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CERTIFIED PUBLIC ACCOUNTANTS

CENTRAL MARIN SANITATION AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2018

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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 City'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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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 treatment agency that serves central Marin County residents, businesses, and governmental institutions including San Quentin State Prison (SQSP). The area served by CMSA includes portions of the City of San Rafael, the City of Larkspur, the Towns of Corte Madera, Fairfax, Ross, San Anselmo and the unincorporated areas of Ross Valley. For the Fiscal Year 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), Sanitary District No. 1 of Marin County (SD1), Sanitary District No. 2 of Marin County (SD2), and the City of Larkspur, entered into a joint powers agreement (JPA) in October 1979 to create a separate governmental entity, the Central Marin Sanitation Agency (CMSA), to oversee the construction and operation of a regional wastewater treatment facility. The SQSP chose not to join the JPA. The Agency's facilities were constructed at a cost of 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), comprises individuals appointed by the JPA agencies. San Rafael Sanitation District and Sanitary District No. 1 of Marin County each have two members on the Commission while the City of Larkspur and Sanitary District No. 2 of Marin County each have one member. The six-member Board sets policy for the Agency. The Board appoints the General Manager and Treasurer/Controller who serve at the pleasure of the Board. The General Manager is the chief administrative officer responsible for Agency operations and long-term planning in accordance with the Board's policies and approved budget. The Treasurer/Controller is charged with overall financial responsibility in accordance with established Agency policies.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

BASIC FINANCIAL STATEMENTS

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

<u>The Statement of Net Position</u> 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	3,780,431	4,227,638	(447,207)	(10.6)
Noncurrent liabilities	58,367,168	57,093,549	1,273,619	2.2
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 $447,207. 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. Additionally, $291,887 of accrued compensated absences was reclassified to long-term liabilities. Additional information can be found in Note #5 to the Financial Statements-Long-Term Obligations.

- Non-current (long-term) liabilities increased by $1,273,619 as a result of an increase in net pension liability of $1,565,400 and an 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 treatment services for the residents and businesses in its service area. Consequently, these assets are not available for future spending. Although the Agency's investment in its capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used or sold to liquidate Agency liabilities. The remaining balance of the unrestricted net position may be used to meet the Agency's ongoing obligations to its customers and creditors.

REVENUES, EXPENSES, AND CHANGE IN NET POSITION STATEMENT ANALYSIS

Table 2 – Change in Net Position

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

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

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, SD1 and SD2) and not from rate payers within the service area served. The Agency does not receive property tax revenue. Accordingly, the Agency sets its charges to JPA member agencies and the State of California for SQSP to cover the costs of OM&R and debt financed capital improvements plus any increments for known or anticipated changes in program costs.

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

CONTACTING THE AGENCY

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

Administrative Services Manager
Central Marin Sanitation Agency
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 fair value at the date received.

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

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

The Agency has assigned the useful lives listed below to plant and facilities:

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	$ 4,765,978	$ 4,560,237	$ 4,764,021	$ 4,418,991
Contributions as a percentage of covered payroll	20.30%	20.99%	19.96%	20.98%

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*

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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