

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016**

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors,
Sanitary District Number 5 of Marin County:

We have audited the accompanying financial statements of Sanitary District Number 5 of Marin County as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 financials statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits 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 purposes of expressing an opinion on the effectiveness of the District's internal

controls. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Sanitary District Number 5 of Marin County as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

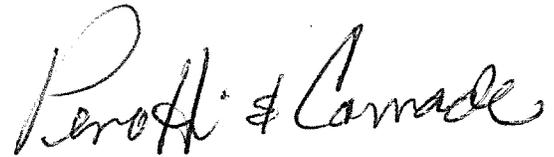
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the schedule of funding progress for retired employee health care plan on page 33, the schedule of the District's proportionate share of net pension liability administered by CalPERS on page 34, and the schedule of the District's pension contributions page 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standard Board, who considers it to be an essential part of the 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 an opinion on the financial statements that collectively comprise Sanitary District Number 5 of Marin

County's basic financial statements. The additional information on page 35 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

January 4, 2018

A handwritten signature in cursive script, reading "Peroff & Carnade". The signature is written in dark ink and is positioned to the right of the date.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Sanitary District Number 5 of Marin County's annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2017. The financial statements are presented in a format to comply with the financial statement presentation requirements of the Governmental Accounting Standards Board.

FINANCIAL HIGHLIGHTS

- The net position of the District's business-type activities increased by approximately \$1,484,000 during the year ended June 30, 2017.
- Total operating revenues increased by approximately \$205,000 due to an increase of approximately \$75,000 in the revenue from connection and inspection fees and an increase of approximately \$100,000 in sewer service charges.
- Total operating expenses for the year ended June 30, 2017 increased by approximately \$542,000 compared to the year ended June 30, 2016. The increase in operating expenses was principally attributed to increases in salaries and related payroll taxes and benefits of approximately \$332,000, an increase of approximately \$108,000 in line cleaning and inspections, and an increase of approximately \$78,000 in depreciation expense.
- There were no increases in customer rates during the year ended June 30, 2017.
- No new debt was issued during the year ended June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements including related disclosures, and required supplementary information. The basic financial statements include one kind of statement that present both a short-term and long-term view of the District: Proprietary enterprise fund-type statements offer short and long-term financial information about the activities that the District operates like businesses, such as the District's wastewater collection and treatment system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that provides more data about the District's pension plans. Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

MANAGEMENT’S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

FIGURE A-1 Major Financial Statement Features

| | Basic Financial Statements |
|---|---|
| Scope | Activities the District operates similar to private businesses; the wastewater collection and treatment systems. |
| Required financial statements | Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows. |
| Accounting basis and measurement focus | Accrual accounting and economic measurement focus. |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term focus. |
| Type of inflow/outflow information | All revenues and expenses during the year, regardless of when cash is received. |

Basic Financial Statements

The basic financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position regardless of when cash is received or paid.

The basic financial statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health, or *position*.

Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The basic financial statements of the District consist of one category:

Business-type activities – The District charges fees to help it cover the costs of certain services it provides. All of the District's operations are accounted for in this category. The District uses proprietary enterprise fund type accounting principles to account for all operations. Proprietary accounting provides both long-and short-term financial information.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

TABLE A-1: Net Position of the District

| | <u>2017</u> | <u>2016</u> | Increase (Decrease) Over 2016 | Percent Increase (Decrease) |
|--|----------------------|----------------------|-------------------------------------|-----------------------------------|
| Cash, including board reserves | \$ 12,490,776 | \$ 10,024,681 | \$ 2,466,095 | 24.60% |
| Capital assets | 19,421,384 | 20,355,409 | (934,025) | -4.59% |
| Other assets and deferred outflows of resources | <u>841,067</u> | <u>2,079,628</u> | <u>(1,238,561)</u> | -59.56% |
| Total assets and deferred outflows of resources | <u>32,753,227</u> | <u>32,459,718</u> | <u>293,509</u> | 0.90% |
| Current liabilities | 1,428,546 | 913,376 | 515,170 | 56.40% |
| Net pension liability and related deferred inflows of resources | 746,311 | 1,941,422 | (1,195,111) | -61.56% |
| Long-term bond and loan debt | <u>9,011,279</u> | <u>9,521,739</u> | <u>(510,460)</u> | -5.36% |
| Total liabilities and deferred inflows of resources | <u>11,186,136</u> | <u>12,376,537</u> | <u>(1,190,401)</u> | -9.62% |
| Net position: | | | | |
| Invested in capital assets | 9,899,645 | 10,332,139 | (432,494) | -4.19% |
| Unrestricted | <u>11,667,446</u> | <u>9,751,042</u> | <u>1,916,404</u> | 19.65% |
| Total net position | <u>\$ 21,567,091</u> | <u>\$ 20,083,181</u> | <u>\$ 1,483,910</u> | 7.39% |

Net Position. The District's total net position increased by \$1,483,910 during the year ended June 30, 2017. This increase is discussed in detail on the following page. The \$1,190,000 decrease in liabilities and deferred inflows of resources is attributed principally to the District's one-time payment of approximately \$1.6 million to pay down the District's pension obligation during the year ended June 30, 2016 was applied against the actual obligation during the year ended June 30, 2017. Current year contributions to reduce pension obligations and cover service costs are reflected as deferred outflows and will be applied against the obligation during the year ending June 30, 2018. This is because there is a one-year lag in recognizing pension liability transactions. Contributions to the plan for the current year are recognized as deferred outflows (similar to an asset).

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

TABLE A-2 Condensed Revenues, Expenses and Changes in Net Position

| | <u>2017</u> | <u>2016</u> | Increase (Decrease) Over 2016 | Percent Increase (Decrease) |
|------------------------------------|----------------------|----------------------|-------------------------------------|-----------------------------------|
| Operating revenues | \$ 5,452,577 | \$ 5,247,810 | \$ 204,767 | 3.90% |
| Nonoperating revenues | <u>1,122,358</u> | <u>1,016,936</u> | <u>105,422</u> | 10.37% |
| Total revenues | 6,574,935 | 6,264,746 | 310,189 | 4.95% |
| Operating expenses | 4,782,528 | 4,240,335 | 542,193 | 12.79% |
| Nonoperating expenses | <u>308,497</u> | <u>318,585</u> | <u>(10,088)</u> | -3.17% |
| Total expenses | 5,091,025 | 4,558,920 | 532,105 | 11.67% |
| Change in net assets | 1,483,910 | 1,705,826 | (221,916) | -13.01% |
| Net position - beginning of period | 20,083,181 | 18,117,614 | 1,965,567 | 10.85% |
| Contributed Capital | - | 259,741 | (259,741) | -100.00% |
| Net position - end of period | <u>\$ 21,567,091</u> | <u>\$ 20,083,181</u> | <u>\$ 1,483,910</u> | 7.39% |

Overall, during the year ended June 30, 2017, there was an increase of \$310,189, or about 4.95 percent, in total revenues from last fiscal year. This was principally due to an increase in connection and inspection fees earned during the year of \$75,442, an increase in sewer service charges of \$99,683, and an increase in property tax revenue of \$65,216. Revenue from connection and inspection fees and property tax fluctuate yearly. The increase in the sewer service charges was due to an increase in the number of equivalent units charged to commercial property owners.

The District's total expenses for the year ended June 30, 2017 increased by \$532,105, or about 11.67 percent, compared to total expenses for the year ended June 30, 2016. Compensation costs increased principally due to the amortization of pension costs and an increase in wages paid to employees. The pension expense for the years ended June 30, 2017 and 2016 was approximately \$437,000 and \$200,000, respectively, or an increase of approximately \$237,000. Compensation paid to employees increased by approximately \$124,000, due to annual cost of living increases were provided to employees, increases in the amounts paid in overtime and the hiring for a new position. Line cleaning and inspection increased by \$107,972. This increase was due to increased cleaning in the downtown area and also the adding of maintenance cleaning activities in the newly acquired Point Tiburon area. The depreciation expense increase of \$77,909, was principally attributed to improvements completed at a Tiburon pump station made in late fiscal year 2015-2016, which had \$40,000 of depreciation recorded during the year ended June 30, 2017.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Contributed capital derived from connections to the wastewater system decreased by \$248,559 because the Districted annexed a homeowner's association (Pt. Tiburon) to the District's wastewater system during the year ended June 30, 2016, for which the District received \$90,000, their sewer lines, and other property valued at \$147,063. Otherwise, there were no sources of contributed capital during the year ended June 30, 2017.

CAPITAL ASSET AND DEBT ADMINISTRATION

TABLE A-3 District Investment in Capital Assets, Net of Accumulated Depreciation

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>Increase (Decrease) Over 2016</u> | <u>Percent Increase (Decrease)</u> |
|---|----------------------|----------------------|--|--|
| Land | \$ 49,295 | \$ 49,295 | - | 0.00% |
| Main and Paradise Cove plant | 13,954,321 | 15,030,488 | (1,076,167) | -7.16% |
| Sewer line and pump stations | 5,270,993 | 5,096,966 | 174,027 | 3.41% |
| Plant equipment, vehicles and other equipment | <u>146,775</u> | <u>178,660</u> | <u>(31,885)</u> | <u>-17.85%</u> |
| Total capital assets, being depreciated | <u>\$ 19,421,384</u> | <u>\$ 20,355,409</u> | <u>\$(934,025)</u> | <u>-4.59%</u> |

Capital Assets

There was a net decrease in capital assets of \$934,025 during the year ended June 30, 2017 mainly due to current year's depreciation of \$1,516,701. The District also added \$588,689 of improvements during the year ended June 30, 2017. This included approximately \$120,000 toward sewer lines improvements and control panel upgrades made at four pump stations.

Long-Term Debt

In fiscal year 2012, the District's Financing Authority issued \$10,935,000 in revenue bonds to provide financing for the Main Plant Rehabilitation Project. Because of the financial condition of the District, the bonds were sold at a \$1,076,031 premium that effectively reduced the overall interest rate on the District's bonds. Principal and interest payments began in fiscal year 2013.

There was no new long-term debt issued by the District during the year ended June 30, 2017.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S OPERATING PLAN AND RATES

Several major changes in the District's financial capabilities and operations are anticipated in the future.

In the capital area, the District has determined there is an urgent need for significant capital improvements. These needs primarily deal with the aging infrastructure of the District's wastewater collection system. Future large capital improvement projects impacting District operations include the Cove Road Force Main Rehabilitation Project and the Mar West Pump Station No. 5, Phase II Improvement Project. These projects are major rehabilitations of central pump stations in both Tiburon and Belvedere District service areas. Capital improvement work will continue on the collection system, according to the 10-year CIP Program. Inflow and Infiltration (I&I) remains one of the District's highest items of concern, as reducing I&I requires a comprehensive plan and adequate funding to achieve results. I&I affects the District's National Pollutant Discharge Elimination System permit, which has compliance objectives that are regulated by the California Regional Water Quality Control Board.

Currently the District is in the process of replacing the control panels at pump station sites as the existing ones become obsolete, as well as for standardization purposes. The same is true for the emergency generators serving the pump stations. During the year ended June 30, 2017, the District updated its 10-year Capital Improvement Program (CIP). The CIP process included comprehensively evaluating and assessing the capital work that was completed in recent years and identifying future improvements which could be required in the sanitary sewer collection system and at both of the District's treatment plants. The CIP includes projected costs for proposed improvements (at present-day market value) and an anticipated schedule for completion. The District owns and maintains a total of 24 pump stations and two treatment plants which are critical to the operation of the District. The impact of the District's update to the CIP pertaining to the operations of the District will be evaluated annually, now that the District has identified thirteen million dollars of anticipated projects through 2027.

The Tiburon Collection system has an estimated \$4,300,000 of capital work identified in the 10-yr CIP. The Belvedere Collections system has an estimated \$6,500,000 of capital work identified in the 10-yr CIP. The Main Plant has an estimated \$2,000,000 of capital work identified in the 10-yr CIP. The Paradise Cove Plant has an estimated \$200,000 of capital work identified in the 10yr CIP.

The projects and estimates were determined during the year ended June 30, 2017, and do not include future upgrades that may be required by future National Pollutant Discharge Elimination System (NPDES) permits, specifically those involving the Nutrient Order. The District is currently participating in the first Nutrient Order issued by the Regional Water Quality Control Board (RWQCB). Order No. R2-2014-0014 requires both treatment plants to sample and provide data results to the Regional Board through June 30, 2019 for its nutrient discharge into the bay. The current collected data is being used to study the effect treatment plant dischargers have on the bay. It is anticipated that the results of this first permit will lead to a second permit, in which it will require additional funding from the dischargers to further collect and study the issue of

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

nutrients in the SF Bay and the continued effects dischargers have on it. Possible nutrient limits maybe included in the 2nd or 3rd permit(s), which may require costly treatment plant upgrades. For more information regarding the nutrient orders please visit https://www.waterboards.ca.gov/sanfranciscobay//water_issues/programs/planningtmdls/amendments/estuaryne.html) Those costs have not yet been identified. The District anticipates performing a study for both plants during the year ending June 30, 2018, to identify potential costs if future upgrades are required.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Manager, Sanitary District Number 5 of Marin County, 2001 Paradise Drive, Tiburon, California, 94920.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

**STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016**

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash and investments | \$ 2,524,444 | \$ 5,434,555 |
| Accounts receivable | 125,188 | 80,188 |
| Prepaid expenses | 55,919 | 67,502 |
| Total current assets | <u>2,705,551</u> | <u>5,582,245</u> |
| Other Assets: | | |
| Board restricted investments | 9,966,332 | 4,590,126 |
| Capital assets, net of accumulated depreciation | 19,421,384 | 20,355,409 |
| Total other assets | <u>29,387,716</u> | <u>24,945,535</u> |
| Total Assets | <u>32,093,267</u> | <u>30,527,780</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES: Pension Costs</u> | <u>659,960</u> | <u>1,931,938</u> |
| <u>LIABILITIES</u> | | |
| Current Liabilities: | | |
| Accounts payable related to: | | |
| Operating expenses | 188,403 | 153,759 |
| Improvement projects in process | 333,707 | 49,202 |
| Total accounts payable | <u>522,110</u> | <u>202,961</u> |
| Compensated absence liability | 124,043 | 119,368 |
| Accrued interest payable | 87,731 | 89,516 |
| Deferred permit revenue | 184,202 | |
| Current portion of other long-term debt | 510,460 | 501,531 |
| Total current liabilities | <u>1,428,546</u> | <u>913,376</u> |
| Long-term liabilities: | | |
| Net pension liabilities | 676,578 | 1,786,666 |
| Bonds payable | 9,011,279 | 9,521,739 |
| Total long-term liabilities | <u>9,687,857</u> | <u>11,308,405</u> |
| Total Liabilities | <u>11,116,403</u> | <u>12,221,781</u> |
| <u>DEFERRED INFLOWS OF RESOURCES: Pension Costs</u> | <u>69,733</u> | <u>154,756</u> |
| <u>NET POSITION</u> | | |
| Net invested in capital assets | 9,899,645 | 10,332,139 |
| Unrestricted | <u>11,667,446</u> | <u>9,751,042</u> |
| Net Position | <u>\$ 21,567,091</u> | <u>\$ 20,083,181</u> |

See accompanying notes to the financial statements.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

| | <u>2017</u> | <u>2016</u> |
|--|--------------------|--------------------|
| Operating Revenues: | | |
| Sewer service charges | \$ 5,172,630 | \$ 5,072,947 |
| Connection and inspection fees | 159,530 | 84,088 |
| Maintenance agreements | 102,988 | 78,280 |
| Other | 17,429 | 12,495 |
| | <hr/> | <hr/> |
| Total operating revenues | 5,452,577 | 5,247,810 |
| Operating Expenses: | | |
| Salaries and benefits | 1,959,472 | 1,627,138 |
| Utilities | 239,247 | 207,731 |
| Contracted and professional services | 200,361 | 168,576 |
| Supplies (chemicals) | 163,883 | 158,347 |
| Line cleaning and inspection | 298,788 | 190,846 |
| Maintenance and repairs | 100,582 | 117,572 |
| Other operating costs | 91,562 | 80,475 |
| Telephone and internet | 58,873 | 58,206 |
| Monitoring | 56,267 | 53,950 |
| Other administrative costs | 59,792 | 66,776 |
| Liability and property insurance | 37,000 | 71,926 |
| Depreciation | 1,516,701 | 1,438,792 |
| | <hr/> | <hr/> |
| Total operating expenses | 4,782,528 | 4,240,335 |
| Operating Income | <hr/> | <hr/> |
| | 670,049 | 1,007,475 |
| Non-Operating Revenues (Expenses): | | |
| Property taxes | 1,047,950 | 982,734 |
| Investment income | 74,408 | 34,202 |
| Loss on disposal of capital assets | (6,013) | - |
| Interest expense | (302,484) | (318,585) |
| | <hr/> | <hr/> |
| Total net non-operating revenues | 813,861 | 698,351 |
| Increase in Net Position Before Capital Contributions | 1,483,910 | 1,705,826 |
| Contributed Capital | - | 259,741 |
| Net Position, Beginning of Year | <hr/> | <hr/> |
| | 20,083,181 | 18,117,614 |
| Net Position, End of Year | <hr/> <hr/> | <hr/> <hr/> |
| | \$ 21,567,091 | \$ 20,083,181 |

See accompanying notes to the financial statements.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Cash receipts from: | | |
| Sewer service charges | \$ 5,127,630 | \$ 5,075,813 |
| Connection and inspection fees | 343,732 | 84,088 |
| Other operating sources | 120,417 | 90,775 |
| Total cash receipts | <u>5,591,779</u> | <u>5,250,676</u> |
| Cash paid for: | | |
| Salaries and benefits | (1,865,851) | (3,171,620) |
| Utilities | (241,916) | (216,230) |
| Contracted and professional services | (184,485) | (173,913) |
| Supplies (chemicals) | (178,047) | (170,041) |
| Line cleaning and inspection | (244,821) | (183,533) |
| Other expenses | (422,938) | (444,425) |
| Total cash paid | <u>(3,138,058)</u> | <u>(4,359,762)</u> |
| Cash provided by operating activities | <u>2,453,721</u> | <u>890,914</u> |
| Cash Flows from Investing Activities: | | |
| Interest income | 74,408 | 34,202 |
| Cash provided by investing activities | <u>74,408</u> | <u>34,202</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Interest paid on long-term debt | (304,269) | (319,527) |
| Payment on bond and loan debt | (501,531) | (616,843) |
| Contributed capital | | 82,678 |
| Property additions | (304,184) | (949,128) |
| Cash used for capital and related financing activities | <u>(1,109,984)</u> | <u>(1,802,820)</u> |
| Cash Flows from Non-Capital and Related Financing Activities: | | |
| Property taxes collected | 1,047,950 | 982,734 |
| Cash provided by non-capital and related financing activities | <u>1,047,950</u> | <u>982,734</u> |
| Net Increase in Cash and Investments | 2,466,095 | 105,030 |
| Cash and Investments, Beginning of Year | <u>10,024,681</u> | <u>9,919,651</u> |
| Cash and Investments, End of Year | <u>\$ 12,490,776</u> | <u>\$ 10,024,681</u> |
| Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Assets: | | |
| Cash and investments | \$ 2,524,444 | \$ 5,434,555 |
| Board restricted investments | 9,966,332 | 4,590,126 |
| | <u>\$ 12,490,776</u> | <u>\$ 10,024,681</u> |

See accompanying notes to the financial statements.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

**RECONCILIATIONS OF OPERATING INCOME TO CASH
PROVIDED BY OPERATING ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|--------------------------|
| Operating Income | \$ 670,049 | \$ 1,007,475 |
| Add or deduct items not requiring the use of cash: | | |
| Depreciation | 1,516,701 | 1,438,792 |
| Changes in assets and liabilities: | | |
| Increase (decrease) in accounts receivable | (45,000) | 2,866 |
| Decrease in prepaid expenses | 11,583 | 5,939 |
| Increase in operating accounts payable | 34,644 | 8,927 |
| Increase in compensated absence liability | 4,675 | 8,692 |
| Increase in deferred permit revenue | 184,202 | |
| Pension liabilities | (1,110,088) | (970,398) |
| Change in deferred pension outflows and inflows of resources | 1,186,955 | (611,379) |
| Cash Provided by Operating Activities | <u>\$ 2,453,721</u> | <u>\$ 890,914</u> |

See accompanying notes to the financial statements.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

1. THE ORGANIZATION

Sanitary District Number 5 of Marin County (District) was created on March 17, 1947 as a special district under Provision of the Sanitary District Act of 1923 by a reorganization of previously created districts into a single sanitary district, and it is governed by five elected Directors. The District is an independent special district that provides sewage collection services to a portion of the Town of Tiburon and Belvedere, California. The District is a proprietary fund, also referred to as an enterprise fund, which is a fund established by governmental agencies to account for goods and services provided to the general public that are financed primarily through user charges.

The accompanying financial statements present the District and its component unit, an entity for which the District is considered to be financially accountable. The District has one blended component unit, the Tiburon/Belvedere Wastewater Financing Authority which is governed by the District's Board of Directors. The District is responsible for all of the Authority's obligations. The transactions between the Authority and the District have been eliminated from the accompanying financial statements and the Authority's transactions are reported as part of the District's financial activities. Separate financial statements for the Authority are not available.

In July 2015, the District accepted certain sewer lines, easements and sewer facilities in connection with the annexation of a local homeowners' association into the District. The District received \$90,000 and assets of \$147,063, the estimated net carrying value of the property acquired in the transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader. Certain amounts in the financial statements have been reclassified to conform with the current presentation.

Basis of Presentation and Accounting - The activities of the District are accounted for in a single enterprise fund using the accrual basis of accounting. The District is engaged in only business-type activities and the District's basic financial statements consist of only the financial statements required for enterprise funds. These include management's discussion and analysis, a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, these notes to the basic financial statements, and required supplementary information.

Proprietary enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

operations. The principal operating revenues of the District are charges to the households and commercial and public facilities in the district for sewer service. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District, as authorized by its Board of Directors, charges new users a fee to pay for capital improvements necessitated by their addition. Fees received have been treated as contributed capital and have been expended solely on infrastructure improvements.

Cash and Investments: Cash include amounts in demand deposits.

Required disclosures relating to investments include the following components: interest rate risk and credit risk. The credit risk disclosure includes the following components: overall risk, custodial risk and concertation of risk. Investments are reported in the statement of net position at fair value. Changes in fair market value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The District participates in an investment pool managed by the State of California and regulated by California government code Section 16429 known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates. Investments in LAIF are highly liquid and available virtually on demand. Consequently, the investment has been treated as a cash equivalent in the accompanying statements of net position and statements of cash flows.

Receivables, Property taxes and Sewer Service Revenues: Property taxes are levied as of July 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Marin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District and accrues as receivable such taxes. Accordingly, the District provides for no allowance for doubtful accounts.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sewer service fees (used to supplement tax revenues) are set by the District based upon rates applied to the number of equivalent dwelling units (EDUs). For residential properties the rate is one EDU per living unit. Commercial properties are charged EDUs based on a calculation derived from water flow. The sewer service fees are incorporated into the property tax billings, and such fees are due in two equal installments on December 10 and April 10 following the assessment date. The District recognizes these fees as revenues in the year earned, which is also the year in which the service is provided to properties within the District. Under the Teeter Plan arrangement discussed above, the County remits substantially all of the sewer fees to the District each year, and the County bears the burden of any uncollectible accounts. Therefore, the District does not provide for an allowance for uncollectible accounts or bad debts.

Capital Assets: Capital assets, which include property, plant, equipment, and infrastructure assets (mainly the existing wastewater system), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at cost. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend assets lives are expensed. Major outlays for capital assets and improvements are capitalized as projects are constructed. The portion of interest expense related to spent debt proceeds incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Depreciation is computed using the straight-line method over the estimated lives of the assets as follows:

| | |
|------------------------|-------------|
| Treatment plant | 15-40 years |
| Subsurface lines | 50 years |
| Equipment and vehicles | 5-15 years |

Compensated Absences: The District accrues a liability for vacation and other qualified paid time off earned but not yet taken. The District does not provide for payment of unused sick leave at termination dates.

Pensions: For purposes of measuring the net pension liabilities, deferred outflows/inflows of resources related to pension, 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.

Deferred Outflows and Inflows: The District recognizes deferred outflows and inflows of resources pursuant to GASB Statement Number 68. A deferred outflow of resources is defined as a consumption of net asset (net position) by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position: The financial statements utilize a net position presentation. Net positions are categorized as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- Restricted Net Position - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of June 30, 2017 and 2016, there is no restricted net position.
- Unrestricted Net Position - This component of net position consists of net position that do not meet the definition of restricted or net investment in capital assets.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

3. CASH AND INVESTMENTS AND BOARD RESTRICTED INVESTMENTS

Cash and investments and board restricted investments consisted of the following as of June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Available for operations: | | |
| Demand deposits with banks | \$ 512,103 | \$ 435,297 |
| LAIF investment fund | 2,012,341 | 4,999,258 |
| Total current | <u>2,524,444</u> | <u>5,434,555</u> |
| Board Designated Reserves: | | |
| LAIF investment fund | 9,966,332 | 4,590,126 |
| Total Cash & Investments (considered cash equivalents) | <u>\$ 12,490,776</u> | <u>\$ 10,024,681</u> |

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

**3. CASH AND INVESTMENTS AND BOARD RESTRICTED INVESTMENTS
(continued)**

Board designated reserves are specified for:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|---------------------|---------------------|
| Capital improvements | \$ 5,643,696 | \$ 3,456,274 |
| Working capital reserve | 4,282,146 | 1,133,852 |
| Pension plan reserve | 40,490 | |
| Total board designated reserves | <u>\$ 9,966,332</u> | <u>\$ 4,590,126</u> |

The District's investment policy is to maintain its operating funds in a local bank and invest idle funds and Board designated reserves with LAIF which is permitted by California law.

LAIF allows local agencies such as the District to participate in a Pooled Money Investment Account managed by the State Treasurers Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2017, was approximately \$77.6 billion with an average life of 194 days. Of that amount, 99.12% was invested in non-derivative financial products and 0.88% in structured notes and asset-based securities.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is that they will be made in institutions in California and they will be insured or collateralized in accordance with section 53562 of the California Government Code. At June 30, 2017, \$190,205 of the District's bank balances was exposed to custodial credit risk.

Custodial Credit Risk – Investments: Custodial risk related to LAIF is mitigated by the oversight provided by independent Boards and extremely conservative nature of the investment policy.

Interest rate risk associated with LAIF investments is mitigated by the short-term nature of the large majority of their investments and the strict limitation on the type of investments made.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

Changes in the District's property, equipment and improvements and accumulated depreciation for the years ended June 30, 2016 and 2017 is summarized as follows:

| | <u>Balance</u> <u>June 30, 2015</u> | <u>Additions</u> | <u>Transfers/ Deletions</u> | <u>Balance</u> <u>June 30, 2016</u> |
|---|--|---------------------|---------------------------------|--|
| Capital asset, not being depreciated - Land | \$ 49,295 | | | \$ 49,295 |
| Capital assets, being depreciated: | | | | |
| <u>Historical Cost:</u> | | | | |
| Main plant | 26,872,019 | \$ 50,847 | | 26,922,866 |
| Paradise Cove plant | 1,906,603 | 26,853 | | 1,933,456 |
| Sewer line and pump stations | 10,953,774 | 725,357 | | 11,679,131 |
| Plant equipment, vehicles and other equipment | <u>509,480</u> | <u>44,044</u> | | <u>553,524</u> |
| Total capital assets, being depreciated | <u>40,241,876</u> | <u>847,101</u> | <u>-</u> | <u>41,088,977</u> |
| <u>Accumulated Depreciation:</u> | | | | |
| Main plant | 12,266,167 | 1,164,109 | | 13,430,276 |
| Paradise Cove plant | 348,593 | 46,965 | | 395,558 |
| Sewer line and pump stations | 6,385,969 | 196,196 | | 6,582,165 |
| Plant equipment, vehicles and other equipment | <u>343,342</u> | <u>31,522</u> | | <u>374,864</u> |
| Total accumulated depreciation | <u>19,344,071</u> | <u>1,438,792</u> | <u>-</u> | <u>20,782,863</u> |
| Total capital assets, being depreciated, net | <u>20,897,805</u> | <u>(591,691)</u> | <u>-</u> | <u>20,306,114</u> |
| Capital assets - net | \$ <u>20,947,100</u> | \$ <u>(591,691)</u> | <u>-</u> | \$ <u>20,355,409</u> |

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS (continued)

| | Balance June 30, 2016 | Additions | Transfers/ Deletions | Balance June 30, 2017 |
|--|--------------------------|--------------|-------------------------|--------------------------|
| Capital asset, not being depreciated - Land | \$ 49,295 | | | \$ 49,295 |
| Capital assets, being depreciated: | | | | |
| <u>Historical Cost:</u> | | | | |
| Main plant | 26,922,866 | \$ 97,735 | \$ (12,447) | 27,008,154 |
| Paradise Cove plant | 1,933,456 | 53,133 | | 1,986,589 |
| Sewer line and pump stations | 11,679,131 | 437,821 | (138,701) | 11,978,251 |
| Plant equipment, vehicles and and other equipment | 553,524 | | (74,886) | 478,638 |
| Total capital assets, being depreciated | 41,088,977 | 588,689 | (226,034) | 41,451,632 |
| <u>Accumulated Depreciation:</u> | | | | |
| Main plant | 13,430,276 | 1,169,389 | (8,963) | 14,590,702 |
| Paradise Cove plant | 395,558 | 54,162 | | 449,720 |
| Sewer line and pump stations | 6,582,165 | 261,265 | (136,172) | 6,707,258 |
| Plant equipment, vehicles and and other equipment | 374,864 | 31,885 | (74,886) | 331,863 |
| Total accumulated depreciation | 20,782,863 | 1,516,701 | (220,021) | 22,079,543 |
| Total capital assets, being depreciated, net | 20,306,114 | (928,012) | (6,013) | 19,372,089 |
| Capital assets - net | \$ 20,355,409 | \$ (928,012) | \$ (6,013) | \$ 19,421,384 |

The District has signed two construction contracts for approximately \$1,500,000. The amount remaining to complete the contracts is approximately \$1,200,000 as of June 30, 2017.

5. BOND PAYABLE

The Tiburon/Belvedere Wastewater Financing Authority, a joint powers authority, is governed by the same board of directors as the District's board of directors. In February 2012, the Authority issued \$10,935,000 of revenue bonds, at a premium of \$1,076,031, to provide financing for the rehabilitation and renovation of the District's main treatment plant. The District entered into an installment agreement with the Authority to make installment payments in amounts sufficient to provide for the payment of all future bond principal and interest when due. The Authority's receivable and payable by the District have been eliminated from the accompanying financial statements as the Authority is deemed a component unit of the District, and revenue bonds are reported as a long-term obligation of the District.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

5. BOND PAYABLE (continued)

The bonds bear interest at rates from .25 percent to 5.0 percent, mature each October 1 through 2031, and interest is payable each October 1 and April 1 commencing October 1, 2012. The original bond offering consisted of \$5,205,000 in serial bonds maturing in various amounts through 2022 and \$5,730,000 in term bonds maturing October 1, 2031. The serial bonds maturing on or before October 1, 2021 are not subject to optional redemption prior to their stated maturity.

Bonds maturing on or after October 1, 2022 are subject to redemption at the option of the Authority from any available source of funds without premium. The term bonds are subject to mandatory sinking fund redemption in various amounts commencing October 1, 2023.

The District has pledged all net revenues of its system. This pledge constitutes a lien on the District's net revenues. The pledge and lien excludes any ad valorem property taxes, special assessments, or special taxes levied for the purpose of paying general obligation bonds, special assessments, or special tax obligations of the District. In addition, the District is obligated to generate system net revenues equal to at least 125 percent of all installment payments and principal and interest payments on any parity debt.

The future debt service on the loan and interest is as follows:

| Fiscal year <u>ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|---------------------|---------------------|----------------------|
| 2018 | \$ 450,000 | \$ 349,050 | \$ 799,050 |
| 2019 | 460,000 | 339,950 | 799,950 |
| 2020 | 470,000 | 330,650 | 800,650 |
| 2021 | 480,000 | 321,150 | 801,150 |
| 2022 | 490,000 | 309,000 | 799,000 |
| 2023-2027 | 2,745,000 | 1,222,825 | 3,967,825 |
| 2028-2032 | 3,490,000 | 453,500 | 3,943,500 |
| Total | \$ <u>8,585,000</u> | \$ <u>3,326,125</u> | \$ <u>11,911,125</u> |

The District expects that the debt service on the bonds will be less than 35 percent of system net revenues as defined in the financing documents. Principal and interest paid during the years ended June 30, 2017 and 2016 were \$805,800 and \$804,941, respectively. During the years ended June 30, 2017 and 2016 total zone system net revenues as defined were \$2,186,750 and \$2,446,267 respectively.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

5. BOND PAYABLE (continued)

The \$936,739 of bond premium will be amortized as follows:

| <u>Fiscal year</u> <u>ending June 30</u> | <u>Premium</u> <u>Amortization</u> |
|---|---------------------------------------|
| 2018 | \$ 60,460 |
| 2019 | 67,439 |
| 2020 | 74,748 |
| 2021 | 82,399 |
| 2022 | 87,950 |
| 2023-2027 | 402,057 |
| 2028-2032 | 161,686 |
| Total | <u>\$ 936,739</u> |

Amortization for the years ended June 30, 2017 and 2016 was \$51,531 and \$40,415, respectively.

6. CALPERS RETIREMENT PLANS AND RELATED LIABILITIES

Plan Description: Employees of the District are provided with pension benefits under one of two plans depending on the employee's hire date. The plans are part of a cost-sharing multiple-employer public employee pool of similar organizations administered by the California Public Employees Retirement System (CalPERS). CalPERS acts as a common investment and administrative agent for participating California public entities. Benefits provisions and all other requirements are established by State Statute and District Ordinances. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for CalPERS. That report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

Benefits Provided: CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. For employees hired before 2013, retirement benefits are determined as 2.7 percent of the employee's single highest year of compensation times the employee's years of service. Employees with 5 years of continuous service are eligible to retire at age 55. Employees hired after 2012, retirement benefits are determined as 2.0 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 5 years of continuous service are eligible to retire at age 60.

Contributions: Contribution requirements of active employees and the Districts are established and may be amended by the District. Employees hired before 2013 are required to contribute 8.0% of their annual pay. As a benefit to those employees, the District paid 75% of the employee required contributions during the years ended June 30, 2017 and 2016. The total amount paid by the District on behalf of employees totaled \$39,906 and \$62,606 for the years

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

6. CALPERS RETIREMENT PLANS AND RELATED LIABILITIES (continued)

ended June 30, 2017 and 2016, respectively. Employees hired after 2012 are required to contribute 6.25% of their annual pay. The District did not pay any of the required employee contribution. The District's contractually required contribution rate for employees hired before 2012 was 11.63%. The District's contractually required contribution rate for employees hired after 2012 was 6.55% of wages for the year ended June 30, 2017. The rates are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plans from the District were \$360,908 for the year ended June 30, 2017 of which \$254,448 was a one-time payment to reduce overall pension liabilities. The District's proportionate share of employer contributions allocated to its CalPERS account was \$167,330 and \$169,996 for the years ended June 30, 2017 and 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Amounts reflected are aggregate amounts for both plans as amounts related to post 2012 employees are minor in comparison to pre-2012 amounts):

At June 30, 2017, the District reported a liability of \$676,578 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liabilities was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating public entities, actuarially determined. At June 30, 2016 and 2015, the District's proportion was 0.019 percent and 0.065 percent, respectively.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

6. CALPERS RETIREMENT PLANS AND RELATED LIABILITIES (continued)

For the years ended June 30, 2017 and 2016, the District recognized pension expense of \$437,775 and \$199,809, respectively. At June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| As of June 30, 2017 | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 4,610 | |
| Changes of assumptions | | \$ 56,572 |
| Net difference between projected and actual earnings on pension plan investments | 294,442 | |
| Changes in proportion and differences between District contributions and proportionate share of contributions | | 13,161 |
| District contributions subsequent to the measurement date | <u>360,908</u> | |
| Total | <u>\$ 659,960</u> | <u>\$ 69,733</u> |
| | | |
| As of June 30, 2016 | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Difference between expected and actual experience | \$ 10,895 | |
| Changes of assumptions | | \$ 103,081 |
| Net difference between projected and actual earnings on pension plan investments | | 51,675 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 139,457 | |
| District contributions subsequent to the measurement date | <u>1,781,586</u> | |
| Total | <u>\$ 1,931,938</u> | <u>\$ 154,756</u> |

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

6. CALPERS RETIREMENT PLANS AND RELATED LIABILITIES (continued)

\$360,908 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liabilities in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|-------|----|----------------|
| 2018 | \$ | 26,200 |
| 2019 | | 24,299 |
| 2020 | | 102,558 |
| 2021 | | 76,262 |
| Total | \$ | <u>229,319</u> |

Actuarial assumptions: The total pension liabilities in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|----------------------------------|---|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2016 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Salary increases | Varies by Entry Age and Service |
| Investment rate of return | 7.65 percent, net of pension plan investment expense, including inflation |
| Mortality Rate | Derived using CalPERS' Membership Data for all Funds |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchase Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

Discount rate: The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

6. CALPERS RETIREMENT PLANS AND RELATED LIABILITIES (continued)

plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

For the measurement period that ended on June 30, 2014, a discount rate of 7.50 percent investment return assumption, net of administrative expenses of .15 percent. Using the lower discount rate had resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

6. CALPERS RETIREMENT PLAN AND RELATED LIABILITIES (continued)

The table below reflects 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. The target allocation shown was adopted by the Board effective on July 1, 2015.

| <u>Asset Class</u> | <u>Current Target Allocation</u> | <u>Real Return Years 1 - 10 (a)</u> | <u>Real Return Years 11+ (b)</u> |
|-------------------------------|----------------------------------|-------------------------------------|----------------------------------|
| Global equity | 51.0% | 5.25% | 5.71% |
| Global fixed income | 20.0% | 0.99% | 2.43% |
| Inflation sensitive | 6.0% | 0.45% | 3.36% |
| Private equity | 10.0% | 6.83% | 6.95% |
| Real estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 1.0% | -0.55% | -1.05% |
| Total | <u>100%</u> | | |

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

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

Sensitivity of the District’s proportionate share of the net pension liabilities to changes in the discount rate: The following presents the District’s proportionate share of the net pensions liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

| | <u>1% Decrease (6.65%)</u> | <u>Discount Rate (7.65%)</u> | <u>1% Increase (8.65%)</u> |
|--|--------------------------------|----------------------------------|--------------------------------|
| District's proportionate share of the net pension liability | \$ 1,054,091 | \$ 676,578 | \$ 364,582 |

In December 2016 CalPERS’ Board of Administration decided to lower the discount rate and investment rate of return assumptions that are used in the calculation of the net pension liability. The rates will decrease from 7.65% to 7.15% over the next three fiscal years. The impact on the District’s financial statements will be an increase in the District’s proportionate share of the net pension liability.

Pension plans’ fiduciary net position: Detailed information about the pension plans’ fiduciary net position is available in the separately issued CalPERS financial report.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description: The District administers the District’s retired employees health care plan, a single employer defined benefit health care plan. The plan provides medical benefits to eligible retired employees and their beneficiaries.

The District elected to participate in the California Employer’s Retiree Benefit Trust (CERBT), a CalPERS program to assist agencies to advance fund other postretirement benefits (OPEB). Contributions are invested. The District is responsible for paying monthly OPEB premiums. The District has the ability to request withdrawals from CERBT to cover current annual premiums. There is no separate financial statement of the OPEB plan.

Funding Policy: The contribution requirements of the Plan members and the District are established and may be amended by the District. The required contribution is based on a projected pay-as-you go financing requirement, with additional amounts to prefund the benefits determined annually by the District’s Board of Directors. In general, the District pays substantially all of the annual premiums of Plan members currently receiving benefits.

Annual OPEB Costs and Net OPEB Obligation: The District’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level amount of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed 30 years.

The following table shows components of the District’s annual OPEB cost for the year, the amounts actually contributed to the Plan, and changes in the District’s net OPEB obligation to the Plan:

| | |
|--|-------------|
| Annual required amount | \$ 93,476 |
| Contributions made | (37,097) |
| Premiums paid on behalf of retirees | (56,379) |
| | <hr/> |
| Decrease in net OPEB obligation | 0 |
| Net OPEB obligation, beginning of year | 0 |
| | <hr/> |
| Net OPEB prepaid, end of year | \$ 0 |
| | <hr/> <hr/> |

Funding Status and Funding Progress: As of July 1, 2015, the most recent actuarial valuation date, the Plan was 32.12 percent funded. The actuarial accrued liability for benefits was \$1,182,850, and the actuarial value of Plan assets was \$379,982, resulting in the unfunded actuarial accrued liability (UAAL) of \$802,868. The covered payroll of active employees covered by the Plan was \$878,354 and the ratio of the UAAL to the covered payroll was 91.41 percent. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events far into the

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplemental information, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The District's annual OPEB cost, the percentage of the annual OPEB cost paid and the net OPEB obligation for the year ended June 30, 2017 were as follows:

| <u>Year</u> | <u>Annual OPEB Cost</u> | <u>Percent Paid</u> | <u>Net OPEB Obligation</u> |
|-------------|-----------------------------|---------------------|--------------------------------|
| 2015 | \$129,335 | 100.00% | \$0 |
| 2016 | \$93,664 | 100.00% | \$0 |
| 2017 | \$93,476 | 100.00% | \$0 |

An actuarial valuation is required once every three years. The most recent valuations were performed as of July 1, 2015, 2013 and 2011. The actuarial accrued liability for benefits (AAL), the covered payroll (the annual payroll of active employees eligible to participate) and the ratio of the unfunded actuarial accrued liability (UAAL) are summarized on page 33.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status and the annual required employer contribution amount are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of assets set aside to cover obligations is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and Assumptions: Projections of benefits for financial reporting purposes are based on the approved policy (the policy as understood by the employer and qualified employees) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and qualified employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

In the July 1, 2015 actuarial valuation, the Entry Age Actuarial Cost Method was used. The actuarial assumptions included a discount rate (7.28% for the July 2015 valuation), the annual healthcare cost trend of 6.4% initially, reduced by decrements to an ultimate rate of 5.5% after three years. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of payroll over 30 years commencing with the actuarial valuation date of July 1, 2015.

8. DEFERRED COMPENSATION PLAN

The District's employees may participate in one 457 Deferred Compensation Program (Program). The Program is available to all District employees and is entirely voluntary. The purpose of the Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. The District makes no matching contributions to the Program.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. The District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of the Program assets held in trust by the District's deferred compensation program at June 30, 2017 amounted to \$536,372.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not presented in the accompanying financial statements.

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters, for which the District carries insurance. The District is a member of the California Sanitation Risk Management Authority (CSRMA), a Joint Powers Authority for risk pooling, which provides insurance coverage and risk management services to its 60 member agencies through its' coverage programs.

The District participates in CSRMA's Pooled Liability and Workers' Compensation Programs, where each member agency is assessed a deposit based on their ratable exposures. At each program's year end, deposits are retrospectively reviewed for all years of participation, based on actual loss performance of the individual member agencies. If a member's losses exceed their deposit, the member is assessed, through a debit on their

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

9. RISK MANAGEMENT (continued)

renewal invoice, to adjust for this situation. Conversely, if the member's losses are less than the collected deposit, a credit is shown on the member's renewal invoice.

Risk of loss is transferred from the District to CSRMA under the arrangement. CSRMA's Pooled Liability Program provides \$25 million in coverage to the members with a combination of reinsurance and excess insurance, with CSRMA retaining the first \$500,000. The District maintains a \$10,000 liability deductible. The District also participates in CSRMA's property insurance program for its buildings and plant with \$31 million insurable values.

Workers compensation insurance is also obtained through the District's membership in the Authority with the Authority covering the first \$750,000 in losses. Excess coverage for \$1 million is purchased by the Authority.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2016 (most recent information available):

| | | <u>June 30, 2016</u> |
|--------------------|----|--------------------------|
| Total Assets | \$ | 28,336,567 |
| Total Liabilities | | <u>16,735,609</u> |
| Total Equity | \$ | <u><u>11,600,958</u></u> |
| | | |
| Total Revenues | \$ | 11,843,583 |
| Total Expenditures | | <u>10,946,085</u> |
| Net income | \$ | <u><u>897,498</u></u> |

The District paid no material uninsured losses during the last three fiscal years. There have been no significant reductions in insurance coverage, and there have been no settlements exceeding insurance coverage in the last three years.

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. There were no claims payable as of June 30, 2017.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

**REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS FOR
RETIRED EMPLOYEES HEALTH CARE PLAN
JUNE 30, 2017**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll | Unfunded AAL as a % of Covered Payroll |
|---|--|--|-------------------------------|-----------------------------------|----------------------------|---|
| 7/1/2011 | \$ 137,744 | \$ 875,383 | \$ 737,639 | 15.74% | \$ 955,597 | 77.19% |
| 7/1/2013 | \$ 234,587 | \$ 1,165,603 | \$ 931,016 | 20.13% | \$ 782,560 | 118.97% |
| 7/1/2015 | \$ 379,982 | \$ 1,182,850 | \$ 802,868 | 32.12% | \$ 878,354 | 91.41% |

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

**REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ADMINISTERED BY CALPERS**

CALPERS Employer Retirement Plan

Last 10 Fiscal Years*

(Dollar amounts in thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|
| District's proportion of the net pension liability (asset) | 0.0195% | 0.0651% | 0.0440% |
| District's proportionate share of the net pension liability (asset) | 676,578 | 1,786,666 | 1,786,666 |
| District's covered-employee payroll | 1,117,339 | 910,280 | 878,354 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 61% | 196% | 203% |
| Plan fiduciary net position as a percentage of the total pension liability | 92.75% | 80.16% | 69.16% |

* The amounts presented for each fiscal year were determined as of the measurement date, which was one year prior to the fiscal year end date.

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the presented information is for those years for which information is available.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

**REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S
PENSION CONTRIBUTIONS**

CALPERS Employer Retirement Plan

Last 10 Fiscal Years*

(Dollar amounts in thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|
| Contractually required contributions (actuarially determined) | 106,460 | 152,524 | 224,230 |
| Contributions in relation to actuarially determined contributions | 106,460 | 152,524 | 224,230 |
| Contribution Deficient (excess) | <u>-</u> | <u>-</u> | <u>-</u> |
| Covered payroll | 1,117,339 | 910,280 | 878,354 |
| Contributions as a percentage of covered payroll | 9.53% | 16.76% | 25.53% |

Notes to Schedule:

| | |
|----------------------------------|---|
| Valuation Date: | June 30, 2015 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Salary increases | Varies by Entry Age and Service |
| Investment rate of return | 7.65 percent, net of pension plan investment expense, including inflation |
| Mortality Rate | Derived using CalPERS' Membership Data for all Funds |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchase Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

* The amounts presented for each fiscal year were determined as of the measurement date, which was one year prior to the fiscal year end date.

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the presented information is for those years for which information is available.

SANTARY DISTRICT NUMBER 5 OF MARIN COUNTY

SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY ZONE
FOR THE YEAR ENDED JUNE 30, 2017

| | Tiburon/Paradise Cove | | | | |
|--|------------------------------|-------------------------|------------------------------|---------------------------|------------------------------|
| | <u>Paradise Cove</u> | <u>Tiburon</u> | <u>Zones Combined</u> | <u>Belvedere</u> | <u>District Total</u> |
| Operating Revenues: | | | | | |
| Sewer service charges | \$ 110,762 | \$ 2,719,395 | \$ 2,830,157 | \$ 2,342,473 | \$ 5,172,630 |
| Connection and inspection fees | 32,516 | 36,382 | 68,898 | 90,632 | 159,530 |
| Maintenance agreements | - | 68,449 | 68,449 | 34,539 | 102,988 |
| Other | 143 | 9,365 | 9,508 | 7,921 | 17,429 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total operating revenues | 143,421 | 2,833,591 | 2,977,012 | 2,475,565 | 5,452,577 |
| Operating Expenses: | | | | | |
| Salaries and benefits | 44,369 | 1,266,583 | 1,310,952 | 648,520 | 1,959,472 |
| Utilities | 17,461 | 143,613 | 161,074 | 78,173 | 239,247 |
| Contracted and professional services | 1,790 | 171,353 | 173,143 | 27,218 | 200,361 |
| Supplies (chemicals) | 11,691 | 101,027 | 112,718 | 51,165 | 163,883 |
| Line cleaning and inspection | 16,542 | 184,424 | 200,966 | 97,822 | 298,788 |
| Maintenance and repairs | 19,315 | 53,763 | 73,078 | 27,504 | 100,582 |
| Other operating costs | 13,424 | 52,136 | 65,560 | 26,002 | 91,562 |
| Telephone and internet | 4,536 | 35,726 | 40,262 | 18,611 | 58,873 |
| Monitoring | 14,635 | 26,935 | 41,570 | 14,697 | 56,267 |
| Other administrative costs | 2,179 | 41,025 | 43,204 | 16,588 | 59,792 |
| Liability and property insurance | 1,003 | 23,954 | 24,957 | 12,043 | 37,000 |
| Depreciation | 74,516 | 1,071,384 | 1,145,900 | 370,801 | 1,516,701 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total operating expenses | 221,461 | 3,171,923 | 3,393,384 | 1,389,144 | 4,782,528 |
| Operating Income (Loss) | <hr/> (78,040) | <hr/> (338,332) | <hr/> (416,372) | <hr/> 1,086,421 | <hr/> 670,049 |
| Non-Operating Revenues (Expenses): | | | | | |
| Property taxes | 42,570 | 1,005,380 | 1,047,950 | - | 1,047,950 |
| Investment income | 3 | 39,032 | 39,035 | 35,373 | 74,408 |
| Loss on disposal | - | (6,013) | (6,013) | - | (6,013) |
| Interest expense | - | (196,586) | (196,586) | (105,898) | (302,484) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total non-operating revenues (expenses) | 42,573 | 841,813 | 884,386 | (70,525) | 813,861 |
| Increase (Decrease) in Net Position | | | | | |
| Before Capital Contributions | (35,467) | 503,481 | 468,014 | 1,015,896 | 1,483,910 |
| Contributed Capital | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Change in Net Position | <hr/> \$ (35,467) | <hr/> \$ 503,481 | <hr/> \$ 468,014 | <hr/> \$ 1,015,896 | <hr/> \$ 1,483,910 |