SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of a Matter

Management adopted the provisions of the Governmental Accounting Standards Board Statement No. 75 – Accounting and Financial Reporting for Post-Employment Benefits other than pensions, which became effective during the year ended June 30, 2018 and required a prior period adjustment of net position as discussed in Note 2 to the financial statements:

This emphasis of this matter does not constitute a modification to our opinion.

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 required supplementary information included on pages 35-38, 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 39 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.

November 15, 2018

Perotti & Carrade

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, 2018. 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 (prior to the prior period adjustment discussed below) increased by approximately $1,965,000 during the year ended June 30, 2018.
- Total operating revenues increased by approximately $275,000 due to an increase of approximately $356,000 in the revenue from connection and inspection fees and a decrease of approximately $59,000 in sewer service charges.
- Total operating expenses for the year ended June 30, 2018 decreased by approximately $53,000 compared to the year ended June 30, 2017. The decrease in operating expenses was principally attributed to decreases in salaries and related payroll taxes and benefits of approximately $77,000, but was offset by minor increases in telephone and internet.
- There were no increases in customer rates during the year ended June 30, 2018.
- No new debt was issued during the year ended June 30, 2018.
- The District implemented GASB 75 during the year ended June 30, 2018. The implementation required a prior period adjustment to reflect the other post-employment benefits (OPEB) obligation of $875,837 as of July 1, 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.

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

	2018	2017	Increase (Decrease) Over 2017	Percent Increase (Decrease)
Cash, including board reserves	$ 13,115,362	$ 12,490,776	$ 624,586	5.00%
Capital assets	19,743,735	19,421,384	322,351	1.66%
Other assets and deferred outflows of resources	1,603,274	841,067	762,207	90.62%
Total assets and deferred outflows of resources	34,462,371	32,753,227	1,709,144	5.22%
Current liabilities	1,492,914	1,428,546	64,368	4.51%
Net pension and OPEB liabilities and related deferred inflows of resources	1,829,561	746,311	1,083,250	145.15%
Long-term bond and loan debt	8,483,840	9,011,279	(527,439)	-5.85%
Total liabilities and deferred inflows of resources	11,806,315	11,186,136	620,179	5.54%
Net position:				
Invested in capital assets	10,732,456	9,899,645	832,811	8.41%
Unrestricted	11,923,600	11,667,446	256,154	2.20%
Total net position	$ 22,656,056	$ 21,567,091	$ 1,088,965	5.05%

Net Position. The District's total net position increased by $1,088,965 during the year ended June 30, 2018. This increase is discussed in detail on the following page. The $620,000 increase in liabilities and deferred inflows of resources is attributed principally to the District recognizing its OPEB liability of $973,019 as of June 30, 2018 in accordance with GASB 75. This was offset by the reduction in bonds payable of $510,460. The increase in assets and deferred outflows of resources is attributed principally to the District making a one-time contribution of $740,733 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, 2019. 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).

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

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

	2018	2017	Increase (Decrease) Over 2017	Percent Increase (Decrease)
Operating revenues	$ 5,727,360	$ 5,452,577	$ 274,783	5.04%
Nonoperating revenues	1,269,778	1,122,358	147,420	13.13%
Total revenues	6,997,138	6,574,935	422,203	6.42%
Operating expenses	4,729,724	4,782,528	(52,804)	-1.10%
Nonoperating expenses	302,612	308,497	(5,885)	-1.91%
Total expenses	5,032,336	5,091,025	(58,689)	-1.15%
Change in net assets, before restatement	1,964,802	1,483,910	480,892	32.41%
Net position - beginning of period	21,567,091	20,083,181	1,483,910	7.39%
Prior Period Adjustment- GASB 75	(875,837)	-	(875,837)	100.00%
Net position - end of period	$ 22,656,056	$ 21,567,091	$ 1,088,965	5.05%

Overall, during the year ended June 30, 2018, there was an increase of $422,203, or about 6.42 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 $356,448 and an increase in property tax revenue of $65,166. This was offset with a decrease in sewer service charges of $59,249. Revenue from connection and inspection fees and property tax fluctuate yearly. The decrease in the sewer service charges was due to a decrease in the number of equivalent units charged to commercial property owners.

The District's total expenses for the year ended June 30, 2018 decreased by $58,689, or about 1.15 percent, compared to total expenses for the year ended June 30, 2017. Salaries and benefits costs decreased by $77,101 principally due to the amortization of pension costs. The pension expense for the years ended June 30, 2018 and 2017 was approximately $285,000 and $437,000, respectively, or a decrease of approximately $152,000. This was offset by an increase in wages. There was an increase in telephone and internet of $34,435 which offset the decrease in salaries and benefits costs.

As discussed above, the District was required to implement GASB 75 during the year ended June 30, 2018. The net position as of June 30, 2017 was required to be adjusted for the OPEB liability of $875,837.

CAPITAL ASSET AND DEBT ADMINISTRATION

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

	June 30, 2018	June 30, 2017	Increase (Decrease) Over 2017	Percent Increase (Decrease)
Land	$ 49,295	$ 49,295	$ -	0.00%
Main and Paradise Cove plant	12,785,999	13,954,321	(1,168,322)	-8.37%
Sewer line and pump stations	6,686,692	5,270,993	1,415,699	26.86%
Plant equipment, vehicles and other equipment	221,749	146,775	74,974	51.08%
Total capital assets	$ 19,743,735	$ 19,421,384	$ 322,351	1.66%

Capital Assets

There was a net increase in capital assets of $322,351 during the year ended June 30, 2018 mainly due to current year's depreciation of $1,523,589 and as the District added $1,861,556 of improvements during the year ended June 30, 2018. This included approximately $1,682,000 toward sewer lines improvements, control panel upgrades made at pump stations and Phase II Mar West Pump Station capital improvements.

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, 2018.

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 several other forcemain replacement projects. 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 effects 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, 2018, 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.

As of 2017 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 nutrients in the SF Bay and the continued effects dischargers have on it. Nutrient limits will not be included in the 2nd permit. For more information regarding the nutrient orders please visit https://www.waterboards.ca.gov/sanfranciscobay//water_issues/programs/planningtmdls/amendments/estuarynne.html)

One other potential change facing the District, is that of Bio-Solids Management and Disposal. Diminishing options do dispose of bio-solids coupled with new regulations requiring diversion of organics from landfill will create a greater risk for significant cost increases for small Districts like ours to dispose of Bio-Solids as well as requiring far more complex management programs.

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, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and investments	$ 6,452,722	$ 2,524,444
Accounts receivable	81,319	125,188
Prepaid expenses	70,080	55,919
Total current assets	6,604,121	2,705,551
Other Assets:		
Board restricted investments	6,662,640	9,966,332
Capital assets, net of accumulated depreciation	19,743,735	19,421,384
Total other assets	26,406,375	29,387,716
Total Assets	33,010,496	32,093,267
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	1,332,505	659,960
OPEB related	119,370	
Total Deferred Outflows of Resources	1,451,875	659,960
LIABILITIES		
Current Liabilities:		
Accounts payable related to:		
Operating expenses	281,443	188,403
Improvement projects in process	329,062	333,707
Total accounts payable	610,505	522,110
Compensated absence liability	154,737	124,043
Accrued interest payable	86,137	87,731
Deferred permit revenue	114,096	184,202
Current portion of bonds payable	527,439	510,460
Total current liabilities	1,492,914	1,428,546
Long-term liabilities:		
Net pension liability	583,347	676,578
Net OPEB liability	959,664	
Bonds payable	8,483,840	9,011,279
Total long-term liabilities	10,026,851	9,687,857
Total Liabilities	11,519,765	11,116,403
DEFERRED INFLOWS OF RESOURCES		
Pension related	273,195	69,733
OPEB related	13,355	
Total Deferred Inflows of Resources	286,550	69,733
NET POSITION		
Net invested in capital assets	10,732,456	9,899,645
Unrestricted	11,923,600	11,667,446
Net Position	$ 22,656,056	$ 21,567,091

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, 2018 AND 2017

	2018	2017
Operating Revenues:		
Sewer service charges	$ 5,113,381	$ 5,172,630
Connection and inspection fees	515,978	159,530
Maintenance agreements	83,301	102,988
Other	14,700	17,429
Total operating revenues	5,727,360	5,452,577
Operating Expenses:		
Salaries and benefits	1,882,371	1,959,472
Line cleaning and inspection	268,534	298,788
Utilities	219,240	239,247
Contracted and professional services	210,481	200,361
Supplies (chemicals)	176,300	163,883
Maintenance and repairs	104,041	100,582
Other operating costs	95,364	91,562
Telephone and internet	93,308	58,873
Other administrative costs	69,955	59,792
Monitoring	50,846	56,267
Liability and property insurance	35,695	37,000
Depreciation	1,523,589	1,516,701
Total operating expenses	4,729,724	4,782,528
Operating Income	997,636	670,049
Non-Operating Revenues (Expenses):		
Property taxes	1,113,116	1,047,950
Investment income	156,662	74,408
Loss on disposal of capital assets	(15,616)	(6,013)
Interest expense	(286,996)	(302,484)
Total net non-operating revenues	967,166	813,861
Increase in Net Position Before Restatement	1,964,802	1,483,910
Net Position, Beginning of Year	21,567,091	20,083,181
Prior Period Adjustment Due to GASB 75 Implementation	(875,837)	-
Net Position, End of Year	$ 22,656,056	$ 21,567,091

See accompanying notes to the financial statements.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Cash receipts from:		
Sewer service charges	$ 5,251,754	$ 5,127,630
Connection and inspection fees	445,872	343,732
Other operating sources	98,001	120,417
Total cash receipts	5,795,627	5,591,779
Cash paid for:		
Salaries and benefits	(2,436,830)	(1,865,851)
Utilities	(218,093)	(241,916)
Contracted and professional services	(217,692)	(184,485)
Supplies (chemicals)	(155,719)	(178,047)
Line cleaning and inspection	(348,088)	(244,821)
Other expenses	(399,146)	(422,938)
Total cash paid	(3,775,568)	(3,138,058)
Cash provided by operating activities	2,020,059	2,453,721
Cash Flows from Investing Activities:		
Interest income	156,662	74,408
Cash provided by investing activities	156,662	74,408
Cash Flows from Capital and Related Financing Activities:		
Interest paid on bond debt	(349,050)	(304,269)
Payment on bond debt	(450,000)	(501,531)
Property additions	(1,866,201)	(304,184)
Cash used for capital and related financing activities	(2,665,251)	(1,109,984)
Cash Flows from Non-Capital and Related Financing Activities:		
Property taxes collected	1,113,116	1,047,950
Cash provided by non-capital and related financing activities	1,113,116	1,047,950
Net Increase in Cash and Investments	624,586	2,466,095
Cash and Investments, Beginning of Year	12,490,776	10,024,681
Cash and Investments, End of Year	$ 13,115,362	$ 12,490,776
Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Assets:		
Cash and investments	$ 6,452,722	$ 2,524,444
Board restricted investments	6,662,640	9,966,332
	$ 13,115,362	$ 12,490,776

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, 2018 AND 2017

	2018	2017
Operating Income	$ 997,636	$ 670,049
Add or deduct items not requiring the use of cash:		
Depreciation	1,523,589	1,516,701
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	43,869	(45,000)
Decrease (increase) in prepaid expenses	(14,161)	11,583
Increase in operating accounts payable	93,040	34,644
Increase in compensated absence liability	30,694	4,675
Increase (decrease) in deferred permit revenue	(70,106)	184,202
Net pension liability	(93,231)	(1,110,088)
Change in deferred pension outflows and inflows of resources	(469,083)	1,186,955
Net OPEB liability	83,827	
Change in deferred OPEB outflows and inflows of resources	(106,015)	
Cash Provided by Operating Activities	$ 2,020,059	$ 2,453,721

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 (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 was 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 plants	15-40 years
Subsurface lines and pump stations	7-60 years
Equipment and vehicles	5-12 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 liability, 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.

Other Post-Employment Benefits (OPEB): The District has established a Retiree Healthcare Plan (HC Plan) and participates in an agent multiple-employer defined benefit retiree healthcare plan administrated by CalPERS.

Deferred Outflows and Inflows: The District recognizes deferred outflows and inflows of resources pursuant to GASB Statement Number 68 and 75. 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.

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, 2018 and 2017, 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.

Implementation of Government Accounting Standards Board Pronouncements – GASB Statement No. 75 – In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for postemployment benefits other than pension. The requirements of the Statement will improve the decision-usefulness of information in the District’s financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net postemployment benefits liability and a more comprehensive measure of postemployment benefits expense. The provisions of the Statement were effective for financial statements for periods beginning after June 15, 2017, therefore, the District implemented this Statement in fiscal year ended June 30, 2018, which required an adjustment to reduce the District's beginning net position by $875,837. The financial statements for fiscal year ended June 30, 2017 could not be restated as the information required to do so was not readily available. See Note 7 for additional information.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS AND BOARD RESTRICTED INVESTMENTS

Cash and investments and board restricted investments consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Available for operations:		
Demand deposits with banks	$ 542,857	$ 512,103
LAIF investment fund	5,909,865	2,012,341
Total current	6,452,722	2,524,444
Board designated reserves:		
LAIF investment fund	6,662,640	9,966,332
Total cash & investments (considered cash equivalents)	$ 13,115,362	$ 12,490,776

Board designated reserves are specified for:

	2018	2017
Capital improvements	$ 5,013,530	$ 5,643,696
Working capital reserve	514,960	4,282,146
Pension plan reserve	134,150	40,490
Disaster	1,000,000	
Total board designated reserves	$ 6,662,640	$ 9,966,332

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, 2018, was approximately $89.4 billion with an average life of 193 days. Of that amount, 99.14% was invested in non-derivative financial products and 0.86% in structured notes and asset-based securities.

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

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, 2018, $359,456 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.

4. CAPITAL ASSETS

Changes in the District's property, equipment and improvements and accumulated depreciation for the years ended June 30, 2017 and 2018 is summarized as follows:

	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:				
Historical Cost:				
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
Accumulated Depreciation:				
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

4. CAPITAL ASSETS (continued)

	Balance June 30, 2017	Additions	Transfers/ Deletions	Balance June 30, 2018
Capital asset, not being depreciated - Land	$ 49,295			$ 49,295
Capital assets, being depreciated:				
Historical Cost:				
Main plant	27,008,154	$ 74,325	$ (51,632)	27,030,847
Paradise Cove plant	1,986,589			1,986,589
Sewer line and pump stations	11,978,251	1,681,568		13,659,819
Plant equipment, vehicles and and other equipment	478,638	105,663	(23,362)	560,939
Total capital assets, being depreciated	41,451,632	1,861,556	(74,994)	43,238,194
Accumulated Depreciation:				
Main plant	14,590,702	1,172,869	(36,016)	15,727,555
Paradise Cove plant	449,720	54,162		503,882
Sewer line and pump stations	6,707,258	265,869		6,973,127
Plant equipment, vehicles and and other equipment	331,863	30,689	(23,362)	339,190
Total accumulated depreciation	22,079,543	1,523,589	(59,378)	23,543,754
Total capital assets, being depreciated, net	19,372,089	337,967	(15,616)	19,694,440
Capital assets - net	$ 19,421,384	$ 337,967	$ (15,616)	$ 19,743,735

The District has signed one construction contract for approximately $1,500,000. The amount remaining to complete the contract is approximately $1,260,000 as of June 30, 2018.

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.

5. BOND PAYABLE (continued)

The bonds bear interest at rates from 0.25 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 exclude 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 ending June 30	Principal	Interest	Total
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	505,000	294,075	799,075
2024-2028	2,870,000	1,087,500	3,957,500
2029-2032	2,860,000	294,750	3,154,750
Total	$ 8,135,000	$ 2,977,075	$ 11,112,075

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, 2018 and 2017 were $799,050 and $805,800, respectively. During the years ended June 30, 2018 and 2017 total zone system net revenues as defined were $2,521,225 and $2,186,750 respectively.

5. BOND PAYABLE (continued)

The $876,279 of bond premium will be amortized as follows:

Fiscal year ending June 30		Premium Amortization
2019	$	67,439
2020		74,748
2021		82,399
2022		87,950
2023		91,253
2024-2028		366,290
2029-2032		106,200
Total	$	876,279

Amortization for the years ended June 30, 2018 and 2017 was $60,460 and $51,531, respectively.

6. CALPERS RETIREMENT PLAN 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 website, calpers.gov.

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 highest 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, 2018 and 2017. The total amount paid by the District on behalf of employees totaled $70,268 and $39,906 for the years

6. CALPERS RETIREMENT PLAN AND RELATED LIABILITIES (continued)

ended June 30, 2018 and 2017, 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 11.68% and 11.63% of wages for the years ended June 30, 2018 and 2017, respectively. The District's contractually required contribution rate for employees hired after 2012 was 6.53% and 6.55% of wages for the years ended June 30, 2018 and 2017, respectively. 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 $847,033 for the year ended June 30, 2018 of which $740,733 was a one-time payment to reduce overall pension liabilities. 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 $360,738 and $167,330 for the measurement 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, 2018, the District reported a liability of $583,347 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017 and 2016, the District's proportion was 0.015 percent and 0.019 percent, respectively.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

NOTES TO FINANCIAL STATEMENTS

6. CALPERS RETIREMENT PLAN AND RELATED LIABILITIES (continued)

For the years ended June 30, 2018 and 2017, the District recognized pension expense of $284,719 and $437,775, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

As of June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience		$ 45,345
Changes of assumptions	$ 389,990	
Net difference between projected and actual earnings on pension plan investments	95,482	
Changes in proportion and differences between District contributions and proportionate share of contributions		227,850
District contributions subsequent to the measurement date	847,033	
Total	$ 1,332,505	$ 273,195

As of June 30, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
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	360,908	
Total	$ 659,960	$ 69,733

6. CALPERS RETIREMENT PLAN AND RELATED LIABILITIES (continued)

$847,033 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2019	$ 34,547
2020	144,352
2021	90,067
2022	(56,689)
Total	$ 212,277

Actuarial Assumptions: The total pension liabilities in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.15 percent
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 7.15 percent. This is a reduction from 7.65 percent used for the June 30,2016 valuation date. 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

6. CALPERS RETIREMENT PLANS AND RELATED LIABILITIES (continued)

be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 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 7.15 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.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 PERF 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 equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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, 2014.

Asset Class	Current Target 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 sensitive	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%		

(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 7.15 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 (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	$ 800,903	$ 583,347	$ 277,011

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 to 7.00% by the fiscal year ending June 30, 2021. 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.

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description: The District has established a Retiree Healthcare Plan (HC Plan) and participates in an agent multiple-employer defined benefit retiree healthcare plan, California Employer's Retiree Benefit Trust (CERBT), a CalPERS program to assist agencies to advance fund OPEB. The HC Plan provides employees who retire directly from the District, at a minimum age of 55, with a minimum of five years of service, a cash subsidy for monthly medical insurance premiums. The District pays the monthly basic and supplemental premiums for the Kaiser medical plan, plus administrative fees and Contingency Reserve Fund assessments for the lifetime of the employee and the employee's spouse. If the employee was hired before December 12, 2012, the District will pay 100% of the weighted average of CalPERS health care premiums for the employee and 90% of the weighted average premium for the spouse, plus administrative fees and Contingency Reserve Fund assessments. If the employee was hired after December 12, 2012, the District pays only the Public Employee's Medical and Hospital Care Act (PEMHCA) minimum contribution. A separate financial report is not prepared for the HC Plan.

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.

Employees Covered: As of June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the HC plan.

Active employees	9
Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to, but not yet receiving benefits	0
Total	14

Funding Policy: The contribution requirements of the Plan members and the District are established and may be amended by the District. The annual contribution is based on the actuarially determined contribution. For the year ended June 30, 2018, the District's contributions were $65,700 in payments to the trust and $53,670 in current year premiums for retired employees. For the year ended June 30, 2017, the District's contributions were $37,097 in payments to the trust and $56,379 in current year premiums for retired employees.

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

Net OPEB Liability: The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2017 to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions.

Discount Rate	6.50%
Inflation	2.75%
Salary increases	3.0% per year
Investment rate of return	6.50%
Mortality Rate	Derived from 2014 CalPERS OPEB Assumptions model
Pre-Retirement Turnover	Derived from 2014 CalPERS OPEB Assumptions model
Healthcare Trend Rate	Increase 5.5% per year after 2018 except for employees under PEMHCA, in which increase is 4% increase per year

The long-term expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. The asset class percentages are taken from the current composition of the CERBT trust, and the expected yields are taken from a recent CalPERS publication for the Pension Fund:

Asset Class	Percentage of Fund	Real Return, next 10 years
Global equity	57.0%	5.25%
Fixed income	27.0%	0.99%
Treasury securities	5.0%	0.45%
Real estate trusts	8.0%	4.50%
Commodities	3.0%	3.90%
Total	100%	

Discount Rate: The cash flows of the HC plan were projected to future years, assuming that the District 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, 6.50%.

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

Changes in the OPEB Liability: The changes in the net OPEB liability for the HC Plan are as follows:

	Increase (Decrease)				
	Total OPEB Liability (a)		Plan Fiduciary Net Position (b)		Net OPEB Liability (a) - (b)
Balance at June 30, 2017 (Valuation Date June 30, 2016)	1,380,635	$	411,322	$	969,313
Changes recognized for the measurement period:					
Service cost	39,129				39,129
Interest	87,909				87,909
Contributions - employer			93,476		(93,476)
Net investment income			43,423		(43,423)
Benefits payments	(56,379)		(56,379)		-
Administrative expense			(212)		212
Net changes	70,659		80,308		(9,649)
Balance at June 30, 2018 (Valuation Date June 30, 2017)	1,451,294	$	491,630	$	959,664

Sensitivity of the Net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the District if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
Net OPEB liability	$ 1,166,317	$ 959,664	$ 791,728

Sensitivity of the Net OPEB liability to changes in the health care cost trend rates: The following presents the net OPEB liability of the District if it were calculated using a health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (4.50%)	Trend Rate (5.50%)	1% Increase (6.50%)
Net OPEB liability	$ 788,287	$ 959,664	$ 1,172,378

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

OPEB Plan Fiduciary Net Position: CERBT issues a publicly available financial report that may be obtained from CalPERS, PO Box 1494, Sacramento, CA 95812.

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. For the net difference between projected and actual earnings on HC Plan investments it is 5 years. All other differences are recognized over a period based on the expected average remaining service lifetime (EARSL) (11.9 years at June 30, 2017).

OPEB Expense and Deferred Outflow/Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the District recognized OPEB expense of $119,805. As of June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

As of June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan		$ 13,355
District contributions subsequent to the measurement date	$ 119,370	
Total	$ 119,370	$ 13,355

The $119,370 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019.

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

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

2019	$	3,339
2020		3,339
2021		3,339
2022		3,338
Total	$	13,355

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, 2018 amounted to $640,499.

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.

9. RISK MANAGEMENT (continued)

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 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 approximately $26 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 approximately $26 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, 2017 (most recent information available):

		June 30, 2017
Total Assets	$	28,419,707
Total Liabilities		17,241,037
Total Equity	$	11,178,670
Total Revenues	$	11,166,523
Total Expenditures		11,588,811
Net income	$	(422,288)

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, 2018.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS

for the measurement periods ended June 30

CALPERS Employer Retirement Plan

Last 10 Fiscal Years*

Measurement period	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0148%	0.0195%	0.0651%	0.0440%
District's proportionate share of the net pension liability (asset)	583,347	676,578	1,786,666	2,757,064
District's covered-employee payroll	1,161,051	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	50%	61%	196%	314%
Plan fiduciary net position as a percentage of the total pension liability	94.23%	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
for the measurement periods ended June 30

CALPERS Employer Retirement Plan
Last 10 Fiscal Years*

Measurement period	2017	2016	2015	2014
Actuarially determined contribution	106,300	106,460	152,524	224,230
Contributions in relation to actuarially determined contributions	106,300	106,460	152,524	224,230
Contribution Deficiency (excess)	-	-	-	-
Covered payroll	1,161,051	1,117,339	910,280	878,354
Contributions as a percentage of covered-employee payroll	9.16%	9.53%	16.76%	25.53%

Notes to Schedule:

Valuation Date:	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.15 percent
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.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY

REQUIRED SUPPLEMENTAL SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED PARTIOS
for the measurement periods ended June 30

Last 10 Fiscal Years*

Measurement Period		2017
Total OPEB liability		
Service cost	$	39,129
Interest		87,909
Actual and expected experience difference		
Change in assumptions		
Changes in benefit terms		
Benefits payments		(56,379)
Net change in total OPEB liability		70,659
Total OPEB Liability - beginning		1,380,635
Total OPEB Liability - ending (a)	$	1,451,294
Plan Fiduciary Net Position		
Contributions - employer	$	93,476
Net investment income		43,423
Benefits payments		(56,379)
Administrative expense		(212)
Net change in plan fiduciary net position		80,308
Plan fiduciary net position - beginning		411,322
Plan fiduciary net position - ending (b)	$	491,630
Net OPEB Liability - ending (a) - (b)	$	959,664
Plan fiduciary net position as a percentage of the total OPEB liability		33.88%
Covered-employee payroll		1,117,339
Net OPEB liability as a percentage of covered-employee payroll		85.89%

* 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 OPEB CONTRIBUTIONS
for the measurement periods ended June 30

Last 10 Fiscal Years*

Measurement Period	2017
Actuarially Determined Contribution (ADC)	119,370
Contributions in relation to actuarially determined contributions	119,370
Contribution Deficiency (excess)	-
Covered payroll	1,117,339
Contributions as a percentage of covered-employee payroll	10.68%

Notes to Schedule:
Actuarial methods and assumption used to set the actuarially determined contributions for the year ended June 30, 2018 were from the July 1, 2017 actuarial valuation.

Actuarial Cost Method	Entry age normal
Amortization Method/Period	Level percent of payroll
Asset Valuation Method	Market value
Inflation	2.75%
Salary Increases	3.0% per year
Investment rate of return	6.50%
Healthcare Trend Rate	Increase 5.5% per year after 2018 except for employees under PEMHCA, in which increase is 4% increase per year
Retirement Age	Derived from 2014 CalPERS OPEB Assumptions model
Mortality Rate	Derived from 2014 CalPERS OPEB Assumptions model

* 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

SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY ZONE

FOR THE YEAR ENDED JUNE 30, 2018

	Paradise Cove	Tiburon	Tiburon/Paradise Cove Zones Combined	Belvedere	District Total
Operating Revenues:					
Sewer service charges	$ 96,983	$ 2,655,259	$ 2,752,242	$ 2,361,139	$ 5,113,381
Connection and inspection fees	23,202	209,138	232,340	283,638	515,978
Maintenance agreements	-	52,049	52,049	31,252	83,301
Other	555	8,276	8,831	5,869	14,700
Total operating revenues	120,740	2,924,722	3,045,462	2,681,898	5,727,360
Operating Expenses:					
Salaries and benefits	38,575	1,170,373	1,208,948	673,423	1,882,371
Utilities	16,518	124,543	141,061	78,179	219,240
Contracted and professional services	13,627	135,681	149,308	61,173	210,481
Supplies (chemicals)	3,452	108,108	111,560	64,740	176,300
Line cleaning and inspection	9,366	149,898	159,264	109,270	268,534
Maintenance and repairs	8,579	55,993	64,572	39,469	104,041
Other operating costs	9,248	52,485	61,733	33,631	95,364
Telephone and internet	7,651	55,229	62,880	30,428	93,308
Monitoring	10,091	24,583	34,674	16,172	50,846
Other administrative costs	1,939	47,420	49,359	20,596	69,955
Liability and property insurance	783	21,948	22,731	12,964	35,695
Depreciation	74,516	1,065,096	1,139,612	383,977	1,523,589
Total operating expenses	194,345	3,011,357	3,205,702	1,524,022	4,729,724
Operating Income (Loss)	(73,605)	(86,635)	(160,240)	1,157,876	997,636
Non-Operating Revenues (Expenses):					
Property taxes	39,524	1,073,592	1,113,116	-	1,113,116
Investment income	12	76,028	76,040	80,622	156,662
Loss on disposal	-	(15,616)	(15,616)	-	(15,616)
Interest expense	-	(185,373)	(185,373)	(101,623)	(286,996)
Total non-operating revenues (expenses)	39,536	948,631	988,167	(21,001)	967,166
Increase (Decrease) in Net Position Before Prior Period Adjustment	(34,069)	861,996	827,927	1,136,875	1,964,802
Prior Period Adjustment		(548,362)	(548,362)	(327,475)	(875,837)
Change in Net Position	$ (34,069)	$ 313,634	$ 279,565	$ 809,400	$ 1,088,965