service Charge |
| SCADA | Supervisory Control and Data Acquisition (a monitoring and control software system) |
| SD #2 | Sanitary District No. 2, JPA Member |
| SDI | State Disability Insurance |
| SDS | Safety Data Sheets |
| SQSP | San Quentin State Prison (see Contract Service Revenues) |
| SRSD | San Rafael Sanitation District, JPA Member |
| SSC | Sewer Service Charge |
| SUO | Sewer Use Ordinance |
| SWRCB | State Water Resources Control Board |
| TCSD | Tamalpais Community Services District (see Contract Service Revenues) |
| TSS | Total Suspended Solids |
| USA | Underground Service Alert |