COMPREHENSIVE

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JULY 1, 2016 — JUNE 30, 2017




CENTRAL MARIN SANITATION AGENCY

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Central Marin Sanitation Agency

COMPREHENSIVE ANNUAL FINANCIAL REPORT

July 1, 2016 – June 30, 2017

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Prepared by the Finance Department and Administration Department staff

www.cmsa.us/finance

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December 12, 2017

Board of Commissioners
Central Marin Sanitation Agency

It is our privilege to present the Comprehensive Annual Financial Report of the Central Marin Sanitation Agency (CMSA) for the fiscal year ended June 30, 2017. This report provides an overview of the Agency's financial activities during the past fiscal year and has been prepared by CMSA staff for the benefit of members of the Board of Commissioners and other stakeholders who may have an interest in the financial position of the Agency. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Agency. CMSA's management is responsible for the contents of the report, and to the best of our knowledge and belief, the enclosed information is accurate in all material respects, and is reported in a manner designed to present fairly the financial position and results of operations of CMSA. All disclosures necessary to enable the reader to gain an understanding of CMSA's enterprise activities have been included.

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

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

- Introductory Section: includes discussions of Board-approved major initiatives related to Agency capital projects, programs, policies, and financial operations. The Introductory Section also includes an organizational chart, as well as a listing of Agency officials.
- Financial Section: comprises the Independent Auditor's Report, which includes a Management Discussion and Analysis (MD&A), financial statements, and accompanying notes. The MD&A contains several condensed financial statements and statement analyses, including an explanation of variations between fiscal years.

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

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

Sincerely,

Jason R. Dow, PE
General Manager

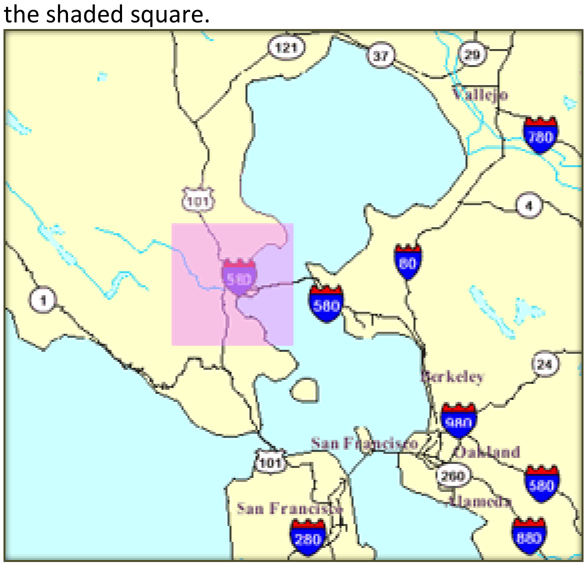
Kenneth Spray, CPA
Administrative Services Manager

INTRODUCTORY SECTION

LOCATION AND SERVICE AREA

Central Marin Sanitation Agency (CMSA) is a regional wastewater treatment agency that serves residents, businesses and institutions located in central Marin County. The Agency is located in San Rafael, California, adjacent to the Richmond-San Rafael Bridge (Map 1). The CMSA service area is approximately 43.5 square miles, and includes the City of Larkspur, the Towns of Corte Madera, San Anselmo, Fairfax, Ross, portions of the City of San Rafael, San Quentin State Prison (SQSP) and the unincorporated areas within San Rafael, Tiburon peninsula, Ross Valley, and San Quentin Village (SQV) (Map 2). Marin County has a total population of 260,651. For the Fiscal Year 2016-2017 (FY 17), the Agency provided services to an approximate population of 104,500 or 51,729 equivalent dwelling units (EDUs).

Map 1 – San Francisco Bay Area. CMSA is located in the shaded square.



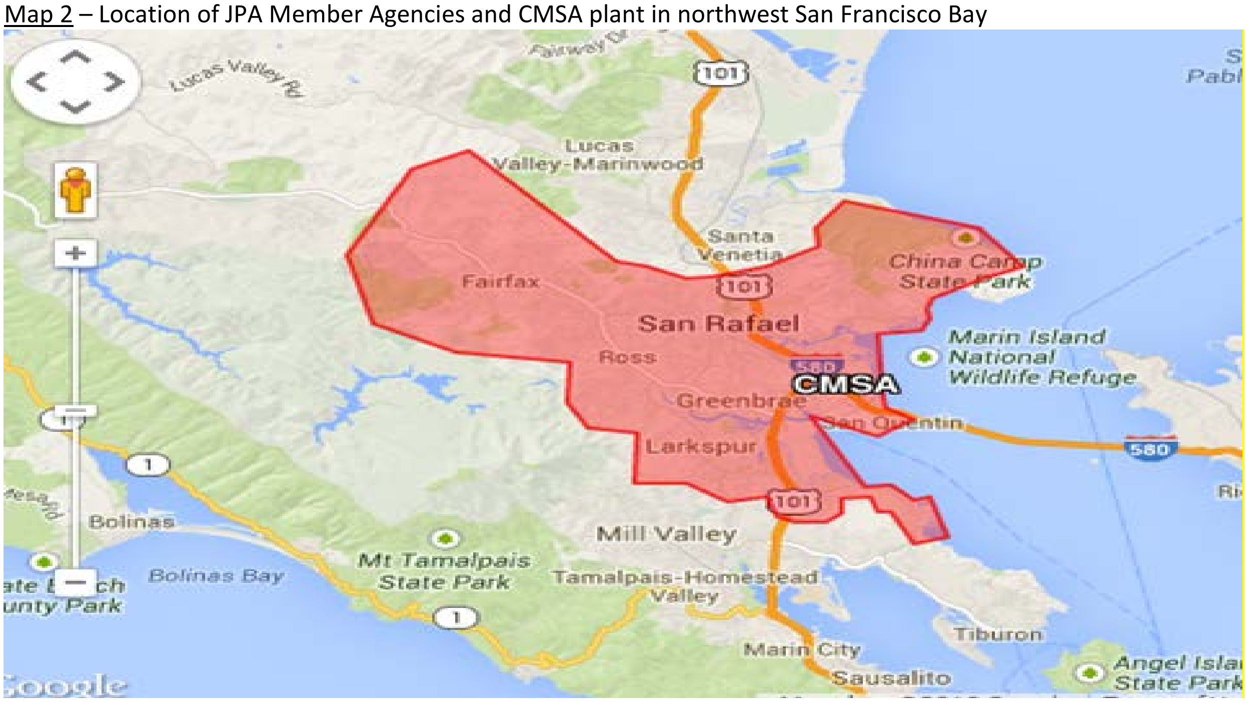
Population of Cities, Towns and Correctional Facilities in the CMSA Service Area

City of San Rafael	39,500*
City of Larkspur	12,382
Town of Corte Madera	9,858
Town of San Anselmo	12,599
Town of Fairfax	7,598
Town of Ross	2,467
San Quentin State Prison	4,004
Unincorporated County in CMSA Service Area: San Quentin Village, Greenbrae, Kentfield, Sleepy Hollow, Tiburon peninsula	16,092

* Represents two-thirds of total city population.

(Sources: State of California Employment Development Department, United States Census Bureau – QuickFacts July 1, 2016, SQSP SB601 2017 Statistical Report)

Map 2 – Location of JPA Member Agencies and CMSA plant in northwest San Francisco Bay



ORGANIZATION AND BUSINESS

In the 1970's, central Marin County had four small wastewater treatment plants whose operations were not able to meet the stringent requirements of the 1972 Clean Water Act. Four local agencies that provided wastewater services in the area, San Rafael Sanitation District (SRSD), Sanitary District No. 1 (SD #1) of Marin County, Sanitary District No. 2 of Marin County (SD #2), and the City of Larkspur (Larkspur) entered into a joint powers agreement (JPA) in October 1979 to create a separate governmental entity, the Central Marin Sanitation Agency (CMSA), to oversee the construction and operation of a regional wastewater treatment facility. SQSP, which represents the largest single customer of wastewater treatment services in the combined service area, opted not to join the JPA, but rather to contract directly with CMSA for wastewater services. The treatment facility was constructed at a cost of $84 million and was funded by federal (75%) and state (12.5%) clean water grants, as well as local shares (12.5%) from the local wastewater agencies and SQSP.

The Agency’s governing body, a Board of Commissioners (Board), consists of individuals appointed by the JPA member agencies. SRSD and SD #1 each have two members on the Commission while Larkspur and SD #2 each have one member. The six-member Board sets policy for the Agency. The Board appoints the General Manager and Treasurer/Controller who serve at the pleasure of the Board. The General Manager is the chief administrative officer responsible for the Agency's day-to-day operations and long-term planning in accordance with the Board's policies and approved budget. The Treasurer/Controller is charged with overall financial responsibility in accordance with established Agency policies.

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

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

ECONOMIC CONDITION AND OUTLOOK

Marin County has a total population of 260,651 (source: 2016 California Employment Development Labor Market Information) with a growth rate of less than one percent annually. The county's residents continue to have California's highest average per capita income of $109,076 per household. The population growth rate and per capital household income in the CMSA service area mirrors that of the County.

Marin's 3.1% average unemployment rate is the lowest rate in California and remains below national levels (4.4%) at the end of FY 17. Six of the top ten employers as measured by the number of employees in the CMSA service area are governmental entities.

Ten Largest Employers & Number of Employees in CMSA Service Area

1.	BioMarin	1,700	6.	College of Marin	507
2.	San Quentin State Prison	1,662	7.	Restoration Hardware	500
3.	Marin General Hospital	1,650	8.	City of San Rafael	401
4.	Dominican University	1,000	9.	San Rafael Schools	355
5.	Golden Gate Transit	810	10.	Kentfield Rehabilitation Hospital	344

The local housing market continued to improve during FY 17. The annual mean/median sale price for a home in Marin as reported by the Marin County Assessor Office for the year ending December 31, 2016 was $1,271,060/$975,000, compared to $1,272,067/$935,000 reported in December 2015. The upward trend continued January through June 2017 where the county reported average mean/median $1,311,770/$1,050,000 sales data statistics.

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

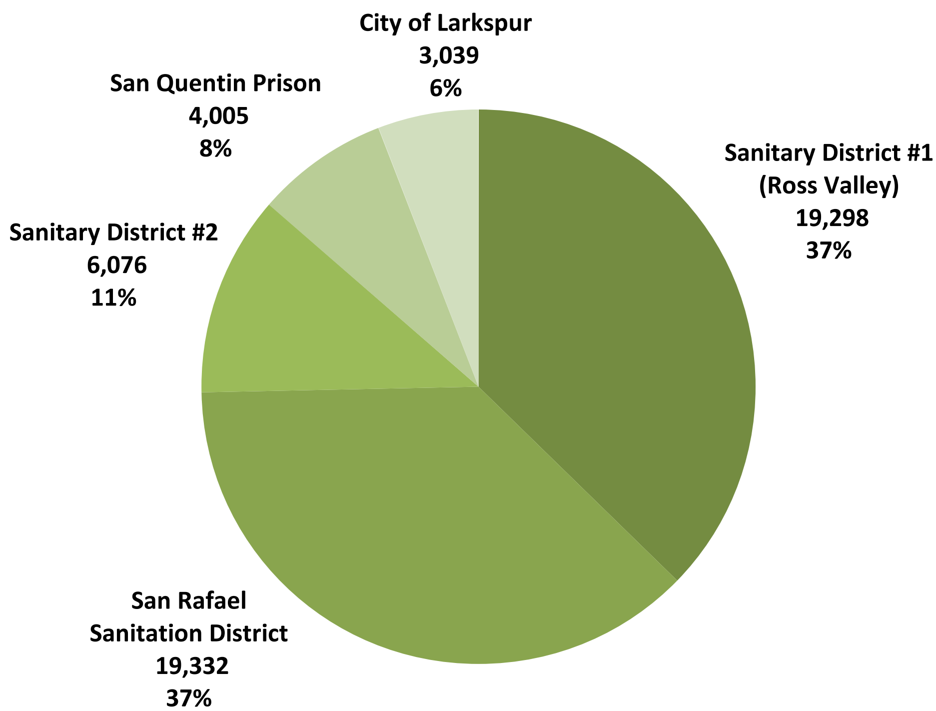
EDU Count by Connection Types for FY 17

Source: Property Tax Reports, County of Marin

	San Rafael Sanitation District	Ross Valley Sanitary District (SD#1)	City of Larkspur (SD#1)	San Quentin State Prison (SD#1)	Sanitary District #2	TOTAL
Residential	15,642	16,433	2,617	N/A	4,455	39,147
Commercial	3,515	2,351	361	N/A	1,385	7,612
Institutional (1)	175	514	61		215	965
SQSP				4005		4,005
TOTALS	**19,332**	**19,298**	**3,019**	**4,005**	**6,055**	**51,729**

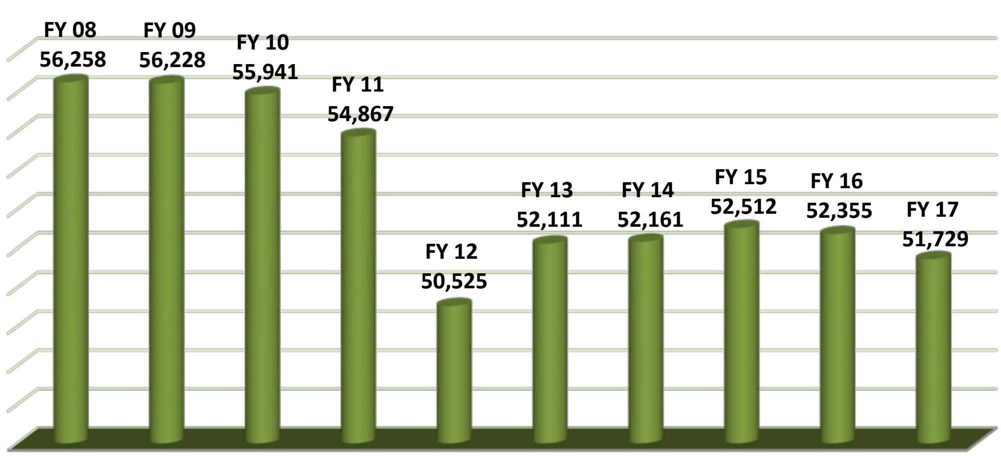
(1) Governmental entities such as federal, state, county, cities, and special districts are property tax exempt and are billed separately. EDU counts for these institutions are not included in County property tax reports and are reported separately by each JPA member.

51,729 Total EDU by JPA Member and San Quentin as a Percentage of Total EDUs for FY 17



Sewer service connections in the service area are primarily residential, and the reported EDU is a number that remains fairly stable, as new development in the service area is minimal. Fluctuations from year to year are generally due to variable water usage by commercial properties. The chart below illustrates how the EDU count fluctuated slightly during FY 08 through FY 11.The decrease in EDU from FY 11 to FY 12 occurred as a result of a change in calculation by SD#1 for SQSP and other institutional service charges during that fiscal year. Effective FY 13, CMSA entered into a wastewater services contract agreement with SQSP and CMSA is now responsible for determining the prison's EDU count. The increased EDU count in FY 13 is the result of increased residential and commercial connections in the service area. The EDU count has stabilized since then.

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



AWARDS AND RECOGNITIONS

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

For calendar year 2016, CMSA received the NACWA "Platinum 12" Peak Performance Award. The award recognizes the achievement of obtaining one hundred percent compliance with National Pollutant Discharge Elimination System (NPDES) permit requirements for twelve consecutive calendar years. Less than two percent of all wastewater treatment facilities nationally have achieved NACWA 5-Year Platinum Award status.

Certificate of Achievement for Excellence in Financial Reporting: Recognition from the Government Finance Officers Association (GFOA) for the Agency's FY 16 Comprehensive Annual Financial Report (CAFR). The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting and its attainment represents a significant accomplishment by a governmental entity. This marks the fifteenth consecutive year that the Agency's CAFR has met the high standards of the GFOA for governmental accounting and financial reporting. The Agency continually strives to comply with GFOA guidelines and recommendations. All of its financial reports, including the Annual Budget, Annual Financial Statements, CAFR, monthly Treasurer's Report, and the Quarterly Budget Status Report are transparent representations of the Agency's financial operations. Each of the aforementioned reports is presented to the Board for review and acceptance, and is posted on the Agency's website (www.cmsa.us/finance).

Outstanding Achievement in Popular Annual Financial Reporting: The Agency's Popular Annual Financial Report (PAFR) for FY 16 was recognized by the GFOA and received an outstanding achievement award. The PAFR Award is a prestigious national award acknowledging conformance with the highest standards for preparation of state and local government popular reports. The PAFR is specifically designed to be readily accessible and easily understandable to the general public and other interested parties who do not have a background in public finance. This marks the seventh consecutive year that the Agency's PAFR has met the high standards of the GFOA for governmental accounting and financial reporting.

Distinguished Budget Presentation Award: The Agency's FY 17 Adopted Budget received the distinguished budget presentation award by the GFOA. The Award is the highest form of recognition in governmental budgeting and its attainment represents a significant accomplishment by a governmental entity. The GFOA encourages public agencies to prepare budget documents that fully explain the agency's business, are transparent, and are specifically designed to be readily accessible and easily understandable to the general public and other interested parties. In attaining this award, the Agency's Budget was deemed to be proficient as a policy document, financial plan, operational guide, and communication device for the Agency's business. This marks the sixth consecutive year that the Agency's budget has met the high standards of the GFOA for budget reporting documents.

California Water Environment Association (CWEA) Awards: The Agency was recognized by its industry peers in the CWEA Redwood Empire Section by receiving awards for the achievements shown below. The Agency will also be eligible for consideration for state level awards which will be presented at the CWEA Annual Conference in April 2018.

- Engineering Achievement of the Year (PG&E Interconnection Agreement Modification Project)
- Community Engagement and Outreach, Project of the Year, Large Budget: Wastewater Treatment Agencies of Marin County

CWEA Staff Awards: Several CMSA staff members were recognized by their industry peers from the CWEA Redwood Empire Section by receiving awards in their respective disciplines. They were also eligible for consideration for state level awards which will be presented at the CWEA Annual Conference in April 2018.

- Electrical/Instrumentation Person of the Year: Russ Turnbull
- Mechanical Technician of the Year: Abel Villarreal
- Community Engagement and Outreach Person of the Year: Jose Gutierrez
- Supervisor of the Year: Mark Koekemoer

STRATEGIC BUSINESS PLAN

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

The SBP contains a set of Strategic Goals developed to achieve the Board established Mission, Vision, and Values. The Board reviews the Goals annually and reaffirms existing ones or creates new ones. Staff then prepares an annual Business Plan with associated Strategic Objectives and Actions to undertake in support of the Agency's Mission, Vision, Values, and Goals. The

Agency's budget is closely aligned with the annual Business Plan, as the majority of its Actions were included in the budget development process.

Plan Development

The Agency maintains a standing committee, known as the Agency Strategic Planning Committee (ASPC), to oversee the implementation of annual Business Plan activities, and develop a new Business Plan each fiscal year. The FY 17 Business Plan had 60 Strategic Actions, of which 38 were completed, 15 were ongoing (having no definable end date or are recurring), and seven had been delayed for various reasons that were approved by the Agency's management team.

The FY 18 Business Plan was approved by the Board at the beginning of the fiscal year. It includes 82 Actions to further the Objectives listed below as well as others identified in the SBP:

- Maintaining the high performance of the treatment facility operations.
- Renewing the Agency's NPDES permit with the San Francisco Bay Regional Water Board.
- Preparing an Agency-wide facilities master plan.
- Developing the Agency's next multi-year revenue plan.
- Implement steps to supply the Agency's extra power.
- Prepare a power monitoring plan for energy efficiency.
- Collaborate with stakeholders on programs to comply with CalRecycle's regulations on diverting organics from landfills
- Improve Agency information management systems.

The SBP may be found at www.cmsa.us. The FY 18 SBP Year-End Report and FY 19 Business Plan will be presented to the CMSA Board in July 2018.

SUCCESSION PLANNING

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

The annual update occurs by analyzing the age and length of service of each member of the workforce, and interviewing employees who meet the criteria for retirement about their retirement plans. The results of this annual update are also incorporated into the Agency's long-term financial forecast model. CMSA's workforce characteristics as of the end of the fiscal year 2016-17 are as follows:

- 43 full time employees
- Average age is 45.8 years
- Average length of service is 9.5 years
- 13 employees have over ten years of service
- 14 employees meet the minimum requirement for retirement from the California Public Employees Retirement System

The Agency recruited four new employees during the fiscal year 2016-17 to fill vacancies in various classifications, including the Health & Safety Manager, the Administrative Services Manager, a Utility Worker, and a Laboratory Director.

JOINT-POWER AGREEMENT REVISIONS

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

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

At its first meeting, the committee approved a JPA review process, schedule, and plan, and set a monthly meeting to review revised and new JPA sections per the review plan. To date, the Committee has approved fifteen of the new/revised JPA sections which have also been accepted by each JPA agency board. The managers anticipate having the new JPA ready for final review in early 2018, and adoption later that year.

MAJOR CAPITAL PROJECTS

Below is a discussion of the major capital projects that were underway during FY 17:

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

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

The project was publically bid in FY 17 and a construction contract was awarded to Buhler Commercial for $1,015,000. Construction progress has went well and are mostly complete in accordance with the construction documents. The Agency expects to accept the project as complete in December 2017 and to immediately begin utilizing the new facilities.

Maintenance Building Enclosed Bay

New Storage Building

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

<u>Interconnection Agreement Modification Project</u>: Additional deliveries of organic feed stocks, such as grease and food waste, have significantly increased biogas generation in the Agency's anaerobic digesters. CMSA's electrical cogeneration system uses the biogas as a fuel source, and it currently powers the Agency's facilities for an average of 23 hours per day. During FY 17, there were numerous days when CMSA could have generated enough electricity to meet the facility's power demand and supply excess power to the local electrical grid. However, CMSA's Interconnection Agreement (IA) with the local utility, PG&E, prohibited CMSA from delivering or exporting power.

In September 2016, the Agency submitted an IA Modification Application to PG&E with the goal of allowing the Agency to export power. PG&E accepted the application and used information in it to conduct an Initial Review to determine how CMSA's power generation would affect their electrical distribution grid. PG&E completed the Initial Review in November 2016 and found that the Agency did not pass several of its screening elements, requiring a more detailed Supplemental Review to determine the specific power distribution system upgrades that are required before power can be delivered to the utility grid. The Supplemental Review report was finalized in January 2017 and identified an estimated $75,000 in distribution system improvements, for CMSA to fund, and also identified improvements to CMSA's on-site power delivery and monitoring systems. PG&E's system improvements are underway and scheduled to be completed by March 2018, and CMSA has hired an electrical engineer to design its specific improvements. A new IA was executed in May 2017 allowing CMSA to export excess power after the PG&E and CMSA improvements have been constructed.

The IA only allows CMSA to supply power to the PG&E electrical grid. A separate power sale agreement must be negotiated with a power distributor for CMSA to receive compensation for energy produced. Currently, Agency staff are negotiating the terms and conditions of a power sale agreement with Marin Clean Energy.

Odor Control System Improvements: CMSA maintains a multi-story solids handling building (SHB) where biosolids are processed, and then stored in hoppers. Each day, the stored biosolids are loaded from the hoppers into a truck for delivery to a beneficial reuse site. The working environment in the truck loading area is odorous and subject to truck exhaust during loading. To improve ventilation and working conditions while operators load the biosolids hauling trucks, the Agency hired an engineering consulting firm to design ventilation improvements for the loading area, and other improvements to eliminate the potential of certain rooms to contain an explosive atmosphere.

The designed improvements include supplemental ventilation of the biosolids loading room by mounting a new supply air system on the roof with ducting, and a new exhaust air system on the opposite side of the building that includes ducting and an exhaust fan. The project scope also includes fire safety protection improvements that minimize the potential of an explosive atmosphere being present in the building. This will be accomplished by increasing the air flow through the building, modifying ducting to eliminate "dead spaces," and installing monitoring equipment and alarms to notify staff if there is an equipment failure. The project's construction contract was awarded in January 2017 and construction was completed in July 2017.

New ducting on SHB Exterior

EXPANDED USE OF RECYCLED WATER

CMSA has utilized recycled water for on-site and limited off-site use since the treatment facilities began operation in 1985. Historically, CMSA treats approximately 10 million gallons of wastewater per day, and reuses approximately 15% of the treated wastewater internally for landscape irrigation, cooling of a power generation system, washing equipment and tanks, and transporting chemicals to treatment processes. Since CMSA began operation, the wastewater entering the treatment plant has had too high a salt content for most off-site uses. However, CMSA does provide recycled water to a local pond during the summer months, at the request of the City of Larkspur, to maintain a minimum water level to protect an endangered turtle species.

During the recent multi-year drought in California, CMSA partnered with the Marin Municipal Water District (MMWD) to explore expanding the off-site use of CMSA's recycled water, to reduce potable water demand in the MMWD service area. Recycled water use is regulated by the State Water Board's Division of Drinking Water, and potential allowable uses for CMSA's recycled water, with its high salt content, includes sewer line flushing, street and sidewalk cleaning, construction site dust control, and limited landscape irrigation.

In April 2014, CMSA and MMWD executed a Memorandum of Understanding to prepare a Recycled Water Feasibility Study and Recycled Water Truck Fill Program Engineering Report, and both were successfully completed in 2016. The current status of each is described below.

- **Truck Filling Program:** The Title 22 Engineering Report demonstrated to the State Water Board (SWB) that CMSA's recycled water meets treatment level requirements for the above mentioned selected uses. That report was approved by the SWB and the San Francisco Regional Water Board, giving CMSA the needed authorization to construct the truck filling station. In early 2016, the fill station was built and CMSA developed standard operating procedures for its use. Last year, San Rafael Sanitation District and Ross Valley Sanitary District received recycled water use permits from MMWD for sewer line flushing, and over the past year CMSA began providing recycled water to both agencies.

  MMWD and CMSA have discussed marketing the truck fill station to other potential recycled water users in the MMWD service area. MMWD has opined that finding other users may be challenging, as its more economical for a user to fill their water truck with potable water from fire hydrant, at a cost of about $10, than drive to CMSA to pick up recycled water.

- **Recycled Water Feasibility Study:** This important study was completed in late 2015, presented to both agencies' Boards, accepted by the SWB, and grant funds for half of the study cost, were delivered to MMWD. Many project alternatives were developed and evaluated in the study, and the consultant's recommended project was to provide recycled water to San Quentin State Prison for inmate cell toilet flushing, landscape irrigation, boiler make-up water, and use at a car wash. Projected potable water savings was 152 acre-feet per year and the conceptual project cost is $8.5 million, or approximately $3,000/acre-foot for delivered water. All other identified projects had costs greater than the recommended project, up to $7,000/ acre-foot.

  MMWD's current cost to produce water is about $600/acre-foot and it buys supplemental water from the Sonoma County Water Agency for $1,000 acre-foot. Due to several factors, including the high cost of the recycled water and the MMWD and SCWA reservoirs levels being above average for the past couple years, MMWD decided that the recommended project will be considered in the future when its staff and Board evaluate alternate water supply options. It has been included in MMWD's 2040 Water Supply Master Plan.

CENTRAL MARIN ORGANIC WASTE PROGRAM

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

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

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

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

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

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

- The F2E program is fully supported by elected representatives and staff from the cities and towns in the MSS and CMSA service areas, as well as by the Marin County Board of Supervisors, regulatory agencies, and environmental groups.
- Since January 2014, MSS has enrolled 194 businesses in the F2E program.
- Mill Valley Refuse, a solid waste hauler operating in southern Marin County, has initiated its own F2E program where it collects food waste from grocery stores, and transports the material to MSS for processing and then delivery to CMSA.
- CMSA is currently receiving approximately 7.5 tons of food waste per day, up to 25,000 gallons of FOG per day (except Sundays), and occasionally, up to 5,000 gallons/day of

additional organic liquid wastes.

- The mixture of food waste, FOG, and other organic materials produce enough additional biogas to run the energy generation system up to an average 23 hours per day.
- CMSA's interconnection agreement with the local electrical utility has been amended to allow for energy delivery to the electricity grid, and improvements to the utility's power delivery/transport system and the CMSA electrical distribution system are underway. Improvements are scheduled to be completed by March 2018, after which CMSA will be authorized to deliver power off-site.
- CMSA and MSS prepared a new 5-year F2E program agreement, and in September 2017, it was approved by the CMSA Board.

BAY AREA BIOSOLIDS COALITION

The solid material removed in the wastewater treatment process is treated, processed, and conditioned to meet local, state, and federal environmental quality requirements. The treated material, called biosolids, is then dewatered and beneficially reused. CMSA produced about 6,700 wet tons of biosolids in FY 17. The Agency's current biosolids management practices utilize biosolids for a soil amendment and fertilizer during the dry weather season at sites in southern Sonoma County or Solano County, for alternate daily cover (ADC) material at the Redwood Landfill during wet weather (November to May), and during both seasons at a new biofertilizer production facility near the City of Fairfield. These management practices are state-certified beneficial-reuse alternatives. Many wastewater agencies in the region and state are evaluating biosolids management alternatives given land application restrictions across the state over the past decade, California EPA's landfill organic material diversion regulations (SB 1383) that will result in a practical ban on biosolids use as ADC and direct landfill disposal, and the state's focus on reducing greenhouse gas emissions to reduce the effects of global warming.

In 2008, CMSA joined the Bay Area Biosolids to Energy Coalition, recently renamed the Bay Area Biosolids Coalition (Coalition), to explore practical and feasible options to convert biosolids to a renewable resource, such as energy, hydrogen gas, or bio-diesel fuel. Currently, sixteen agencies in the San Francisco Bay Area, serving over three million customers, are part of this collaborative group and are signatories to a joint exercise of powers agreement (JEPA) for the technical, environmental, advocacy, and outreach components of the initiative.

Objectives of the Coalition have changed over the few years as it has learned about different technologies and project delivery alternatives. Last year, the Coalition selected a new program manager to lead the Coalition in achieving the objectives in its new two-year strategic plan. Highlights of the Coalition's activities over the past couple years include:

- **Biosolids Reuse Evaluation:** Due to the land application restrictions throughout the region and the passing of SB 1383, the Coalition has started the process to evaluate biosolids management options with the goal of identifying several alternatives that could be used year-round. SB 1383 requires a 50% diversion of organic waste from landfills by 2020 and a 75% diversion by 2025. Since biosolids are included in the organic waste definition, landfills will either reduce or prohibit biosolids use as ADC.
- **Local Project Development:** Coalition research, technology assessments, and project development activities have resulted in projects being planned, developed, or constructed by four Coalition agencies. Two facilities are currently in the planning and/or pre-design phases, while two are built and operating. Of the operating facilities, one processes a single agency's biosolids, while the other facility is the regional bio-fertilizer facility mentioned previously.
- **Advocacy:** Since its initiation, the Coalition has worked with state and federal lobbyists to educate key elected representatives and their staff on biosolids management practices in California, the need to diversify management options, the renewable resource value of biosolids, the on-going status of the Coalition projects, and how implementing a biosolids reuse project aligns with state and federal goals associated with increasing renewable energy generation, reducing GHG emissions, and diverting organics from landfills, as well as other relevant and related topics. This advocacy effort has been successful with many state and federal officials supporting the Coalition. Support has come in many forms, including letters to state and federal agencies encouraging them to consider Coalition projects for grants and loans.

  Advocacy activities were suspended for the current and next year, while the Coalition performs the biosolids reuse evaluation and completes other activities in it two-year strategic plan.

WASTEWATER SERVICE AGREEMENTS FOR CMSA-PROVIDED SERVICES

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

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

San Quentin Prison Pump Station*:* CMSA and the California Department of Corrections and Rehabilitation (CDCR) executed a five-year Wastewater Service Agreement that became effective on July 1, 2014. A provision in the contract required CMSA to perform a comprehensive evaluation of the San Quentin main pump station (equipment, structure, lighting, and emergency standby generator), and its 16-inch forcemain. The assessment was completed and its findings were used by CMSA to prepare a multi-year prioritized capital improvement plan (CIP) that was approved by CDCR. CMSA has completed the FY 17 projects and has initiated many of the scheduled FY 18 projects. A brief summary of each project is below.

- ✓ Influent Channel Grinder – The channel grinder is part of a two-step process to remove paper, plastics, rocks, and larger debris from the wastewater prior to reaching and potentially damaging the station's equipment. These units are designed to be removed periodically for maintenance and/or rebuilding purposes. This past year, one of the two in-service grinders was replaced with a spare from inventory, and was returned to its original equipment manufacturer for reconditioning. A recently reconditioned replacement grinder was purchased and delivered to CMSA for a critical spare.
- ✓ Headworks Machine Guarding – Heavy duty metal plates were installed over the top of open channels in the pump station's initial processing area. This was done for employee safety and to prevent small tools and equipment from falling into the channels. Along with covering exposed channels, Agency staff also fabricated and installed additional shielding materials to previously installed machine guarding equipment, as added protection. Electrical modifications included installing emergency equipment shutdown switches (E-stops) and connecting these switches to the existing facility monitoring system to notify CMSA of an emergency situation.
- ✓ Security and Fencing – A fence contractor installed an entry gate on the southeast corner of the existing pump station fencing to provide better access between the pump station building and its headworks.
- ✓ Pump Room Piping Assessment – A corrosion engineer, a specialist in assessing the physical condition of metals or various other materials, conducted a visual assessment and used specialized testing equipment to determine the wall thickness of metal piping inside the pump station. From this assessment, a project list was developed to address the findings over the next several years.

San Quentin Village Sewer Maintenance District:

The Agency has completed the replacement of the San Quentin Village pump station's control panel, which is used to operate various types of equipment. This project began in FY 16 with the Agency designing the new panel and creating its assembly drawings. In February 2017, the district representative authorized the assembly of this custom panel and it was received into inventory in late May. In June, its installation was completed and the new control panel was successfully started-up. Installation work included setting up temporary operating procedures for the station; running new electrical conduit and panel supports; removing and replacing the existing panel; and wiring in station components. Once the new panel began controlling the station's primary equipment, the station's standby generator was then programmed to work with the new control panel.

In March 2017, a contractor conducted a closed circuit television (CCTV) inspection of the sewer system in one area within the district. The investigation's primary purpose was to look for additional water (down spouts, pool drains, cracks in pipes) besides household wastewater entering and impacting the sanitary sewer system. Sewer piping was surveyed utilizing a remote camera, and several private laterals, the sewer pipe from a house to the sewer line, were documented as having noticeable water leaking into them. A report of findings and video documentation was provided to the County of Marin for their review and use.

ASSET MANAGEMENT PROGRAM AND RELATED PROJECTS

Major asset maintenance and replacement projects completed in FY 17 are detailed below.

1. Digester Sludge Heat Exchangers – The Agency utilizes waste heat from the cogeneration process to heat the facility's two anaerobic digesters. Process water that has been used to cool the cogeneration engine is reclaimed and pumped through large heat exchangers, transferring the heat to the digested sludge, which keeps the digesters at a set temperature for optimum biomass breakdown and biogas production. One of the two originally installed heat exchangers developed a small pinhole leak allowing the sludge and process water to intermingle, contaminating the Agency's hot water loop. A thorough inspection of the second exchanger was conducted and it was determined that the unit was still sound but there was noticeable thinning of the walls separating the two fluids. Two direct replacement heat exchangers were purchased from the original equipment manufacturer in March 2016, and installed that summer.

2. Primary Influent Channel Isolation Gate Replacement – Wastewater leaving the headworks enters a series of channels prior to the primary treatment process. These gates control the direction of the flow and distribution of influent into specific primary treatment tanks. A condition assessment was performed on the gates and it was determined that they were in need of replacement. A comprehensive replacement plan was developed which allowed the removal and replacement of these gates

without the need to shut down treatment processes or perform flow diversions. Agency maintenance technicians completed the removal and replacement of the six originally installed channel isolation gates along with their gate actuators.

3. Building Access Ramps and Stairs – CMSA's buildings and the original treatment facilities are pile supported due to the site's soil composition. Over the past thirty years, the site has seen significant ground settling in non-pile supported areas, such as roads and parking areas, and has left access to specific areas unsafe. An in-house project was recently completed where staff designed, fabricated, and installed a series of OSHA compliant adjustable stairs and ramps at specific locations, which eliminated the unsafe access conditions.

4. Organic Waste Receiving Facility (OWRF) Mixing Pump Replacement – The OWRF utilizes open-faced chopper pumps to break up and mix organic waste materials prior to transport to the anaerobic digesters. Due to the abrasive and acidic nature of these wastes, the mixing pump's internal parts tend to wear at an accelerated rate. Agency staff installed a new style mixing pump which can better withstand the acidic nature of the mixed organic waste, and replacement parts for these pumps are easier to obtain and less costly than those for the originally installed pumps. The Agency will analyze the performance of this pump against the original pumps over the next several months. This work was completed in conjunction with the OWRF storage tank relining project.

5. Biotower Feed Pump Rehabilitation Work – The Agency utilizes biotower feed pumps to convey primary effluent up to and across the biotowers, the first stage in the Agency's biological process used to reduce the wastewater's biochemical oxygen demand (BOD). There are four pumps, all originally installed in 1985, that have been in service to varying degrees. A condition assessment was performed on these pumps in 2015 which identified early signs of bearing failure on one of the four pumps. Technicians disassembled the pump, performed a visual inspection, and took exact measurements of internal wear components to compare with factory specifications. The pump's shaft was sent out to a specialized maintenance facility which used a spray-metal process to restore the shaft to factory specifications. The pump was then reassembled using new bearings, grease seals, and a packing wear sleeve. The refurbished pump was reinstalled on its base and laser aligned to ensure a long bearing service life.

6. Recycled Water Sump Drain Valve – As part of the Operations Department's preventative maintenance, the recycled water sump requires draining and flushing on a routine basis. The drain valve is a six-inch sluice gate that was installed during the Agency's original construction and had ceased to operate due to age and severe corrosion. Staff performed several confined space entries into the sump to verify measurements and mounting details, remove the gate, and install a new stainless steel gate with actuator, stem, and guide brackets. This new valve allows Operations to easily drain and flush the sump to clean out any materials that may accumulate to prevent contaminating the recycled water.

7. Sample Sinks – Sink/cabinet stations are located around the facilities for operators to perform sampling for process monitoring. The Agency has embarked on a multi-year program to systematically replace the rusted and deteriorating cabinets as well as the sinks and counter tops at these various areas. This year, staff worked with a contractor to install new units at the odor control and chlorine analyzer sampling stations. The contractor installed the cabinets and Agency staff connected water supply and waste piping. The new style units have been an excellent upgrade and create a more efficient workspace.

8. Aeration Tanks Gallery L – After the installation of the larger aeration tank drain pump, staff began a project to paint every surface in the underground Gallery L. Utility workers prepped, masked, and taped all of the process piping as well as the other surfaces and equipment to protect them from fugitive paint droplets. All of the coating was applied according to the Agency's color identification schedule, using an airless paint applicator to apply multiple coats to enhance and protect the surfaces for years to come.

9. Cogeneration Engine Major Overhaul – Over this past year, Agency technicians have kept the cogeneration system running smoothly and reliably. Their hard work has resulted in a system operating time of over 97% for the year.

   Three 2,000-hour preventive maintenance procedures were completed in FY 17, which involved replacing the oil and oil filters, air filters, and spark plugs, and performing valve adjustments as needed.

   A manufacturer recommended 24,000-hour preventive maintenance procedure was completed in the third quarter of FY 17. This work included a complete "In-Frame" overhaul, replacing and inspecting all major components of the engine. Key parts of the work were installation of new piston and cylinder liner kits, new connecting rod bearings, rebuilding of cylinder heads and gasket kits, rebuilding two turbochargers, and inspection of the engine's intercooler. The contractor commented on the outstanding condition of the engine's internal working parts, which can be directly attributed to the effectiveness of the Agency's biogas purification systems and preventive maintenance schedules.

   Annual engine emissions source testing was performed in May by the Bay Area Air Quality Management District (BAAQMD) source control inspectors. Test results for 2017 indicated that the cogeneration system is running well within regulatory emissions limits for both biogas and natural gas.

NEW DISCHARGE PERMIT IN DEVELOPMENT

CMSA has a NPDES permit with the San Francisco Regional Water Board (RWB), which contains all the regulatory requirements, limitations, and authorization for CMSA to discharge treated water to the San Francisco Bay. The Agency's current permit, issued in August 2012, has a five-year term and requires the preparation and delivery of a Report of Waste Discharge (ROWD) six months before the permit expires. Working with a regulatory consultant, the ROWD was submitted at the end of January 2017. It includes a summary of CMSA's treated water and biosolids test results for the prior 4-1/2 years, as well as several special reports and analyses.

One of the ROWD's special reports is a Utility Analysis that is required to be prepared by wastewater agencies that blend wastewater during significant wet weather events. Blending occurs when wastewater flows exceed the treatment capacity of the biological treatment process, and a portion of the flows are passively diverted around the process. In the Utility Analysis, CMSA evaluated storage and treatment alternatives that would reduce the frequency and volume of blending events, and the costs for the options range from $11.5 million to $303 million. For the ROWD, CMSA's Board selected an alternative that maintains the existing systems ("No Project") and has no cost component.

After review of the ROWD, the RWB permit writer contacted CMSA to inform us that they would not accept the No Project alternative, and decided that CMSA should not have to construct new facilities to reduce blending events and it should be accomplished by reducing stormwater infiltration and inflow (I/I) into the sewer systems. In the subsequent administrative draft of the new NPDES permit, the RWB listed CMSA's JPA agencies, the collection agencies that own and operate the local sewer systems, in the permit with requirements to implement activities to reduce the sewer I/I. This is significant precedent setting event, as collection agencies are regulated under state law not federal NPDES permits. CMSA and the JPA agencies submitted comments on the administrative draft, and the JPA agencies hired a regulatory attorney to advise them the issues and additional liabilities with being listed in an NPDES permit.

Since then, the permit Tentative Order was released for public review and comment. Nearly all of CMSA's comments on the administrative draft permit were incorporated into the Tentative Order, but the JPA agencies are still listed as co-permittees. From a treatment agency perspective, it is a very good permit and there are no new requirements that will change operations or require new capital investments. The Regional Water Board is set to consider adoption of the permit Final Order in early December 2017. If the JPA agencies are still listed as co-permittees, it is highly likely that they will appeal the permit to the State Water Board.

ENVIRONMENTAL COMPLIANCE PROGRAMS

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

The Agency's Pollution Prevention Program regulates smaller dischargers that could cumulatively impact the overall biosolids and final treated water quality. All of these dischargers are inspected at least annually, and wastewater samples are collected and tested to ensure that they meet discharge limits. CMSA has one of the most comprehensive programs in the San Francisco Bay Area in terms of the inspections conducted and water sampling frequencies. The Pollution Prevention Program has been recognized locally, regionally, and at the state level as an important component of the Agency's award-winning public education and outreach program. During FY 17, the Agency continued to perform annual inspections of all industrial dischargers, dental offices covered under the Mercury Source Control Program, as well as all restaurants covered under the FOG source control program.

<u>Mercury Reduction Program:</u> The RWB adopted a Mercury Watershed Permit in 2008 which requires a reduction of mercury discharges from all controllable sources to the San Francisco Bay. The permit's goal was to eventually, over decades, lower the mercury concentration and sediment in San Francisco Bay water, and mandates a 20% mercury reduction by 2018. It specifically states that wastewater agencies must regulate dental offices using source control techniques, and that source control programs be developed by March 2010. The reason to have a source control requirement is that dental amalgam (~ 50% mercury) used to fill cavities in teeth is the largest controllable source of mercury discharged to the sanitary sewer in unindustrialized areas. Amalgam use has steadily declined in recent years with dentists using porcelain and plastic alternatives, though evidence shows that even if a dentist does not use mercury amalgams, the compound is still discharged in very significant quantities during removal or repair of mercury amalgam fillings.

The CMSA Board passed the Mercury Reduction Ordinance in December of 2009. The Ordinance required the installation of dental amalgam separators by December 31, 2010 and the proper handling and disposal of dental amalgam. The Mercury Watershed Permit required dischargers to provide estimates of the amalgam collected by June 30, 2012, and all dentists to be in compliance with the dental amalgam source control requirements by March 1, 2013. All dentists within the CMSA service area have installed the required dental amalgam separators as required under the ordinance. During the annual compliance inspections, Agency staff determines the amount of amalgam that is removed from the waste stream in the dental offices, and that information is reported to the RWB. In 2016, 15.5 pounds of mercury were removed and properly disposed within CMSA's service area.

Novato Sanitary District (NSD) and Las Gallinas Valley Sanitary District (LGVSD) Mercury Reduction Programs: NSD and LGVSD contracted with CMSA to set up and maintain dental amalgam programs to control the release of dental amalgam to their service areas. The programs are similar to the program implemented at CMSA that has been recognized for our outreach, annual compliance inspections, and comprehensive record keeping. Compliance inspections were performed in 2016 and early 2017 and all dentists were in compliance with program requirements. In total, the programs were responsible for the removal of 11.75 pounds of mercury.

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

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

REGULATORY INSPECTIONS BY FEDERAL AND STATE REGULATORS

NPDES Permit Inspection: Normally, on an annual basis, the RWB conducts an inspection of the Agency's laboratory and NPDES reporting files. Due to the permit renewal process, the annual inspection was not performed.

***NPDES Pretreatment Compliance Inspection*:** The RWB did conduct a Pretreatment Compliance Audit in FY 17, to verify the Agency's compliance with requirements specified in the Federal

Pretreatment Regulations and requirements specified in our NPDES permit. The inspectors visited two industrial facilities that CMSA regulates, and reviewed our records and procedures. The final inspection results have not been issued but the inspectors noted that only minor changes to CMSA's Pretreatment Program will be recommended and that no signification issues were discovered.

PUBLIC EDUCATION

As the lead agency in administering the county-wide public education program for the six Marin County wastewater agencies that have treatment plants, CMSA continues to be innovative in developing public outreach measures to educate the general public of ways to reduce pollutants into the sanitary sewer and storm drain systems. The county-wide public education program won the Redwood Empire Section CWEA Community Engagement & Outreach Program of the Year award for FY 17. Public outreach activities for the past year are summarized below.

Pharmaceutical Take-Back Program: For many years, the Agency has provided financial support to the Marin County Pharmaceutical Take-Back Program which reduces the amount of unused pharmaceutical products from being discharged directly into the sanitary sewers. In Marin County, 6,948 pounds of unused pharmaceutical products were collected and properly disposed in calendar year 2016.

Outreach Events: CMSA participated in many Marin County public education and outreach events including the Marin County Fair, Earth Day at Marin Academy, Fairfax Ecofest, Spring Marin Home and Garden Expo, Trunk or Treat, Scream on the Green, Novato Business Showcase, Wetlands Days in Mill Valley, and local farmers markets around the county for Earth Day and Pollution Prevention Week. A total of 3,518 environmental quizzes were administered to both adults and children that visited the outreach booths, to educate them about pollutants, what is safe to flush down the drain, and the proper use of storm drains. Participants who took the quiz received a prize and gained valuable knowledge on sustainable pollution prevention practices.

School Presentations and Performances: CMSA staff coordinated school outreach programs that reached 3,748 elementary school students in Marin County. The program consists of an interactive and entertaining performance that educates students about what happens to water after it goes down household drains. The show includes juggling, comedy, and magic acts to teach the students about wastewater and other sanitation issues, and promotes awareness of our most precious natural resource, water. Environmental Services staff also visited classrooms to educate students about wastewater treatment at Ross Elementary School, Marin Academy, and Marin School of Environmental Leadership high school program.

WORKPLACE SAFETY INITIATIVES

Health & Safety Program: CMSA and the Novato Sanitary District partner in a collaborative Health & Safety Program. The program focus is to promote and assist each agency in developing and maintaining workplace safety programs, while managing employee injury/return-to-work initiatives. The program includes providing employee safety training, developing and maintaining safety policies and procedures, performing safety assessments of facilities and employee work practices, monitoring changes in Cal/OSHA safety regulations, and providing a variety of other safety services. Since inception, the program has been very successful, and has received favorable reviews by the California Sanitation Risk Management Authority (CSRMA) and the Californian Water Environment Association.

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

CMSA developed a tracking system to collect participation metrics to provide valuable documentation for demonstrating longer-term regulatory compliance. The FY 17 program participation data indicates a trend of increased participation over past years.

- Tailgate Training - Initially, tailgates averaged one tailgate session every two months, and included nominal employee participation. Each year, employee participation continues to grow, and for FY 17, it increased to 12.8 tailgates per employee from 11.9 in the previous year. Tailgates were led by 27 different employees versus 23 for the previous year.
- Communications - Hazard alerts and safety suggestions are submitted on a Health and Safety Communication Form for evaluation. These suggestions are then reviewed for implementation, and can include correction of a hazard or development of a new safety policy. In FY 17, thirty five Health and Safety Communications were submitted for review and action, an increase of eight over the prior year.

Total Points Earned -The total incentive program points that are earned by each employee provides a fair indication of the level of participation in the program. The number of employees qualifying for awards increased 28% in FY 17.

Safety Training: In addition to informal safety “tailgate” sessions, the Agency provides continuous reinforcement of proper safety procedures with regular, formal safety training. This formal training, unless required or warranted more frequently, is refreshed every three years. For scheduling purposes, the required Safety training is placed into a 48-month training plan to accommodate 12-, 24- and 36-month renewal cycles, with make-up training provided on an ad hoc basis. In FY 17, CMSA conducted 25 formal safety training sessions on 13 separate topics, including confined space entry, excavation and trenching safety, first aid and CPR, underground utility locator certification, Injury and Illness Prevention Program, industrial truck safety, and many others, for a total of 402 training-hours.

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

The Agency undertook the following initiatives to address its business practices and long-term financial stability for the FY 17 and beyond.

Department Reorganization: After the retirement of a long-time Environmental Services Manager, the Environmental Services Department consolidated with the Engineering Department to form the new Technical Services Department. The purpose of the consolidation was to improve departmental administration, provide effective staff cross-training, enhance laboratory and source control communication with other departments, realize cost savings, and provide an overall higher level of service.

Revisions to Administrative Policies and Procedures: CMSA has Personnel, Financial, and Administrative Policies and Procedures. Each set of policies is review every three years, and the Administrative Policy review was scheduled for completion in FY 17, but due to the hiring of new Administrative Services Manager, the policy review has been rescheduled for FY 18. Concurrently, to remain on the review schedule, the Agency's Financial Policy review will also be performed this fiscal year.

Pension and Other Post Employment Benefits (OPEB):

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

One of the requirements of a recent governmental accounting standard pronouncement, known as GASB 68, is to reflect a liability for total pension obligation on the face of the balance sheet and for increases or decreases in the obligation to flow through the income statement.

Differences between the total change in obligation and actual cash paid are an accounting requirement known as accruals. For transparency, the Agency will describe details of significant cash versus accrual items when they occur to not mislead the public for large changes in benefits expense.

The Agency provides other post-employment benefits (OPEB) for eligible employees also on a two-tiered basis. Employees hired before July 1, 2010 receive a lifetime medical insurance benefit, while employees hired after July 1, 2010 receive a lifetime medical insurance benefit limited to statutory (PEMCHA) minimum amount with the retiree paying the remainder of the premium. In addition to the PEMCHA contribution, retirees also receive an employer sponsored health savings account (HSA) used to accumulate funding to pay for medical costs after retirement. The Agency contributes 1 ½ percent of gross base salary to the HSA plan that is not taxed as compensation upon transfer to the trust or upon receipt of benefits from the trust.

The Agency is subject to the provisions of a new accounting pronouncement, known as GASB 75 that is effective FY 18, for its post-retirement health care plan. Similar to pension, the total obligation for the OPEB plan will be reflected as a liability on the balance sheet. The plan currently is approximately 50% funded with an unfunded liability remaining in the amount of approximately $2.5M. Increases or decreases in the obligation will now flow through the income statement and, if material, will be described in its two components of cash payments made as well as non-cash accruals recorded. For transparency, the Agency has also elected to post its OPEB actuarial valuation reports on the website.

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

The prior five-year revenue plan, for FY13 – FY18, closed and a new five-year revenue plan is under development to begin in FY 19. Staff is preparing to meet with the Finance Committee to evaluate funding options for the operating and capital programs. The operating program is funded by discretionary regional service charges, other non-capital general sources, and general operating reserves. Capital programs are funded by capacity charges, a debt service coverage charge, a discretionary capital fee, and general capital reserves. The revenue program, once established, is fixed for the five-year duration unless unforeseen or unanticipated circumstances arise.

FINANCIAL INFORMATION

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

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

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

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

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

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

FINANCIAL INFORMATION (Continued)

Total interest income earned and recognized during FY 17 was $113,085, an increase of $50,696 over FY 16. The increase is attributable to a nominal rise in historically low interest rates on cash balances held in LAIF and CAMP.

Agency Funding: The Agency began its FY 17 annual budget development process with the review of the funding requirements for salaries, benefits, materials, supplies, debt service, reserves, and capital project activities. It next assessed the different sources of revenues to fund those requirements. Regional service charges to JPA member agencies and the contract services revenues received for providing wastewater services to SQSP account for the two major sources of Agency revenues. These are set annually by the Board or through contract agreement. Guided by Financial Policy #520-Revenue Management, the Agency allocates sewer service charges to each JPA member agency based on their respective volume and strength of delivered wastewater treated. This methodology represents a measurable and fair assignment of treatment costs, using the cost-of-service principal as applied, to measure influent flow received from each JPA member.

An EDU rate of $94.74 was used to allocate debt service to each JPA member agency. Historic EDU rates for the last ten years are displayed in Schedule 8 of the Statistical Section. During FY 17 the Agency received a total of $10,395,358 for sewer service charges and $4,960,117 for debt service from the JPA member agencies.

Operating & Non-Operating Revenues: The following table shows a summary of revenues by source for the fiscal year ended June 30, 2017 and compares dollar and percentage changes over FY 16. The amounts shown in the table below differ from the audited Statement of Revenues and Expenses as it provides additional detail for revenues by source.

FINANCIAL INFORMATION (Continued)

Operating & Non-Operating Revenues	Fiscal Year Ended June 30, 2017	FY 17 Percent of Total	Increase (Decrease) from FY 16	Percent Increase (Decrease)
Regional Service Charge	$ 10,395,358	59.8%	$ 497,809	5.0%
Debt Service Charge	4,960,117	28.5%	386,088	8.4%
Contract Service & Program Revenue	1,633,208	9.4%	(133,333)	(13.6%)
Permit and Inspection Fees	18,246	0.1%	(1,326)	(17.7%)
Revenue from Haulers & RV	228,342	1.3%	(9,025)	(11.3%)
Total Operating Revenues	**17,235,271**	**99.1%**	**740,213**	**4.5%**
Interest and Investment Income	113,085	.7%	50,696	81.3%
Non-Operating revenue (expense)	26,003	0.2%	(7,361)	-22.1%
Total Non-Operating Revenues	**139,088**	**.9%**	**43,335**	**45.3%**
Total Revenues	**$ 17,374,359**	**100.0%**	**$ 783,548**	**4.7%**

Total operating and non-operating revenues, excluding capital contributions for capacity charges, increased by $783,548. Increases and decreases in revenue categories are summarized as follows:

- Service charges increased by $497,809 per a 4% scheduled increase for wastewater treatment services. The increase included $530,000 to fund future capital improvement projects.
- Debt service charges increased $386,088 as a result of transition of the loan amortization schedule in connection with the Refunding Revenue Bonds Series 2015 refinance.
- Contract service and program revenues net decrease of ($133,333) was due to a decrease of approximately ($200,000) with SQSP and an increase with the Corte Madera pump stations of approximately $50,000. The remaining decrease was with fats, oils and grease (FOG) and dental amalgam program revenue which decreased approximately $12,000.
- Permit and Inspection Fees is very consistent between years.
- Revenue from septic, food waste, and liquid waste disposal haulers decreased approximately $9,000 due to less loads of organic wastes delivered to the Agency's facilities.
- Interest and investment income increased approximately $51,000 due to increases in interest rates.
- Miscellaneous revenues decreased approximately $7,000 due to the nature of small and miscellaneous items.

Capital Contributions for Capacity Charges: The following schedule presents a summary of capital contributions for capacity charges for the fiscal year ended June 30, 2017 with a dollar and percentage comparison for changes over FY 16. Capacity charges received during FY 17 totaled $330,079 for new residential, commercial, and additional fixture unit fee connections in the service area.

Capital Contributions	Fiscal Year Ended June 30, 2017	Increase (Decrease) from FY 16	Percent Increase (Decrease)
Capacity charges	$330,079	$167,374	102.9%

The California Government Code requires certain disclosures regarding capacity charges. The Code requires separate accounting of capacity charges and the application of interest to outstanding balances. The Agency's current practice is to utilize capacity charges received on a first-in-first-out basis to finance capital projects during that fiscal year. Accordingly, no interest was posted to capacity charges and there was no outstanding balance of capacity charges at fiscal year-end. Other required disclosures for the fiscal year ended June 30, 2017 are as follows:

- Total amount of capacity charges collected: $330,079
- Listing of FY 17 Maintenance and Capital Projects for which capacity charges were applied:
  - ✓ Maintenance Facility Modification Project $330,079

FINANCIAL INFORMATION (Continued)

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

Operating Expenses	Fiscal Year Ended June 30, 2017	FY 17 Percent of Total	Increase (Decrease) from FY 16	Percent Increase (Decrease)
Salaries and Benefits	$ 9,079,369	71.2%	$ 1,667,715	22.5%
Agency Operations	1,496,774	11.7%	87,881	6.2%
Repairs and Maintenance	947,285	7.4%	(426,324)	(31.0)%
Permit Testing and Monitoring	110,973	0.9%	(10,121)	(8.4)%
Insurance	97,095	0.8%	(4,352)	(4.3)%
Utilities and Telephone	318,900	2.5%	(27,801)	(8.0)%
General and Administrative	697,499	5.5%	101,860	17.1%
Total Expenses	**$ 12,747,895**	**100.0%**	**$ 1,388,858**	**12.2%**

Total operating expenses increased by $1,430,884 and are summarized as follows:

- Salaries and Benefits increased by $1,667,715 due to pension accruals related to GASB 68, as well as a 4% scheduled salary increase.
- Agency Operations increased by $87,881 due to higher costs for chemical deliveries, as well as for increased biosolids management hauling and tipping fees.
- Repairs and Maintenance expenses decreased ($426,324), primarily attributable to less budgeted capital improvement program expenditures were expensed that did not meet the Agency's capitalization criteria than the previous year.
- Permit Testing and Monitoring decreased by ($10,121) in total with small amount changes within accounts.
- Insurance decreased ($4,352) attributable to general liability coverage.
- The ($27,801) decrease in utility expenses was attributable to a reduced need to purchase natural gas from outside suppliers. Electric costs were also down.
- General and administrative expenses increased $101,860. The increase was attributable to legal and consulting fees and increased public education costs.

FINANCIAL INFORMATION (Continued)

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

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

Each JPA member agency is obligated to pay its share of the semi-annual debt service and 25 percent debt coverage payments to CMSA, pursuant to a Debt Service Payment Agreement between CMSA and the JPA members, and the Master Indenture between CMSA and the Bond Trustee. The allocation of the debt service payment and coverage to each member is based on the number of EDUs reported for the member's service area. Future Debt Service Charges per EDU will be fixed for each member agency's service area for consistency beginning with the fiscal year ending June 30, 2018. Service Charge Revenue reflects the actual semi-annual debt service payments received from the JPA member agencies and is based solely on 125% of the scheduled semi-annual debt payments to the bond holders.

The following schedule is a summary of debt service activities related to Refunding Revenue Bond Series 2015 for the fiscal year ended June 30, 2017.

Revenue Related to Debt Service	**Fiscal Year Ended June 30, 2017**
Service charge revenue - principal	$2,195,000
Service charge revenue - interest	1,773,194
Service charge revenue - coverage	992,024
Service Charge Revenue: Debt Service	$4,960,118
Outstanding Debt	
Current Maturity (due in one year)	2,250,000
Long-term debt (greater than one year)	42,770,000
Total Outstanding Debt	**$45,020,000**

FINANCIAL INFORMATION (Continued)

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

Capital Assets	**Fiscal Year Ended June 30, 2017**	**Increase (Decrease) from FY 16**	**Percent Increase (Decrease)**
Plant and facilities at cost	$158,625,684	$2,048,284	1.3%
Accumulated depreciation and disposition	(75,071,310)	(4,026,664)	5.7%
Net Plant and Facility	**$83,554,374**	**($1,978,380)**	**(2.3%)**

The Agency's investment in capital assets as of June 30, 2017 totaled $83,554,374, net of accumulated depreciation. The investment in capital assets includes land and land improvements, wastewater treatment facilities, wastewater disposal facilities, general plant and administrative facilities, and construction-in-progress. During FY 17, the Agency acquired approximately $2,200,000 in capital assets, transferred approximately $535,000 from construction-in-progress into service, and recorded an additional approximately $4,042,000 for depreciation of capital assets. Depreciation expense increased $143,245, as assets placed in service in FY 17 started depreciating. Major capital asset transactions (and amounts spent) during the fiscal year include the following:

- Power interconnection agreement with Pacific Gas & Electric, $117,478
- Fats, Oil, & Grease/Food to Energy vault relining, $96,709
- Agency facilities master plan, $225,747
- Gates rehabilitation, $111,110
- Cogeneration major maintenance, $228,858
- Continued work on the Odor Control System Improvement Project, $344,051
- Continued work on the Maintenance Building Modifications Project, $687,340

Other Post-Employment Benefits (OPEB): Governmental Accounting Standards Board Standard 45 (GASB 45) was established in 2004 to require governmental entities to account and report post-employment health care and other forms of non-pension benefits (OPEB) in their financial reports. CMSA has complied with the GASB 45 requirements to disclose the valuation of its OPEB obligation, starting with its FY 10 financial statements which were accepted by the Board on November 10, 2016. While GASB 45 does not require public entities to fund its OPEB obligation, the Board has decided to set aside funding in a multi-employer trust fund administered by the California Public Employees Retirement System (CalPERS) to pay for future post-employee health benefits obligations for current Agency retirees and employees. The Agency has now prefunded its actuarially determined annual OPEB contributions since FY 10.

Below is a table of the Agency's actual annual retiree health expenditures and contributions to the California Employers' Retirement Benefit Trust (CERBT). The accumulated balance in the CERBT is not included on the Agency's financial statement as it is not an asset of the Agency. OPEB funding progress ratio is approximately 50%, and the unfunded accrued liability is approximately $2.2M for FY 17, and is shown in the table in Note 10 and in the *Required Supplementary Information* for prior fiscal years in the Agency audited FY 17 Financial Statements.

FINANCIAL INFORMATION (Continued)

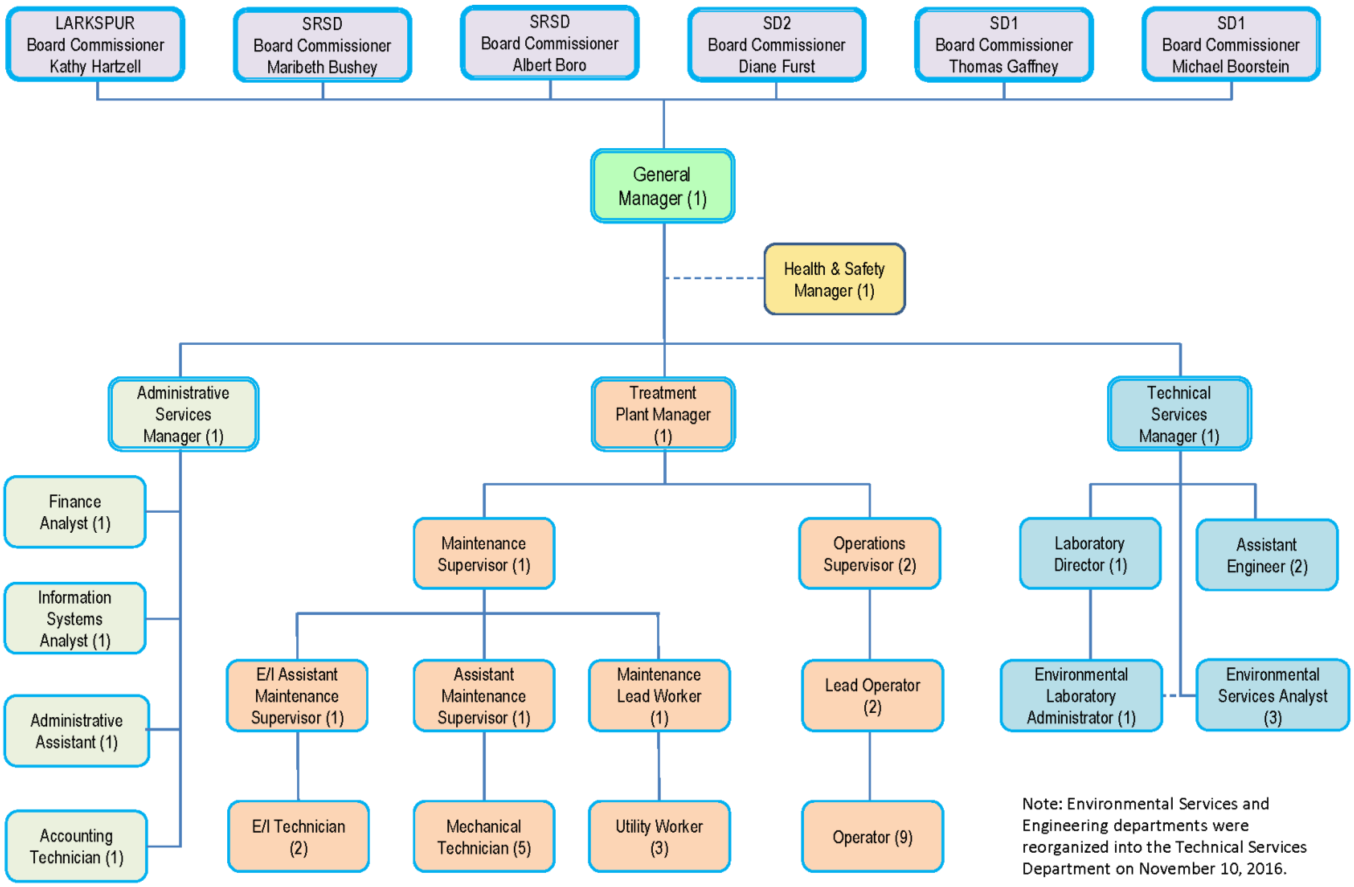
	# of Retirees as of June 30	Retiree Health Expenditures	Contributions To CERBT	Ending CERBT Balance*
FY 09-10	24	$121,003	$300,086	$ 298,158
FY 10-11	24	135,040	276,332	676,399
FY 11-12	28	147,745	240,259	925,988
FY 12-13	29	147,782	217,142	1,255,329
FY 13-14	31	159,603	150,200	1,649,590
FY 14-15	30	176,905	119,600	1,765,644
FY 15-16	30	171,822	120,880	1,903,765
FY 16-17	30	170,670	116,455	2,226,727

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

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

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

Independent Audit: State statutes require an annual audit by independent Certified Public Accountants. The accounting firm Chavan & Associates LLP, Certified Public Accountants, performed the audit of the Agency's FY 17 financial statements. Chavan & Associates LLP specializes in governmental and non-profit audit engagements. In addition to meeting the requirements set forth in state statutes, the auditor also reviewed the Agency's financial policies and procedures, as well as the Agency's adherence to them in conducting financial transactions. The auditor's report on the general purpose financial statements and accompanying notes are included in the financial section of this report.



Agency Officials as of June 30, 2017

Commissioners:

Kathy Hartzell, Commission Chair, City of Larkspur
Diane Furst, Commission Vice-Chair, Sanitary District No. 2 of Marin County
Michael Boorstein, Sanitary District No. 1 of Marin County
Albert Boro, Secretary, San Rafael Sanitation District
Maribeth Bushey, San Rafael Sanitation District
Thomas Gaffney, Sanitary District No. 1 of Marin County

Managers:

Jason R. Dow, PE, General Manager
Chris Finton, Treatment Plant Manager
Kenneth Spray, Administrative Services Manager
Brian Thomas, PE, Technical Services Manager

Government Finance Officers Association

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California

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June 30, 2016

Executive Director/CEO

FINANCIAL SECTION

Audited Financial Statements

CENTRAL MARIN SANITATION AGENCY

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

*　*　*

CHAVAN & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE, SUITE 180
SAN JOSE, CA 95129

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Chavan & Associates, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

The Agency's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Central Marin Sanitation Agency, as of June 30, 2017, and the

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

C & A LLP

October 20, 2017
San Jose, California

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

ORGANIZATION AND BUSINESS

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

FINANCIAL ANALYSIS OF THE AGENCY

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

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

NET POSITION STATEMENT ANALYSIS

Table 1 – Summary of Net Position

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

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

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

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

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

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

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

REVENUES, EXPENSES, AND CHANGE IN NET POSITION STATEMENT ANALYSIS

Table 2 – Change in Net Position

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

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

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

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

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

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

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

CAPITAL ASSETS

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

Table 3 – Summary of Net Investment in Capital Assets

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

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

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

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

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

DEBT ADMINISTRATION

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

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

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

ECONOMIC FACTORS

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

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

CONTACTING THE AGENCY

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

Administrative Services Manager
Central Marin Sanitation Agency
1301 Andersen Drive
San Rafael, CA 94901
(415) 459-1455

BASIC FINANCIAL STATEMENTS

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

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

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

Central Marin Sanitation Agency

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2017

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

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

Central Marin Sanitation Agency
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

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

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

NOTE 1 - NATURE OF ORGANIZATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a stand-alone government, may serve as the nucleus for its financial reporting entity when the stand-alone government provides separately issued financial statements. A stand-alone government is a legally separate governmental organization that does not have a separately elected governing body and does not meet the definition of a component unit. Central Marin Sanitation Agency meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

Component units are defined as legally separate organizations for which the primary government are financially accountable, and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Agency considered all potential component units in determining what organizations should be included in the financial statements. Since no other entities are controlled by, or rely upon the Agency, the reporting entity consists solely of the Agency. Based on these criteria, there are no component units to include in the Agency's financial statements.

Basis of Presentation

The Agency's Basic Financial Statements are prepared in accordance with the policies and procedures for California special districts. The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

The activities of the Agency are accounted for in a single enterprise fund. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Measurement Focus and Basis of Accounting

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portion of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to pension from the implementation of GASB No. 68.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

The Agency applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

Statement of Net Position

The statement of net position is designed to display the financial position of the Agency. The Agency's net position is classified into three categories as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.

- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation. The Agency applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues and expenses generally result from providing services in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency are charges to customers for services. Operating expenses for the Agency include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Joint Ventures

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

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for deposits and investment risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

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

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

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

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

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

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

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

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

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

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

Statement of Cash Flows

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

Plant and Facilities Capital Assets

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

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

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

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

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

Waterwaste Treatment Facilities:	
Buildings	40 years
Other	5-25 years
Waterwaste Disposal Facilities	40-50 years
General Plant & Administrative Facilities:	
Buildings	40 years
Other	5-30 years

Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium and discounts are reported as noncurrent assets along with any insurance payments made during issuance of the bond. Bond issuance costs, other than prepaid insurance, are expensed in the period incurred.

Compensated Absences

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

Pensions

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

Accounting Estimates

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

Subsequent Events

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

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

Implemented New Accounting Pronouncements

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

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

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

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

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

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

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

Upcoming New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

Cash Deposits

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

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The Agency has the following recurring fair value measurements as of June 30, 2017:

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

California Local Agency Investment Fund

The Agency participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities, defined as follows:

- Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

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

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

California Assets Management Program

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

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

Investment Policy

The Agency is authorized under California Government Code and the Agency's investment policy to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government or its agencies; bankers acceptances of U.S. banks; commercial paper of prime quality; negotiable certificates of deposit; repurchase or reverse repurchase agreements; and passbook savings account demand deposits. Investments prohibited by the Agency are inverse floaters, range notes, mortgage pool interest-only strips, and zero interest accrual at maturity notes. The Agency's investments were in compliance with the above provisions as of and for the year ended June 30, 2017. The Agency's investment policy follows the California Government Code which authorizes the Agency to invest in the following:

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

Risk Disclosures

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

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The Agency manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The sensitivity of the Agency's investments to interest rate risk is displayed in the summary schedule of cash and cash equivalents at the top of Note 3.

- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service. The Agency’s minimum legal rating is not applicable to the LAIF and CAMP investment pools.

- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the Agency’s deposits may not be returned to it. The Agency does not have a written policy for custodial credit risk over deposits.

  The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. In the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. Neither the California Government Code nor the Agency's investment policy contains legal or policy requirements that would limit the exposure to custodial risk.

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

NOTE 4 - PLANT AND FACILITIES (CAPITAL ASSETS)

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

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

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

NOTE 5 - LONG-TERM OBLIGATIONS

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

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

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

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

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

NOTE 6 - JOINT VENTURES

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

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

NOTE 7 - COMMITMENTS AND CONTINGENCIES

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

NOTE 8 - RISK MANAGEMENT

The Agency is exposed to risks of loss from property, liability, and workers' compensation. The Agency mitigates risk by participating in risk sharing and insurance purchasing pools through membership in the California Sanitation Risk Management Authority (CSRMA). Risk sharing pools provide general and automobile liability and workers' compensation coverage. The pools operate to share risk among the members of the pool up to a limit of $15,500,000 and $750,000 for general liability and workers' compensation, respectively.

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

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Agency's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Agency resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plan provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Tier 1	PEPRA
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.00%	2.00%
Required employee contribution rates	7.949%	6.250%
Required employer contribution rates	11.634%	6.555%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

The Agency contracts with CalPERS to administer its retiree health benefits plan (an agent multiple-employer plan) and to provide an investment vehicle, the California Employees' Retiree Benefit Trust Fund (CERBT), to prefund future OPEB costs. The Agency chooses from a menu of benefit provisions and adopts certain benefit provisions by Board resolution. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. By participating in CERBT, the Agency is also obligated to follow the actuarial assumptions established by the CalPERS Board of Administration. CalPERS issues a Comprehensive Annual Financial Report for the retirement plans. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, CA, 95814.

Funding Policy

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

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

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

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

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

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

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary

information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.
Actuarial Methods and Assumptions

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

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

NOTE 11 – PRIOR PERIOD ADJUSTMENT

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Central Marin Sanitation Agency

Schedule of Pension Contributions - CalPERS

June 30, 2017

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

Notes to Schedule:

Valuation Date: June 30, 2015

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

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

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

Central Marin Sanitation Agency

Schedule of Proportionate Share of Net Pension Liability

June 30, 2017

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

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

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

Central Marin Sanitation Agency

Schedule of Funding Progress for the Retiree Health Benefit Plan

June 30, 2017

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

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

OTHER INDEPENDENT AUDITOR'S REPORTS

Chavan & Associates, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Central Marin Sanitation Agency

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Central Marin Sanitation Agency (the "Agency") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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Purpose of this Report

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

C & A LLP

October 20, 2017
San Jose, California

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STATISTICAL SECTION

STATISTICAL SECTION
Overview

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

Contents **Page**

Schedules 1-7: Financial Trends

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

Schedules 8-10: Revenue and Equivalent Dwelling Units

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

Schedules 11-12: Debt Capacity and Revenue Coverage

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

Schedule 13-14: Demographic and Economic Information

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

Schedule 15-16: Operational Information

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

Central Marin Sanitation Agency
Statement of Net Position

Schedule 1

Fiscal Year Ending June 30

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net Investment in Capital Assets	$ 36,400,782	$ 36,022,116	$ 38,085,361	$ 36,352,645	$ 38,592,778	$ 39,015,640	$ 39,424,680	$ 40,913,010	$ 42,776,891	$ 41,758,701
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	6,218,578	7,438,757	7,259,794	14,201,829	13,337,772	12,651,278	11,513,682	10,264,178	6,896,628	6,323,289
Total Net Position *	$ 42,619,360	$ 43,460,873	$ 45,345,155	$ 50,554,474	$ 51,930,550	$ 51,666,918	$ 50,938,362	$ 51,177,188	$ 49,673,519	$ 48,081,990

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

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

Source: Central Marin Sanitation Agency Audited Financial Statements

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

Schedule 2

Fiscal Year Ended June 30	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-operating Revenues (Expenses)	Capital Contributions - Capacity Charges	Change in Net Assets	Beginning Net Assets	Prior Period Adjustment		Ending Net Assets
2017	$ 17,235,271	$ (16,793,252)	$ 442,019	$ (1,613,611)	$ 330,079	$ (841,513)	$ 43,460,873	$ -		$ 42,619,360
2016	16,495,058	(15,257,981)	1,237,077	(1,119,479)	162,705	280,303	45,345,155	(2,164,585)	*	43,460,873
2015	17,000,940	(13,419,393)	3,581,547	(1,928,681)	415,845	2,068,711	50,554,474	(7,278,030)	**	45,345,155
2014	16,333,444	(15,847,769)	485,675	(2,450,002)	588,251	(1,376,076)	51,930,550	-		50,554,474
2013	15,610,414	(13,582,756)	2,027,658	(2,560,242)	970,596	438,012	51,666,918	(174,380)	***	51,930,550
2012	15,081,377	(13,059,540)	2,021,837	(2,541,893)	93,919	(426,137)	50,938,362	1,154,693	****	51,666,918
2011	15,416,348	(13,064,390)	2,351,958	(2,664,933)	74,149	(238,826)	51,177,188			50,938,362
2010	15,248,891	(11,438,099)	3,810,792	(2,520,271)	213,148	1,503,669	49,673,519			51,177,188
2009	14,893,481	(11,371,776)	3,521,705	(1,994,842)	64,666	1,591,529	48,081,990			49,673,519
2008	12,196,165	(10,154,339)	2,041,826	(97,225)	90,928	2,035,529	46,046,461			48,081,990

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

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

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

**** Salary expense for time worked on the Agency's treatment plant expansion projects during fiscal years 2006-2011 were reclassified to capital assets.

Source: Central Marin Sanitation Agency Audited Financial Statements

Central Marin Sanitation Agency
Operating Revenue by Source

Schedule 3

Fiscal Year Ended June 30	Service Charge*	Contract Maintenance Revenue	Other Operating Revenue	Total Operating Revenues
2017	$ 15,355,475	$ 1,442,550	$ 437,246	$ 17,235,271
2016	14,471,578	1,546,239	477,241	16,495,058
2015	15,215,367	1,352,202	433,371	17,000,940
2014	14,722,581	1,226,428	384,435	16,333,444
2013	14,095,054	1,112,190	403,170	15,610,414
2012	14,396,006	296,377	388,994	15,081,377
2011	14,851,193	314,917	250,238	15,416,348
2010	14,587,726	351,621	309,544	15,248,891
2009	14,216,948	401,257	275,276	14,893,481
2008	11,343,061	591,782	261,322	12,196,165

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

* Includes regional sewer service and capital debt service charges.

Source: Central Marin Sanitation Agency Audited Financial Statements

Central Marin Sanitation Agency
Operating Expenses by Function

Schedule 4

Fiscal Year Ended June 30	Salaries & Benefits	Facility Operations	Repairs & Maintenance	Permit Testing & Monitoring	Depreciation	Insurance	Utilities & Telephone	General & Administrative		Prior Period Adjustment	Total Operating Expenses
2017	$ 9,079,369	$ 1,496,774	$ 947,285	$ 110,973	$ 4,045,357	$ 97,095	$ 318,900	$ 697,499	*		$ 16,793,252
2016	7,411,654	1,408,893	1,373,609	121,094	3,898,944	101,447	346,701	595,639	**	3,168	15,261,149
2015	6,343,530	1,341,798	1,035,053	130,687	3,491,240	97,622	429,324	550,139			13,419,393
2014	8,585,875	1,340,334	1,175,412	110,372	3,562,656	97,325	471,656	504,139	***		15,847,769
2013	6,722,315	1,300,266	917,318	107,459	3,506,137	98,494	431,932	498,835			13,582,756
2012	6,340,897	1,317,942	593,504	90,890	3,633,904	93,614	383,934	604,855			13,059,540
2011	6,520,619	1,195,913	581,293	87,863	3,605,777	84,014	364,646	624,265			13,064,390
2010	6,107,007	1,268,649	545,498	89,672	2,263,687	90,282	379,155	694,149			11,438,099
2009	5,939,269	1,174,508	633,339	95,717	2,235,936	74,536	521,803	696,668			11,371,776
2008	5,403,786	982,732	349,730	106,460	2,198,294	71,781	487,697	553,859			10,154,339

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

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

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

Notes:

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

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

Source: Central Marin Sanitation Agency Audited Financial Statements

Central Marin Sanitation Agency
Non-Operating Revenues and Expenses

Schedule 5

Fiscal Year Ended June 30	Interest & Investment Income	Other Non-operating Revenues	Interest Expense	Other Non-operating Expenses	Prior Period Adjustment	Total Non-operating Revenues (Expenses)
2017	$ 113,085	$ 26,067	$ (1,752,699)	$ (64)		$ (1,613,611)
2016	376,752	80,717	(1,577,466)	518 *	(180,852)	(1,300,331)
2015	41,950	830,223	(2,108,649)	(692,205)		(1,928,681)
2014	40,744	47,496	(2,536,490)	(1,752)		(2,450,002)
2013	102,856	46,773	(2,702,688)	(7,183)		(2,560,242)
2012	65,417	113,436 *	(2,703,231)	(17,515) **		(2,541,893)
2011	90,322	30,786	(2,781,096)	(4,945)		(2,664,933)
2010	133,558	195,638	(2,849,065)	(402)		(2,520,271)
2009	865,160	58,034	(2,918,036)	-		(1,994,842)
2008	2,879,424	48,006	(2,973,702)	(50,953)		(97,225)

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

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

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

Source: Central Marin Sanitation Agency Audited Financial Statements

Central Marin Sanitation Agency
Capital Contributions

Schedule 6

Fiscal Year Ended June 30	Connection Fee (Capacity Charges)
2017	$ 330,079
2016	162,705
2015	415,845
2014	588,251
2013	970,596
2012	93,919
2011	74,149
2010	213,148
2009	64,666
2008	90,928

Source: Central Marin Sanitation Agency Audited Financial Statements

Central Marin Sanitation Agency
Capital Additions

Schedule 7

Fisal Year Ended June 30	Capital Additions
2017	$ 2,194,827
2016	4,372,405
2015	2,244,858
2014	2,180,163
2013	3,953,437
2012	5,736,508
2011	2,835,289
2010	14,947,046
2009	17,781,193
2008	16,548,014

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

Source: Central Marin Sanitation Agency Audited Financial Statements

Central Marin Sanitation Agency
Major Revenue Rates and Base

Schedule 8

Fiscal Year Ended June 30	Effective Sewer Service Charge Rate per EDU		Total Service Charge Revenue	Debt Service Charge per EDU		Total Debt Service Charge	Connected Equivalent Dwelling Units (EDU's) (1)	EDUs Assigned SQSP
2017	217.82		$ 10,395,358.00	$ 94.74	(3)	$ 94.74	51,729	4,005
2016	204.71		9,897,549.00	87.10		87.10	52,355	4,005
2015	193.78		9,399,740.01	111.49		111.49	52,512	4,005
2014	184.86		8,901,932.00	111.69		111.69	52,161	4,005
2013	172.00	(2)	8,274,123.00	113.51		113.51	52,111	4,005
2012	169.74		8,576,113.51	115.19		284.93	50,525	
2011	164.64		9,032,808.96	103.95		268.59	54,867	
2010	156.80		8,771,161.62	103.44		260.24	55,941	
2009	149.33		8,396,527.24	104.19		253.52	56,228	
2008	142.22		8,024,554.71	71.63		213.85	56,258	

Note (1):
EDU counts are provided annually to CMSA by the member agencies. An EDU generally is one household. In the case of multiple dwellings, the number of EDU's varies by units. Commercial EDU is based on water use. Industrial EDU is based on volume and strength of the wastewater flow. Included in this total is 4,005 EDU assigned to SQSP for the debt service allocation. Prior to FY 13, SQSP's EDU was included in the total EDU reported by JPA members.

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

Note (3):
Historically, the Debt Service Charge per EDU rate is equal to the adopted budget rate. The FY 17 Adopted Budget EDU rate was $94.74 using the 2016 final EDU count for the FY 17 Budget. Upon receiving the final year end increased EDU count for 2017, the rate was adjusted accordingly to correctly allocate debt service revenue to each JPA member agency based on their final EDU count. Debt service revenue is the funding source for the debt service obligation.

Source: Annual Agency Budgets

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

Schedule 9

The wastewater flow (volume) and strength (BOD & TSS) for each JPA member agency is used to determine its allocation of the CMSA regional service charge (SC). Additional information about the how the SC is calculated can be found in the Agency's FY 2017 Budget available on www.cmsa.us/finance.

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

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

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

12-Month Period	SRSD	SD #1	SD #2	SQSP	Influent BOD
April 1, 2016 to March 31, 2017	4,451,240	5,101,508	447,649	509,759	10,510,156
April 1, 2015 to March 31, 2016	3,892,566	4,358,760	592,658	306,804	9,150,788
April 1, 2014 to March 31, 2015	4,451,240	5,101,508	447,649	509,759	10,510,156
April 1, 2013 to March 31, 2014	4,716,353	3,522,352	694,504	1,121,446	10,054,655
April 1, 2012 to March 31, 2013	4,242,574	3,532,865	748,430	457,428	8,981,297

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

12-Month Period	SRSD	SD #1	SD #2	SQSP	Influent TSS
April 1, 2016 to March 31, 2017	7,812,006	8,343,902	699,225	1,503,385	18,358,518
April 1, 2015 to March 31, 2016	5,569,476	6,827,531	934,372	398,325	13,729,704
April 1, 2014 to March 31, 2015	7,812,006	8,343,902	699,225	1,503,385	18,358,518
April 1, 2013 to March 31, 2014	7,573,120	5,341,885	1,361,000	1,320,534	15,596,539
April 1, 2012 to March 31, 2013	6,396,936	4,325,587	1,171,099	1,067,135	12,960,757

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

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

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

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

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

Schedule 10

Fiscal Year Ended June 30	Sanitary District #1 (Ross Valley)	City of Larkspur	San Quentin Prison	Sanitary District #2	San Rafael Sanitation District	Total EDUs	EDU Change from Prior Year	% Change from Prior Year
2017	19,298	3,039	4,005	6,055	19,332	51,729	(626)	-1.2%
2016	19,700	3,019	4,005	6,076	19,555	52,355	(157)	-0.3%
2015	19,666	2,982	4,005	6,216	19,643	52,512	351	0.7%
2014	19,498	2,949	4,005	6,006	19,703	52,161	50	0.1%
2013	19,511	2,997	4,005	6,116	19,482	52,111	1,586	3.1%
2012	18,835	3,079	3,247	5,955	19,409	50,525	(4,342)	-7.9%
2011	19,261	3,021	7,209	5,975	19,401	54,867	(1,074)	-1.9%
2010	19,709	3,050	7,529	6,078	19,575	55,941	(287)	-0.5%
2009	19,295	3,116	7,936	6,196	19,685	56,228	(30)	-0.1%
2008	19,112	3,107	8,227	6,195	19,617	56,258	439	0.8%

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

Source: Annual Agency Budgets

Central Marin Sanitation Agency
Revenue Bonds
Principal Debt Outstanding

Schedule 11

Fiscal Year Ended June 30	2015 **(1)** Revenue Bonds	2006 **(2)** Revenue Bonds	Total Outstanding Debt	Total Debt Per EDU	Total Debt Per Capita **(3)**
2017	$ 47,153,592	$ -	$ 47,153,592	$ 912	$ 451
2016	49,510,637	-	49,510,637	946	474
2015	51,767,682	-	51,767,682	986	495
2014		58,438,189	58,438,189	1,120	559
2013		60,524,389	60,524,389	1,161	579
2012		62,525,589	62,525,589	1,238	598
2011		64,451,789	64,451,789	1,175	617
2010		66,302,989	66,302,989	1,185	634
2009		68,084,189	68,084,189	1,211	652
2008		69,800,389	69,800,389	1,241	668

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

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

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

(3): Total population for all Marin County shown on Schedule 13 is 260,651. Using US Census Bureau

Source: Central Marin Sanitation Agency Audited Financial Statements

Central Marin Sanitation Agency
Pledged Revenue Coverage

Schedule 12

Fiscal Year Ended June 30	Utility Service Charges	Less Operating Expenses	Net Revenues Available	2015 Revenue Bonds	2006 Revenue Bonds	Total Annual Debt Service	Debt Service Coverage
2017	$ 17,704,438	$ 11,424,190	$ 6,280,248	$ 3,947,699		$ 3,947,699	1.59
2016	16,753,516	11,359,037	5,394,479	3,672,466		3,672,466	1.47
2015	17,596,753	9,928,153	7,668,600		$ 4,243,649	4,243,649	1.81
2014	17,008,183	10,731,313	6,276,870		4,576,490	4,576,490	1.37
2013	16,723,456	10,076,619	6,646,837		4,657,688	4,657,688	1.43
2012	15,336,634	9,425,636	5,910,998		4,583,231	4,583,231	1.29
2011	15,606,660	9,458,613	6,148,047		4,586,096	4,586,096	1.34
2010	15,790,833	9,174,412	6,616,421		4,584,065	4,584,065	1.44
2009	15,881,341	9,135,840	6,745,501		4,588,036	4,588,036	1.47
2008	15,214,523	7,956,045	7,258,478		2,973,702	2,973,702	2.44

Source: Central Marin Sanitation Agency Audited Financial Statements

Central Marin Sanitation Agency
Demographic and Economic Statistics

Schedule 13

Fiscal Year Ended June 30	Marin County Population **(1)**	US Census Bureau Marin County Population **(2)**	Personal Income (in thousands) **(3)**		Per Capita Personal Income **(3)**		Marin County Unemployment Rate **(1)**	
2017	N/A	N/A	N/A		N/A		3.1%	**(b)**
2016	260,651	N/A	N/A		N/A		3.3%	
2015	261,221	N/A	$28,492,821	**(a)**	$109,076	**(a)**	3.8%	
2014	258,324	N/A	26,926,803		103,346		4.6%	
2013	255,778	N/A	25,045,431		96,868		5.6%	
2012	254,882	N/A	24,619,594		96,162		6.9%	
2011	254,359	N/A	23,009,440		90,091		8.1%	
2010	252,731	252,409	21,049,598		83,232		8.4%	
2009	259,772	N/A	20,810,155		82,955		6.2%	
2008	257,968	N/A	22,651,030		91,188		4.0%	

Note **(a)**: Bureau of Economic Analysis Marin County CA1 Personal Income and CA1-3 Per Capita Personal Income last updated by November 17, 2016

Note **(b)**: Unemployment rate figure is the Marin County average monthly unemployment rate for the period July 2016 through June 2017 (www.labormarketinfo.edd.ca.gov)

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

http://2010.census.gov/2010census/
(3) US Department of Commerce Bureau of Economic Analysis (BEA) website:
www.bea.gov/iTable

Central Marin Sanitation Agency
Ten Largest Employers Statistic

Schedule 14

Ten Largest Employers in the CMSA Service Area (1)	Type of Entity	Number of Employees FY 17	Percentage of Total Marin County Employment (2)	Number of Employees FY 16	Percentage of Total Marin County Employment (2)	Number of Employees FY 15	Percentage of Total Marin County Employment (2)	Number of Employees FY 14	Percentage of Total Marin County Employment (2)	Number of Employees FY 13	Percentage of Total Marin County Employment (2)
BioMarin **(3)**	Biotech	1,700	1.25%								
San Quentin State Prison	State Government	1,662	1.22%	1,832	1.35%	1,832	1.35%	1,832	1.34%	1,832	1.36%
Marin General Hospital	Hospital	1,650	1.22%	1,650	1.21%	1,650	1.22%	1,650	1.20%	1,650	1.22%
Dominican University	University	1,000	0.74%	1,000	0.73%	1,000	0.74%	745	0.54%	745	0.55%
Golden Gate Transit	Transit District	810	0.60%	775	0.57%	775	0.57%	775	0.57%	838	0.62%
College of Marin	College District	507	0.37%	332	0.24%	328	0.24%	354	0.26%	474	0.35%
Restoration Hardware **(3)**	Home Furnishings	500	0.37%								
City of San Rafael	Government	401	0.30%	390	0.29%	390	0.29%	383	0.28%	387	0.29%
San Rafael City Schools	School District	355	0.26%	355	0.26%	355	0.26%	355	0.26%	355	0.26%
Kentfield Rehabilitation & Hospital	Hospital	344	0.25%	344	0.25%	344	0.25%	344	0.25%	344	0.25%
Tamalpais Union High School District (TUHSD)	School District			417	0.31%	310	0.23%	353	0.26%	353	0.26%
Marin Muncipal Water District (MMWD)	Water District			246	0.18%	246	0.18%	244	0.18%	239	0.18%

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

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

(2) Total Marin County employment for June 2017 was 136,700. The data source is from www.labormarketinfo.edd.ca.gov/data/interactive-labor-market-data-tools.html. Employment statistics by cities within Marin County are not available.

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

Central Marin Sanitation Agency
Authorized Staffing by Department Function

Schedule 15

Authorized Staffing by Department	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
Administration	7	6	6	6	6	6	6	6	7	5
Maintenance **(1)**	14	14	13	14	13	13	13	13	12	12
Operations	13	13	13	13	13	13	14	14	14	15
Technical Services **(4)**	8									
Environmental Services	-	5	5	5	5	5	5	5	5	5
Engineering **(2)**	-	4	3	3	3	3	2	2	2	2
Safety Director Program **(3)**	1	1	1	1	1	1	1	1	1	1
Agency Total	43	43	41	42	41	41	41	41	41	40

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

Source: Central Marin Sanitation Agency records

Central Marin Sanitation Agency
Treatment Capacity and Wastewater Treatment

Schedule 16

Millions of Gallons per Day

Treatment Plant	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
Treatment Plant Permitted Capacity	10	10	10	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Average Dry Weather Flow **(1)**	8.2	4.6	4.7	5.6	5.8	6.1	6.2	6.2	6.9	5.9
Wastewater Treated per day **(2)**	12.9	7.8	7	7.9	8.9	8.0	10.6	10.3	8.7	8.7

Wet Tons per Year

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013	2012	2011	2010	2009	2008
Biosolids Treated	6,645	6,231	5,882	5,450	6,107	6,344	6,267	6,013	6,217	6,331

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

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

Source: Central Marin Sanitation Agency records

CENTRAL MARIN SANITATION AGENCY
Agency Information
June 30, 2017

I. General Information

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

II. Contact Information

Member Agency Contact Information:

Sanitary District No. 1 of Marin County
2960 Kerner Blvd
San Rafael, CA 94901
415) 259-2949

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

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

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

Retirement Plans Contact Information:

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

Source: Central Marin Sanitation Agency

Appendix A

Agency's Mission, Vision, and Values

Agency's Mission, Vision, and Values

MISSION

MISSION

WHAT THE AGENCY DOES

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

VISION

VISION

WHERE THE AGENCY WANTS TO BE IN THE FUTURE

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

VALUES

VALUES

KEY STATEMENTS THAT DESCRIBE THE IDEALS OF THE AGENCY

CMSA values...

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

Appendix B

Key Terms and Financial Glossary with Acronym Listing

Key Terms and Financial Glossary with Acronym Listing

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

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

ACRONYM LISTING

ADC	Alternate Daily Cover
AM	Asset Management
B2E	Biosolids-to-Energy
BACC	Bay Area Chemical Consortium
BACWA	Bay Area Clean Water Agencies
BAPPG	Bay Area Pollution Prevention Group
BAAQMD	Bay Area Air Quality Management District
BOD	Biochemical Oxygen Demand
BWA	Bartle Wells Associates
CAMP	California Asset Management Program (see Interest Income)
CASA	California Association of Sanitation Agencies
CCT	Chlorine Contact Tank
CEC	California Energy Commission
CERBT	California Employers’ Retirement Benefit Trust
CIP	Capital Improvement Program
CMMS	Computerized Maintenance Management System
CMSA	Central Marin Sanitation Agency
COLA	Cost of Living Adjustment
CPI	Consumer Price Index
CSRMA	California Sanitation Risk Management Authority
CUPA	Certified Unified Program Agencies
CWEA	California Water Environment Association
DBOO	Design, Build, Own, Operate
DDSD	Delta Diablo Sanitation District
EDU	Equivalent Dwelling Unit
ELAP	Environmental Laboratory Approval Program
EPMC	Employer Paid Member Contribution
F2E	Food-to-Energy
FOG	Fats, Oils and Grease program (see Contract Service Revenues)
FSE	Food Service Establishment(s)
FTE	Full Time Equivalent (a position converted to decimal equivalent of a full time position)
FY	Fiscal Year
G&A	General & Administrative
GASB	Government Accounting Standards Board

GHG	Greenhouse Gas
JEPA	Joint Exercise of Powers Agreement
JPA	Joint Powers of Authority
LARK	City of Larkspur
LBNL	Lawrence Berkeley National Laboratories
LED	Light-emitting Diodes
LGVSD	Las Gallinas Sanitary District (see Contract Service Revenues)
MOU	Memorandum of Understanding
MSS	Marin Sanitary Service
NACWA	National Association of Clean Water Agencies
NBWA	North Bay Watershed Association
NPDES	National Pollutant Discharge Elimination System
NSD	Novato Sanitary District (see Contract Service Revenues)
OPEB	Other Post-Employment Benefits
PCA	Pretreatment Compliance Audit
PIER	Public Interest Energy Research
RAS	Return Activated Sludge
RFP	Request for Proposal
RFQ	Request for Qualifications
ROWD	Report of Waste Discharge
RWB	Regional Water Board
SAMP	Strategic Asset Management Program
SBP	Strategic Business Plan
SC	Service Charge
SCADA	Supervisory Control and Data Acquisition (a monitoring and control software system)
SD #1	Sanitary District No. 1, JPA Member (aka RVSD, Ross Valley Sanitary District)
SD #2	Sanitary District No. 2, JPA Member
SDI	State Disability Insurance
SDS	Safety Data Sheets
SQSP	San Quentin State Prison (see Contract Service Revenues)
SRSD	San Rafael Sanitation District, JPA Member
SSC	Sewer Service Charge
SUO	Sewer Use Ordinance
SWRCB	State Water Resources Control Board
TCSD	Tamalpais Community Services District (see Contract Service Revenues)
TSS	Total Suspended Solids
USA	Underground Service Alert