TAMALPAIS COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2018

CROCE, SANGUINETTI, & VANDER VEEN INC.

CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

CROCE, SANGUINETTI, & VANDER VEEN INC.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
Tamalpais Community Services District
Mill Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Tamalpais Community Services District** (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 and the Standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Tamalpais Community Services District** as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Change in Accounting Principles

Management adopted the provisions of the Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, which became effective during the year ended June 30, 2018 and required a prior period adjustment to the financial statements and required the restatement of net position as discussed in Note A to the financial statements.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information 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 June 5, 2019, on our consideration of the District'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 District's internal control over financial reporting and compliance.

Croce, Sanguinetti, & Vander Veen, Inc.

CROCE, SANGUINETTI, & VANDER VEEN, INC.
Certified Public Accountants
Stockton, California
June 5, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

June 30, 2018

This narrative overview and analysis of the Tamalpais Community Services District's (District) financial activities for the fiscal year ended June 30, 2018 has been provided by the management of the District. The management's discussion and analysis is intended to serve as an introduction to the District's financial statements which follow this section and is recommended to be reviewed in conjunction with them.

Financial Highlights

- The District's net position decreased by $498,478 over the prior year, including a $982,843 increase in net position of governmental activities, a $26,837 increase in net position of business-type activities, and a decrease of $1,508,158 in total beginning net position. During the current year, the District implemented Governmental Accounting Standards Board Statement No. 75. As a result, the beginning net position of the District decreased by $1,508,158 due to prior period adjustments made to record beginning of the year liabilities, deferred outflows, and deferred inflows applicable to other post-employment benefits. The District's net position is now $991,443.

- Total assets of the District were $9,014,057 with capital assets at $6,421,372 net of accumulated depreciation. Current and other assets were $2,592,685.

- Total liabilities were $8,652,326 consisting of long-term liabilities of $8,224,775 and other current liabilities at $427,551.

- Assets of the District exceeded liabilities at the close of the most recent fiscal year by $991,443 (net position). Of this amount, $1,623,718 (unrestricted net position) is a deficit and is not available to meet the District's ongoing obligations, and $2,615,161 is net investment in capital assets.

- On the current financial resources basis, the District's governmental fund revenues exceeded expenditures by $176,393. The proprietary fund revenues exceeded expenditures by $26,837.

- At year-end, there was $288,061 in cash and investments to fund future governmental activities, and $2,093,441 in cash and investments to fund future business-type activities.

Overview of the Financial Statements

The District's financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to financial statements including required supplemental information.

Government-wide and fund financial statements present the results of operations for different functions of the District as follows:

1. **Government-Wide financial statements** provide both long-term and short-term information about the District's overall financial position in a manner similar to private-sector business.

   The **Statement of Net Position** displays all of the District's assets and liabilities, with the difference between the two reported as net position. The **Statement of Activities** provides all current year revenues and expenses on an accrual basis of accounting regardless of when cash is received or paid. These two government-wide statements report the District's net position and how they have changed during the fiscal year. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or weakening.

   The government-wide financial statements separately present the District's functions as follows:

   - **Governmental activities** include services financed mainly through property taxes. The District's parks and recreation, community center services, and Measure A services comprise its governmental activities.

   - **Business-type activities** include services financed, in whole or in part, by fees paid by those who directly benefit from the service. The District's business-type activities include wastewater collection and treatment and garbage collection and disposal.

2. **Fund financial statements** focus on the individual functions of the District, and report the District's operations in more detail than the government-wide statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used by state and local governments to control their resources that are legally restricted or otherwise earmarked for special purposes. The District reports its fund financial statements in the following two categories:

   Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on 1) short-term inflows and outflows of expendable

(Continued)

Overview of the Financial Statements (Continued)

resources, and 2) the resources remaining at the end of the fiscal year that are available for future use. Because the focus of governmental funds is narrower than the government-wide financial statements, a reconciliation that explains the relationship (or differences) between them is presented following each of the governmental fund statements.

- **Proprietary funds** are used to report the same functions presented as business-type activities in the government-wide financial statements in more detail.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Government-Wide Financial Statements

A review of net position over time may serve as a useful indicator of the District's financial position. Net position represents the difference between the District's assets, deferred outflows, liabilities, and deferred inflows. As of June 30, 2018, the District's net position was $124,593, a decrease of $1,365,328 from the prior year. The following table outlines the District's net position by function for the current and prior fiscal years.

Tamalpais Community Services District Net Position (Deficit)
(rounded to nearest dollar)
As of June 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Total		Variance
Assets	2018	2017	2018	2017	2018	2017	
Current and other assets	$ 329,353	$ 139,311	$2,263,332	$ 2,265,264	$2,592,685	$2,404,575	$ 188,110
Capital assets, net	1,790,030	998,086	4,631,342	4,931,966	6,421,372	5,930,052	491,320
Total assets	2,119,383	1,137,397	6,894,674	7,197,230	9,014,057	8,334,627	679,430
Deferred outflows of resources	408,252	482,269	864,685	936,168	1,272,937	1,418,437	(145,500)
Liabilities							
Current liabilities	37,203	42,141	390,348	75,838	427,551	117,979	309,572
Non-current liabilities	1,457,890	1,244,225	6,766,885	6,794,429	8,224,775	8,038,654	186,121
Total liabilities	1,495,093	1,286,366	7,157,233	6,870,267	8,652,326	8,156,633	495,693
Deferred Inflows of resources	197,228	36,213	445,997	70,297	643,225	106,510	536,715
Net Position (Deficit)							
Net investment in capital assets	1,790,030	998,086	825,131	837,415	2,615,161	1,835,501	779,660
Unrestricted	(954,716)	(700,999)	(669,002)	355,419	(1,623,718)	(345,580)	(1,278,138)
Total net position (deficit)	$ 835,314	$ 297,087	$ 156,129	$ 1,192,834	$ 991,443	$1,489,921	$ (498,478)

(Continued)

Financial Analysis of the Government-Wide Financial Statements (Continued)

By far, the largest portion of the District's net position, less any related outstanding debt used to acquire those assets, reflects its investment in capital assets (e.g., land, buildings and improvements, equipment, etc.). The District uses its capital assets to provide the services it is responsible for and those assets don't represent future expendable resources. The remaining balance of unrestricted net position may be used to meet the District's ongoing obligations.

The following table displays the change in the District's net position for the year ended June 30, 2018.

Tamalpais Community Services District Change in Net Position (Deficit)

	Governmental Activities		Business-type Activities		Total	
Revenues	2018	2017	2018	2017	2018	2017
Program revenues						
Charges for services	$ 222,199	$ 225,939	$ 5,630,203	$ 4,905,936	$ 5,852,402	$ 5,131,875
Operating grants and contributions	30,291	157,334	5,000	5,311	35,291	162,645
Capital grants and contributions	876,984	-	-	-	876,984	-
General revenues						
Property taxes	915,534	870,414	-	-	915,534	870,414
Investment earnings	1,412	1,800	7,567	6,111	8,979	7,911
Miscellaneous	12,257	21,090	-	3,656	12,257	24,746
Total revenues	2,058,677	1,276,577	5,642,770	4,921,014	7,701,447	6,197,591
Expenses						
Parks and recreation	1,011,034	1,287,036	-	-	1,011,034	1,287,036
Community center	38,479	37,858	-	-	38,479	37,858
Measure A	26,321	40,375	-	-	26,321	40,375
Sanitation	-	-	3,896,471	2,687,274	3,896,471	2,687,274
Refuse	-	-	1,719,462	1,894,997	1,719,462	1,894,997
Total expenses	1,075,834	1,365,269	5,615,933	4,582,271	6,691,767	5,947,540
Transfers	-	-	-	-	-	-
Change in net position	982,843	(88,692)	26,837	338,743	1,009,680	250,051
Net position, beginning of year	297,087	385,779	1,192,834	854,091	1,489,921	1,239,870
Prior period adjustment	(444,616)	-	(1,063,542)	-	(1,508,158)	-
Net position (deficit), end of year	$ 835,314	$ 297,087	$ 156,129	$ 1,192,834	$ 991,443	$ 1,489,921

(Continued)

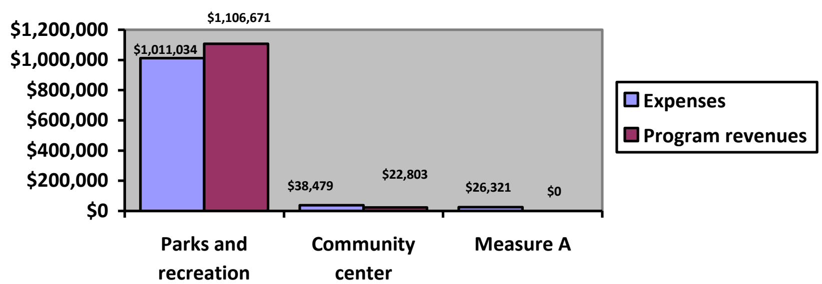
Financial Analysis of the Government-Wide Financial Statements (Continued)

The $1,009,680 increase in total net position is attributed to each function for both governmental and business-type activities as follows:

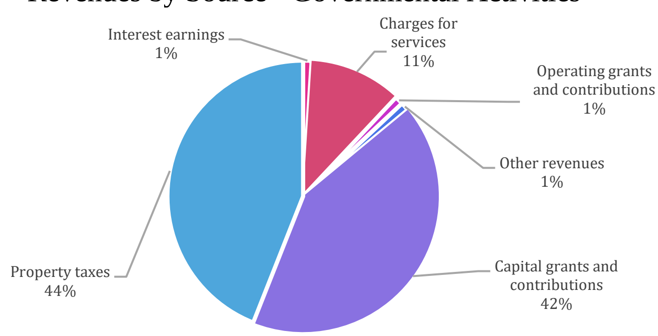
Governmental Activities

- Charges for services decreased by $3,740 due to a decrease in event revenue.
- Operating grants and contributions decreased by $127,043 due to a decrease in grant funds received for fire mitigation.
- Capital grants and contributions increased by $876,984 as a result of the purchase of the community center.
- Parks and recreation expenses decreased by $286,136 as a result of a decrease in trees and fire mitigation and a decrease in salaries and wages.
- Community center expenses increased by $621, as a result of an increase in costs of insurance and an increase in cleaning costs.
- Measure A expenses decreased by $14,054 as a result of a decrease in expenses incurred relative to Measure A tree and landscaping services.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



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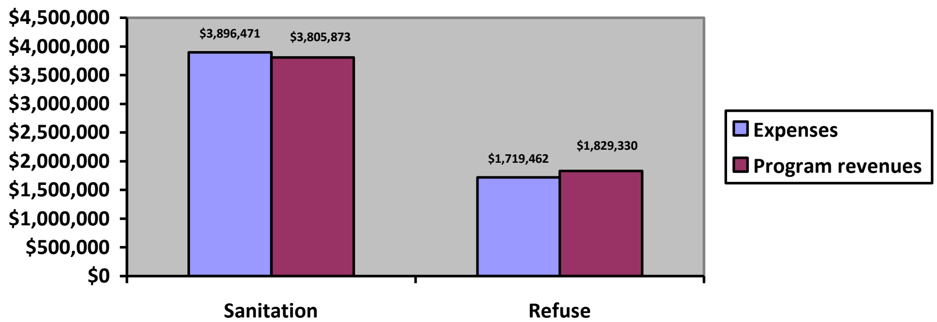
Financial Analysis of the Government-Wide Financial Statements (Continued)

Business-type Activities

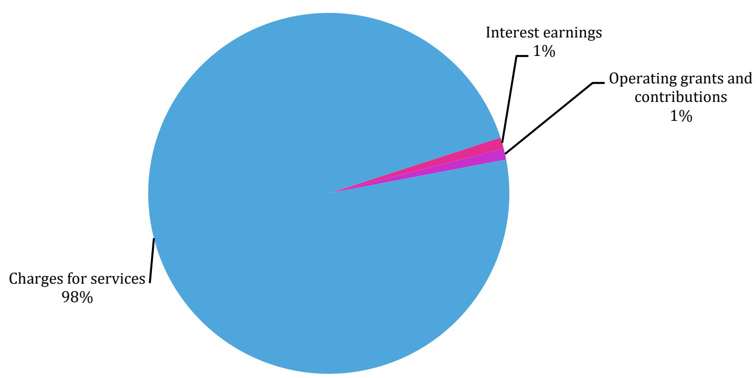
- Charges for services increased $724,267 due to an increase in sewer and refuse service charge rates.

- Expenses increased $1,033,662, the largest components of this increase are: contract services, employee benefits, consulting and professional fees.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide short-term inflows and outflows and balances of current expendable resources. In particular, the *unassigned fund balance* presented in the balance sheet may serve as a useful measure of the District's resources available for spending at the end of its fiscal year.

As of the end of the current fiscal year, the District's combined governmental fund revenues exceeded expenditures by $176,393 primarily due to increased property tax revenues and decreased expenditures. This resulted in a $176,393 increase in the combined ending fund balance of the District's governmental funds. The fund balance of the parks and recreation fund increased by $131,843, the fund balance of the community center fund decreased by $15,676, and the fund balance of the Measure A fund increased by $60,226. At year-end, the combined fund balance of governmental funds was $271,972, consisting of $230,000 assigned for capital outlay, $16,493 nonspendable, and $25,479 was unassigned.

Proprietary Funds

The District's proprietary fund statements provide the same type of information, in more detail, on the business-type activities presented in the government-wide financial statements.

The net position of the proprietary funds decreased by $1,036,705 from $1,192,834 to $156,129. The net position included a $669,002 deficit in unrestricted net position which has decreased by $1,024,421 or 292% from the previous year. The decrease in unrestricted net position (deficit) is due to a prior period adjustment to net position as a result of implementing Governmental Accounting Standards Board Statement No 75. Changes in total net position from last year are as follows: Sanitation decrease of $395,009 and refuse decrease of $641,696.

Budgetary Highlights

The District adopts annual operating budgets for both the governmental and the proprietary funds, and this report includes the results of governmental fund operations on a budgetary comparison basis. The District Board also adopts budget amendments during the course of the fiscal year to adjust for unforeseen circumstances and changes in priorities.

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Budgetary Highlights (Continued)

Parks and Recreation Fund

The parks and recreation fund reflects a net favorable budget variance of $193,946 when comparing actual amounts to the final budget for the fiscal year. The actual revenues were less than the budgeted amount by $9,857 and actual expenditures came under the budget by $203,803.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2018, the District's investment in capital assets amounted to $6,421,372 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, construction in progress, vehicles, park facilities and sanitation and refuse systems.

The District's total investment in capital assets before depreciation increased by $78,537 from $12,963,380 to $13,918,902. Significant additions of capital assets included:

- Bell Lane pumps ($32,026)
- Tennessee Valley flow measure ($23,449)
- Tam Valley Historical archive building ($23,062)
- Community Center ($876,985)

The following table displays the changes in District's capital assets, net of accumulated depreciation.

Tamalpais Community Services District's Capital Assets
(net of depreciation, in rounded dollars)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$ 416,500	$ 66,500	$ 29,853	$ 29,853	$ 446,353	$ 96,353
Buildings and improvements	1,855,324	1,328,339	701,367	701,367	2,556,691	2,029,706
Collection system	-	-	5,267,160	5,267,160	5,267,160	5,267,160
Pumping stations	-	-	2,777,791	2,722,316	2,777,791	2,722,316
Equipment	81,513	81,513	566,543	566,543	648,056	648,056
Leasehold improvements	840,170	840,170	-	-	840,170	840,170
Vehicles	33,536	33,536	1,326,083	1,326,083	1,359,619	1,359,619
Construction in progress	23,062	-	-	-	23,062	-
Total	3,250,105	2,350,058	10,668,797	10,613,322	13,918,902	12,963,380
Less accumulated depreciation	(1,460,075)	(1,351,972)	(6,037,455)	(5,681,356)	(7,497,530)	(7,033,328)
Net capital assets	$ 1,790,030	$ 998,086	$ 4,631,342	$ 4,931,966	$ 6,421,372	$ 5,930,052

Additional information on the District's capital assets can be found in Note D of the "Notes to Financial Statements" section.

Long-term Debt

During fiscal year 2018, all debt service was paid when and as required. Additional information about long-term debt can be found in Note E of this report.

Long-term liabilities

At the end of the fiscal year, the District has accrued a liability of $2,508,975 for post-employment benefits other than pensions. The increase in the accrual for the current fiscal year was $1,293,520 as a result of implementing GASB Statement No. 75 during the year ended June 30, 2018.

As a result of implementing GASB Statement No. 68 and 71, the District has accrued a net pension liability of $2,045,122 for retirement benefits to current and former employees at the end of the fiscal year.

Economic Factors and Next Year's Budgets and Rates

For the 2018 fiscal year, parks and recreation fund revenue projections have been conservative and comparable to prior years.

On March 14, 2018, the District's Board adopted a Sewer Capital Improvement Program for FY 2018/19 through FY 2034/35. Also on March 14, 2018, the District's Board approved resolution 2018-03 Reserve Policy for sanitation and refuse, based on recently adopted financial plans for the sanitation and refuse funds, and OPEB annual estimated expense.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's financial accountability and compliance with applicable laws for all those with an interest in the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information can be addressed to Tamalpais Community Services District, Attention: General Manager, 305 Bell Lane, Mill Valley, California 94941.

BASIC FINANCIAL STATEMENTS

TAMALPAIS COMMUNITY SERVICES DISTRICT

Statement of Net Position (Deficit)

June 30, 2018

	Governmental activities	Business-Type activities	Total
Assets			
Cash and investments	$ 288,061	$ 2,093,441	$ 2,381,502
Accounts receivable	23,769	86,765	110,534
Prepaid expenses	17,523	83,126	100,649
Capital assets, net of accumulated depreciation	1,790,030	4,631,342	6,421,372
Total assets	2,119,383	6,894,674	9,014,057
Deferred outflows of resources			
Pension related	403,944	834,958	1,238,902
OPEB related	4,308	29,727	34,035
Total deferred outflows of resources	408,252	864,685	1,272,937
Liabilities			
Accounts payable	30,325	50,635	80,960
Accrued liabilities	4,400	18	4,418
Deposits payable	2,478	-	2,478
Long-term liabilities			
Debt due within one year	-	339,695	339,695
Debt due in more than one year	-	3,546,516	3,546,516
Compensated absences	21,339	102,823	124,162
Net OPEB liability	735,192	1,773,783	2,508,975
Net pension liability	701,359	1,343,763	2,045,122
Total liabilities	1,495,093	7,157,233	8,652,326
Deferred inflows of resources			
Pension related	101,708	223,117	324,825
OPEB related	95,520	222,880	318,400
Total deferred inflows of resources	197,228	445,997	643,225
Net Position (deficit)			
Net investment in capital assets	1,790,030	825,131	2,615,161
Unrestricted	(954,716)	(669,002)	(1,623,718)
Total net position (deficit)	$ 835,314	$ 156,129	$ 991,443

The accompanying notes are an integral part of this financial statement.

STATEMENT OF ACTIVITIES

TAMALPAIS COMMUNITY SERVICES DISTRICT

Statement of Activities

For the year ended June 30, 2018

		Program revenues		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions
Governmental activities				
Parks and recreation	$ 1,011,034	$ 199,396	$ 30,291	$ 876,984
Community center	38,479	22,803	-	-
Measure A	26,321	-	-	-
Total governmental activities	1,075,834	222,199	30,291	876,984
Business-type activities				
Sanitation	3,896,471	3,805,873	-	-
Refuse	1,719,462	1,824,330	5,000	-
Total business-type activities	5,615,933	5,630,203	5,000	-
Total government	$ 6,691,767	$ 5,852,402	$ 35,291	$ 876,984

General revenues

Taxes

Property taxes

Homeowners property tax relief

Investment income

Miscellaneous

Total general revenues

Changes in net position

Net position, beginning of year, as originally stated

Prior period adjustment (See Note A)

Net position (deficit), beginning of year, as restated

Net position (deficit), end of year

Net (expenses) revenues and changes in net position (deficit)		
Governmental activities	Business-type activities	Totals
$ 95,637	$ -	$ 95,637
(15,676)	-	(15,676)
(26,321)	-	(26,321)
53,640	-	53,640
-	(90,598)	(90,598)
-	109,868	109,868
-	19,270	19,270
53,640	19,270	72,910
913,230	-	913,230
2,304	-	2,304
1,412	7,567	8,979
12,257	-	12,257
929,203	7,567	936,770
982,843	26,837	1,009,680
297,087	1,192,834	1,489,921
(444,616)	(1,063,542)	(1,508,158)
(147,529)	129,292	(18,237)
$ 835,314	$ 156,129	$ 991,443

The accompanying notes are an integral part of this financial statement.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Balance Sheet
Governmental Funds

June 30, 2018

	Parks and Recreation Fund	Nonmajor: Community Center Fund	Nonmajor: Measure A Fund	Total Governmental Funds
Assets				
Cash and investments	$ 110,005	$ -	$ 178,056	$ 288,061
Due from other funds	251,318	-	-	251,318
Accounts receivable	3,590	-	-	3,590
Prepaid expenses	16,493	-	-	16,493
Total assets	$ 381,406	$ -	$ 178,056	$ 559,462
Liabilities and Fund Balances				
Liabilities				
Due to other funds	$ -	$ 251,318	$ -	$ 251,318
Accounts payable	28,009	2,316	-	30,325
Accrued liabilities	4,400	1,447	-	5,847
Total liabilities	32,409	255,081	-	287,490
Fund balances				
Nonspendable				
Prepaid expenses	16,493	-	-	16,493
Assigned to:				
Capital outlay	230,000	-	-	230,000
Unassigned	102,504	(255,081)	178,056	25,479
Total fund balances (deficit)	348,997	(255,081)	178,056	271,972
Total liabilities and fund balances	$ 381,406	$ -	$ 178,056	$ 559,462

The accompanying notes are an integral part of this financial statement.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Deficit)

June 30, 2018

Total fund balances - governmental funds	$	271,972
Amounts reported for governmental activities in the statement of net position are different because:		
Accounts receivable are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds balance sheet.		20,179
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		1,790,029
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.		
Compensated absences		(21,339)
Net OPEB liability		(735,192)
Net pension liability		(701,359)
Deferred inflows and outflows of resources related to pensions and other post-employment benefits (OPEB) have not been included in the governmental funds balance sheet.		
Deferred outflows related to pension		403,944
Deferred inflows related to pension		(101,708)
Deferred outflows related to OPEB		4,308
Deferred inflows related to OPEB		(95,520)
Net position (deficit) of governmental activities	$	835,314

The accompanying notes are an integral part of this financial statement.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the year ended June 30, 2018

	Parks and Recreation Fund	Nonmajor		Total Governmental Funds
		Community Center Fund	Measure A Fund	
Revenues				
Tax revenues	$ 801,245	$ -	$ 106,682	$ 907,927
Charges for services	163,036	-	-	163,036
Rental income	36,360	20,680	-	57,040
Contributions	907,275	-	-	907,275
Other	1,277	2,123	-	3,400
Investment income	1,412	-	-	1,412
Total revenues	1,910,605	22,803	106,682	2,040,090
Expenditures				
Parks and recreation	901,777	-	-	901,777
Measure A	-	-	23,394	23,394
Community center	-	38,479	-	38,479
Capital outlay	876,985	-	23,062	900,047
Total expenditures	1,778,762	38,479	46,456	1,863,697
Net change in fund balances	131,843	(15,676)	60,226	176,393
Fund balances (deficit), beginning of year	217,154	(239,405)	117,830	95,579
Fund balances (deficit), end of year	$ 348,997	$ (255,081)	$ 178,056	$ 271,972

The accompanying notes are an integral part of this financial statement.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities

For the year ended June 30, 2018

Net change in fund balances - governmental funds	$ 176,393
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	18,587
Governmental funds report capital outlays as expenditures while governmental activities record depreciation expense to allocate those expenditures over the life of the assets.	900,047
Depreciation expense related to capital assets is recognized in the statement of activities, but is not reported in the funds.	(108,103)
Changes in compensated absences are recorded as an expense in the statement of activities, but are not reported in the funds.	6,037
Changes in net OPEB liability and deferred inflows and outflows associated with net OPEB liability are recorded as an expense in the statement of activities, but are not reported in the funds.	(26,820)
Changes in net pension liability and deferred inflows and outflows associated with pensions are recognized in the statement of activities, but are not reported in the funds.	16,702
Change in net position of governmental activities	$ 982,843

The accompanying notes are an integral part of this financial statement.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Statement of Net Position (Deficit)
Proprietary Funds

June 30, 2018

Assets and Deferred Outflows of Resources

	Sanitation Enterprise Fund	Refuse Enterprise Fund	Total
Current assets			
Cash and investments	$ 2,079,367	$ 14,074	$ 2,093,441
Due from other funds	220,562	-	220,562
Accounts receivable	63,704	23,061	86,765
Prepaid expenses	30,003	53,123	83,126
Total current assets	2,393,636	90,258	2,483,894
Capital assets, net of accumulated depreciation	4,531,213	100,129	4,631,342
Deferred outflows of resources			
Pension related	266,469	568,489	834,958
OPEB related	9,179	20,548	29,727
Total deferred outflows of resources	275,648	589,037	864,685
Total assets and deferred outflows of resources	$ 7,200,497	$ 779,424	$ 7,979,921

Liabilities, Deferred Inflows of Resources and Net Position (Deficit)

	Sanitation Enterprise Fund	Refuse Enterprise Fund	Total
Current liabilities			
Due to other funds	$ -	$ 220,562	$ 220,562
Accounts payable	21,249	29,386	50,635
Accrued liabilities	18	-	18
Current portion of long-term liabilities	299,695	40,000	339,695
Total current liabilities	320,962	289,948	610,910
Noncurrent liabilities			
Compensated absences	28,298	74,525	102,823
Noncurrent portion of long-term liabilities	3,506,516	40,000	3,546,516
Net OPEB liability	508,609	1,265,174	1,773,783
Net pension liability	448,422	895,341	1,343,763
Total noncurrent liabilities	4,491,845	2,275,040	6,766,885
Deferred inflows of resources			
Pension related	73,645	149,472	223,117
OPEB related	73,232	149,648	222,880
Total deferred inflows of resources	146,877	299,120	445,997
Net position (deficit)			
Net investment in capital assets	725,002	100,129	825,131
Unrestricted	1,515,811	(2,184,813)	(669,002)
Total net position (deficit)	2,240,813	(2,084,684)	156,129
Total liabilities, deferred inflows of resources and net position	$ 7,200,497	$ 779,424	$ 7,979,921

The accompanying notes are an integral part of this financial statement.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Position (Deficit)
Proprietary Funds

For the year ended June 30, 2018

	Sanitation Enterprise Fund	Refuse Enterprise Fund	Total
Operating revenues			
Charges for services	$ 3,787,549	$ 1,780,381	$ 5,567,930
Other	-	48,949	48,949
Connection fees	18,324	-	18,324
Total operating revenues	3,805,873	1,829,330	5,635,203
Operating expenses			
Contract services	2,382,298	253,765	2,636,063
Salaries and wages	297,339	564,518	861,857
Employee benefits	157,193	336,144	493,337
Repairs and maintenance	137,166	231,133	368,299
Depreciation	306,192	49,907	356,099
Consulting	207,497	-	207,497
Professional fees	129,549	61,042	190,591
Insurance	28,400	55,130	83,530
Other post-employment benefits	23,865	48,768	72,633
Fees and permits	18,998	37,118	56,116
Fuel	2,782	44,144	46,926
Supplies	21,858	24,453	46,311
Utilities	14,072	4,890	18,962
Directors' expenses	7,362	3,550	10,912
Travel, schools, seminars	2,730	2,657	5,387
Other	302	249	551
Total operating expenses	3,737,603	1,717,468	5,455,071
Operating income	68,270	111,862	180,132

(Continued)

TAMALPAIS COMMUNITY SERVICES DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Position (Deficit)
Proprietary Funds (Continued)

For the year ended June 30, 2018

	Sanitation Enterprise Fund	Refuse Enterprise Fund	Total
Nonoperating revenues (expenses)			
Interest revenue	5,248	2,319	7,567
Debt service - interest	(158,868)	(1,994)	(160,862)
Total nonoperating revenues(expenses)	(153,620)	325	(153,295)
Changes in net position	(85,350)	112,187	26,837
Net position (deficit), beginning of year, as originally stated	2,635,822	(1,442,988)	1,192,834
Prior period adjustment (See Note A)	(309,659)	(753,883)	(1,063,542)
Net position (deficit) beginning of year, as restated	2,326,163	(2,196,871)	129,292
Net position (deficit), end of year	$ 2,240,813	$ (2,084,684)	$ 156,129

The accompanying notes are an integral part of this financial statement.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Statement of Cash Flows
Proprietary Funds

For the year ended June 30, 2018

	Sanitation Enterprise Fund	Refuse Enterprise Fund	Total
Cash flows from operating activities			
Cash received from customers	$ 3,807,151	$ 1,843,708	$ 5,650,859
Cash payments to suppliers for goods and services	(3,097,600)	(901,886)	(3,999,486)
Cash payments to employees	(406,564)	(817,101)	(1,223,665)
Internal activity - receipts from other funds	123,114	-	123,114
Internal activity - payments to other funds	-	(123,114)	(123,114)
Net cash provided by operating activities	426,101	1,607	427,708
Cash flows from capital and related financing activities			
Purchase of equipment	(55,475)	-	(55,475)
Principal payments on long-term debt	(288,340)	-	(288,340)
Interest paid on long-term debt	(158,868)	(1,994)	(160,862)
Net cash used in capital and related financing activities	(502,683)	(1,994)	(504,677)
Cash flows from investing activities			
Interest income	5,248	2,319	7,567
Net cash provided by investing activities	5,248	2,319	7,567
Net increase (decrease) in cash and investments	(71,334)	1,932	(69,402)
Cash and investments, beginning of year	2,150,701	12,142	2,162,843
Cash and investments, end of year	$ 2,079,367	$ 14,074	$ 2,093,441
Reconciliation of operating income to net cash provided by operating activities			
Operating income	$ 68,270	$ 111,862	$ 180,132
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	306,192	49,907	356,099
Pension related adjustments	89,801	183,506	273,307
OPEB related adjustments	23,865	48,768	72,633
Change in assets and liabilities			
Accounts receivable	1,278	14,378	15,656
Due to (from) other funds	123,114	(123,114)	-
Prepaid expenses	(30,003)	(53,123)	(83,126)
Deferred outflows related to pension	(103,266)	(245,309)	(348,575)
Deferred outflows related to OPEB	(9,179)	(20,548)	(29,727)
Accounts payable	(46,907)	22,006	(24,901)
Accrued liabilities	(284)	-	(284)
Compensated absences	3,220	13,274	16,494
Net cash provided by operating activities	$ 426,101	$ 1,607	$ 427,708

The accompanying notes are an integral part of this financial statement.

Note A - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Tamalpais Community Services District (the District) is presented to assist in understanding the District's financial statements.

Description of the reporting entity

The Tamalpais Community Services District was formed in 1967 at which time it assumed the assets, liabilities and operations of its predecessor, the Tamalpais Valley Sanitary District. The District provides sanitation service, refuse and debris removal, park maintenance and public recreation services to its constituents. The District is governed by an elected five-member Board of Directors.

District management considered all potential component units for inclusion in the reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. The District concluded that there are no potential component units which should be included in the reporting entity.

Government-wide financial statements

The government-wide financial statements (i.e., the Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include the financial activities of the overall District government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Fund financial statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The District presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

The *parks and recreation fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *community center fund* is a nonmajor fund. It accounts for all activities to maintain and operate the community center.

The *Measure A fund* is a nonmajor fund. It accounts for activities that assist the District in managing its parks, open space preserves, recreation programs, and vegetation to promote biodiversity and reduce wildfire risk.

Proprietary Funds

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

The reporting entity includes the following enterprise funds, all of which are reported as major funds:

Fund	Brief description
Sanitation Fund	Accounts for activities associated with operating and maintaining the Districts collection and treatment of wastewater. All activities necessary to provide such services are accounted for in this fund, including administration, operations, capital improvements, maintenance, financing and related debt service, and billing and collection.
Refuse Fund	Accounts for the provision of refuse collection services to residents of the District. All activities necessary to provide such services are accounted for in this fund, including administration, operations, capital improvements, maintenance, financing and related debt service, and billing and collection.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the District's proprietary funds follow all GASB pronouncements currently in effect as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict with GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The District's operating revenues include all revenues derived from sanitation and refuse services. The enterprise funds also recognize as operating revenue, the portion of tap fees, connection fees and impact fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Measurement focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item "b." below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Cash and investments

For the purpose of financial reporting "cash and cash equivalents" includes all demand and savings accounts and short-term investments with an original maturity of three months or less. This also includes deposits with the State of California Local Agency Investment Fund (LAIF).

Investments for the District are reported at fair value.

Accounts receivable

District management considers all accounts receivable to be fully collectible. Accordingly, an allowance for doubtful accounts has not been recorded in these financial statements.

Capital assets

Capital assets are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Contributed assets are recorded at estimated fair value on the date of contribution. Donated capital assets are reported at acquisition value rather than fair value. The District's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years. The District has elected not to retroactively capitalize infrastructure capital assets acquired prior to June 30, 2003, as allowed by Government Accounting Standards Board (GASB) Statement No. 34.

GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation has been provided on capital assets and is charged as an expense against operations each year. The total amount of depreciation taken over the years is reported on the statement of net position as a reduction in the book value of capital assets.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Depreciation is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets.

Leasehold improvements	7-40 years
Buildings and improvements	5-50 years
Equipment	5-20 years
Vehicles	5-7 years
Collection lines and improvements	10-40 years
Pumping stations	7-15 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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.

Long-lived assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Long-term debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Compensated absences

Compensated absences are accrued as earned by employees, and consist of accruals for vacation and sick time. The District's liability for compensated absences is reported in the Statement of Net Position for governmental activities in the government-wide financial statements.

Deferred outflow/inflows of resources

In addition to assets, liabilities and net position, the statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resource (revenue) until that time.

Contributions made to the District's pension and other post-employment benefit (OPEB) plan(s) after the measurement date but before the fiscal year end are recorded as a deferred outflow of resources and will reduce the net pension liability and net OPEB liability in the next fiscal year.

Additional factors involved in the calculation of the District's pension and OPEB expense and net pension and net OPEB liability include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the District's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods.

Other post-employment benefits other than pensions (OPEB)

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

Valuation Date	July 1, 2017
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 and June 30, 2017

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's portion of the Marin County Employees' Retirement Association (MCERA) Miscellaneous plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by MCERA. 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.

Net position

Equity in the financial statements is classified as net position and displayed in three components as follows:

a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets.

b. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to these assets.

c. Unrestricted - Amounts not required to be reported in other components of net position.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund balance

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable - Amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted - Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Committed - Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the District's highest level of decision making authority.

Assigned - Amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Board of Directors, District manager or their designee.

Unassigned - Amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the District's policy to use committed resources first, then assigned, and then unassigned as they are needed.

Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans - Amounts provided with a requirement for repayment are reported as interfund receivables and payables.

2. Interfund services - Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.

3. Interfund reimbursements - Repayments from funds responsible for certain expenditures/ expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.

4. Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances - Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.

2. Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers - Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

Fair value measurements

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 between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Property taxes

Property taxes are levied as of January 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Marin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and February 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District.

Estimates

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

Budgetary accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end. On or before the end of each fiscal year, department heads of the District submit requests for appropriations to the General Manager so that a budget may be prepared. The proposed budget is presented to the District's Board for review. The Board of Directors holds public hearings and a final budget is approved by the Board.

The appropriated budget is prepared by fund, function and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. Encumbrance accounting is not employed in governmental funds.

New accounting pronouncements

Standards adopted

In June 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and*

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. 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 expenses, expenditures. The District implemented the provisions of this Statement for the year ended June 30, 2018. There was an impact to beginning net position as part of implementation of this accounting standard.

In March 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurement and application, pensions, and other post-employment benefits. The District implemented the provisions of this Statement for the year ended June 30, 2018. There was no effect on net position as a result of implementation of this Statement.

In May 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. 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 District implemented the provisions of this Statement for the year ended June 30, 2018. There was no effect on net position as a result of implementation of this Statement.

<u>Standards not yet adopted</u>

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The District will be required to implement the provisions of this Statement for the year ended June 30, 2021. The District has not determined the effect on the financial statements.

(Continued)

Note A - Summary of Significant Accounting Policies (Continued)

In April 2018, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The District will be required to implement the provisions of this Statement for the year ended June 30, 2019. The District has not determined the effect on the financial statements.

Prior period adjustment

The implementation of GASB Statement No. 75 required the District to make prior period adjustments. As a result, the government-wide beginning net position decreased by $1,508,158 in order to restate beginning of the year liabilities, deferred outflows, and deferred inflows.

Note B - Cash and Investments

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	$ 2,381,502
Total cash and investments	$ 2,381,502

Cash and investments as of June 30, 2018 consist of the following:

Deposits with financial institutions	$ 134,620
Marin County Treasurer	39,096
Investments	2,207,786
	$ 2,381,502

Investment Type	Carrying value	Fair value
California Local Agency Investment Fund (LAIF)	$ 2,207,786	$ 2,207,786
Marin County Treasurer	39,096	39,096
	$ 2,246,882	$ 2,246,882

(Continued)

Note B - Cash and Investments (Continued)

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "cash and investments". Cash balances from all participating funds are combined and invested to the extent possible, pursuant to the Board of Directors approved Investment Policy and guidelines, and the California Government Code Section 53600. The District's cash and investments are in instruments allowed by the District's Investment Policy.

The Government Code and the District's Investment Policy allow investments in the following instruments:

Investment Type
Local Agency Investment Fund
Certificates of Deposit
Public Funds Savings Account
Money Market Account
Checking Account

Disclosures Relating to 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 changes in market interest rates. The District manages its exposure to interest rate risk by purchasing all shorter-term investments.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

		Remaining maturity (in months)					
Investment type	Total	12 months or less	13 - 24 months	25 - 36 months	37-48 months	49-60 months	More than 60 months
Local Agency Investment Fund	$ 2,207,786	$ 2,207,786	$ -	$ -	$ -	$ -	$ -
Marin County Treasurer	39,096	39,096	-	-	-	-	-
	$ 2,246,882	$ 2,246,882	$ -	$ -	$ -	$ -	$ -

(Continued)

Note B - Cash and Investments (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

				Rating as of Fiscal Year End				
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	AA	A	Not Rated	As of Investment
Local Agency Investment Fund	$ 2,207,786	N/A	$ -	$ -	$ -	$ -	$2,207,786	98%
Marin County Treasurer	39,096	N/A	-	-	-	-	39,096	2
Total	$ 2,246,882	N/A	$ -	$ -	$ -	$ -	$2,246,882	100%

Concentration of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in certain types of investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for 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 government unit). The market 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

(Continued)

Note B - Cash and Investments (Continued)

As of June 30, 2018, the District's bank balance was $552,749 and $250,000 of that amount was insured by the Federal Deposit Insurance Corporation and collateralized as required by state law and the remaining amount of $302,749 was collateralized as required by state law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

Marin County Treasurer

Cash held by the Marin County Treasury is pooled with other County deposits for investment purposes by the County Treasurer in accordance with the investment policy of the County Treasurer (see County Treasurer's investment policy at http://www.co.marin.ca.us/). The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily cash balances. The value of the District shares in the Pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the Pool. The District's investment in the Pool is unrated, stated at cost which approximates fair value, available upon demand and considered cash equivalents.

California Local Agency Investment Fund

The District is a participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is $88,798,232,977 of which 2.67% is invested in structured notes and asset-backed securities. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. No amounts were invested in derivative financial products. Participants equity in LAIF is determined by the dollar amount of the participant's deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily investment balances. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statue. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. There are no restrictions or limitations on withdrawals from LAIF.

(Continued)

Note B - Cash and Investments (Continued)

Fair value hierarchy

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District's investment in the County of Marin Treasury Pool is classified as Level 2 and its value is based on the fair value factor provided by the Treasurer of the County of Marin, which is calculated as the fair value divided by the amortized cost of the investment pool. The District's investment in the California Local Agency Investment Fund is classified as Level 2. LAIF includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices that are derived principally from or corroborated by observable market data by correlation to other means. The District categorized its investments in LAIF based on the lowest significant input used to determine the fair market value of the total pool.

Note C - Interfund Transactions

Interfund transactions consist of the following:

Current interfund balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of interfund balances as of June 30, 2018.

Receivable fund	Payable fund	Amount
Parks and Recreation Fund	Community Center Fund	$ 251,318
Sanitation	Refuse	220,562

Internal balances

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

Note D - Capital Assets

Capital asset activity for the year ended June 30, 2018, is as follows:

	Balance June 30, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Governmental activities					
Non-depreciable capital assets					
Land	$ 66,500	$ 350,000	$ -	$ -	$ 416,500
Construction in progress	-	23,062	-	-	23,062
Total non-depreciable capital assets	66,500	373,062	-	-	439,562
Depreciable capital assets					
Leasehold improvements	840,170	-	-	-	840,170
Buildings and improvements	1,328,339	526,985	-	-	1,855,324
Equipment	81,513	-	-	-	81,513
Vehicles	33,536	-	-	-	33,536
Total depreciable capital assets	2,283,558	526,985	-	-	2,810,543
Less accumulated depreciation	(1,351,972)	-	(108,103)	-	(1,460,075)
Net depreciable capital assets	931,586	526,985	(108,103)	-	1,350,468
Net capital assets	$ 998,086	$ 900,047	$ (108,103)	$ -	$ 1,790,030
Business-type activities					
Non-depreciable capital assets					
Land	$ 29,853	$ -	$ -	$ -	$ 29,853
Net non-depreciable capital assets	29,853	-	-	-	29,853
Depreciable capital assets					
Buildings and improvements	701,367	-	-	-	701,367
Collection lines and improvements	5,267,160	-	-	-	5,267,160
Pumping stations	2,722,316	55,475	-	-	2,777,791
Equipment	566,543	-	-	-	566,543
Vehicles	1,326,083	-	-	-	1,326,083
Total depreciable capital assets	10,583,469	55,475	-	-	10,638,944
Less accumulated depreciation	(5,681,356)	-	(356,099)	-	(6,037,455)
Net depreciable capital assets	4,902,113	55,475	(356,099)	-	4,601,489
Net capital assets	$ 4,931,966	$ 55,475	$ (356,099)	$ -	$ 4,631,342

(Continued)

Note D - Capital Assets (Continued)

Depreciation expense was charged to function and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

Governmental activities:		
Parks and recreation	$	61,976
Community center		43,200
Measure A		2,927
Total depreciation expense - Governmental activities	$	108,103
Business-type activities:		
Sanitation	$	306,192
Refuse		49,907
Total depreciation expense - Business-type activities	$	356,099

Note E - Long-Term Liabilities

Long-term liabilities outstanding as of June 30, 2018 consist of the following:

Notes payable	Interest rate	Maturity date	Amounts authorized and issued	Outstanding	Due within one year
City National Bank	3.90%	December 30, 2028	$ 4,620,387	$ 3,502,950	$ 275,817
City National Bank	3.90%	December 30, 2028	400,000	303,261	23,878
The Gervais Family	0.00%	January 1, 2020	120,000	80,000	40,000
			$ 5,140,387	$ 3,886,211	$ 339,695

The following is a summary of long-term liability issuances and transactions during the year ended June 30, 2018:

Notes payable	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
City National Bank	$ 3,768,317	$ -	$ (265,367)	$ 3,502,950
City National Bank	326,234	-	(22,973)	303,261
The Gervais Family	80,000	-	-	80,000
	$ 4,174,551	$ -	$ (288,340)	$ 3,886,211

(Continued)

Note E - Long-Term Liabilities (Continued)

During December 2013, the District entered into a loan agreement with Municipal Finance Corporation for the purpose of refinancing the costs obtained to upgrade and replace certain wastewater collection improvements to the District's sanitation enterprise system. Municipal Finance Corporation assigned the loan to City National Bank. The note is payable in semi-annual principal and interest payments of $204,884 and is secured by a pledge of the net revenues of the District's sanitation and refuse enterprise funds. In addition, the District is obligated to set rates at a level such that the enterprise's unencumbered cash net revenues will at least be equal to 115 percent of that year's debt service on the loan. The District is required to submit audited financial statements within 270 days of year-end. As of June 30, 2018, the District was in compliance with the covenants referenced above.

During December 2013, the District entered into a loan agreement with Municipal Finance Corporation for the purpose of obtaining financing for the acquisition and construction of additional enterprise facilities consisting generally of sewer line replacements and improvements to the inflow and infiltration system. Municipal Finance Corporation assigned the loan to City National Bank. The note is payable in semi-annual principal and interest payments of $17,737 and is secured by a pledge of the net revenues of the District's sanitation and refuse enterprise funds. In addition, the District is obligated to set rates at a level such that the enterprise's encumbered cash net revenues will at least be equal to 115 percent of that year's debt service on the loan. The District is required to submit audited financial statements within 270 days of year-end. As of June 30, 2018, the District was in compliance with the covenants referenced above.

During June 2017, the District entered into an agreement with the Gervais Family. The agreement is payable in three installments of $40,000 with the final installment due in 2020.

Summary of long-term liabilities service requirements

Long-term liabilities service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
2019	$ 339,695	$ 145,548	$ 485,243
2020	351,497	133,746	485,243
2021	323,764	121,479	445,243
2022	336,514	108,729	445,243
2023	349,766	95,477	445,243
2024-2028	1,966,611	259,606	2,226,217
2029	218,364	4,258	222,622
Total requirements	$ 3,886,211	$ 868,843	$ 4,755,054

Note F - Compensated Absences

Employees accrue vacation leave based on length of service. Accumulated vacation leave is subject to maximum accruals for all employees. As of June 30, 2018, the District's accrued liability for accumulated unused vacation leave and overtime is $75,930. Employees are paid for their accumulated unused vacation leave upon separation from service. The liability is expected to be liquidated with future resources and not with expendable available financial resources.

In addition, for all District employees hired before March 1, 2001, the District will pay one-half of accumulated sick leave upon separation from the District, not to exceed a total of six months. The District has estimated and recorded a liability for accumulated unused sick leave of $48,232.

Note G - Deficit Fund Balance

A deficit fund balance of $255,081 and $2,084,684 exists in the nonmajor community center fund and the refuse fund, respectively. These deficits are due to the District incurring costs in excess of revenues. The fund deficits are expected to be offset in the future from the receipt of revenues.

Note H - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; risk of loss to employees; and natural disasters. The District is a member of the Special Districts Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs for the pooling of self-insured losses to purchase excess insurance or reinsurance and to arrange for group-purchased insurance and administrative expenses. At June 30, 2018, the District participated in the property, general and auto liability, and workers' compensation programs of the SDRMA as follows:

- General and auto liability, public officials, and employees' errors and omissions and employment practices liability; total risk financing self-insurance limits of $5,000,000, combined single limit at $5,000,000 per occurrence, subject to the following deductibles; $25,000 per occurrence for third party general liability property damage, $10,000 per occurrence for third party auto liability property damage; 50% co-insurance of cost expended by SDRMA in excess of $10,000 up to $50,000, per occurrence, for employment related claims.

(Continued)

Note H - Risk Management (Continued)

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $1,000,000 per loss includes public employee dishonesty; forgery or alteration; and theft, disappearance, and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced, and if not replaced within two years after the loss, paid on actual cash value basis, to a combined total of $1.0 billion per occurrence, subject to a $1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to a $1,000 deductible per occurrence.
- Public officials' personal liability up to $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of $1,000 per claim.
- Workers' compensation insurance up to statutory limits per occurrence and Employers' Liability Coverage up to $5 million.
- Comprehensive and collision insurance on selected vehicle with deductibles of $250/$500 or $500/$1,000, as elected.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal years 2018, 2017, and 2016. Liabilities of the District are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. The District considers claims insured and reported, as well as claims incurred but not reported, to be immaterial and has not accrued an estimate of such claims payable.

Note I - Pension Plans

General Information about the Pension Plans

Plan Descriptions - The District contributes to the Marin County Employees' Retirement Association (MCERA). MCERA is a cost-sharing multiple-employer retirement system governed by the 1937 Act of the California Code. MCERA acts as a common administrative and investment agent for defined benefit retirement plans for various local governmental agencies within the County of Marin. Copies of MCERA's annual financial reports, which include required supplementary information for each participant in the plan, may be obtained from the Marin County Employees' Retirement Association, One McInnis Parkway, Suite 100, San Rafael, California 94903.

(Continued)

Note I - Pension Plans (Continued)

Benefits Provided - MCERA provides retirement, disability, death, and survivor benefits to plan members and beneficiaries based on the employees' years of service, age, and final compensation. The plan covers all eligible District employees. Employees hired before January 1, 2013 are eligible to receive retirement benefits after 10 years of membership and having attained the age of 50, or 30 years of membership regardless of age. Employees hired on or after January 1, 2013 vest after 10 years of membership and may receive retirement benefits at age 62.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Tier 1 - Classic	Tier 2 - PEPRA
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 58.5	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	100%	100%
Required employer contribution rates	37.22%	29.05%
Required employee contribution rates	8.07% - 12.63%	10.01%

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 both Plans are determined annually on an actuarial basis as of June 30 by MCERA. 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the contributions recognized as part of pension expense for the Plans were as follows:

	Miscellaneous
Contributions - employer	$ 428,409

(Continued)

Note I - Pension Plans (Continued)

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 2,045,122

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2016 and 2017 was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.5304%
Proportion - June 30, 2017	0.5546
Change - increase (decrease)	0.0242%

For the year ended June 30, 2018, the District recognized pension expense of $390,439. At June 30, 2018, the District 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	$ 482,409	$ -
Differences between actual and expected experience	-	(47,409)
Changes in assumptions	200,701	-
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	555,791	(111,658)
Net differences between projected and actual earnings on plan investments	-	(165,758)
Total	$ 1,238,901	$ (324,825)

(Continued)

Note I - Pension Plans (Continued)

$482,409 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,	Annual Amortization
2019	$ 184,255
2020	191,010
2021	87,328
2022	(30,926)
Total	$ 431,667

Actuarial Assumptions -The total pension liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions applied to all periods included in the measurement date. The key assumptions in the valuations were:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Inflation	2.75%
Projected Salary Increase	3.00% plus merit component (1)
Cost of Living Adjustments (COLA)	2.7% for those with a 4% COLA cap 2.6% for those with a 3% COLA cap 1.9% for those with a 2% COLA cap
Investment Rate of Return	7.25% (2)
Post-Retirement Mortality	CalPERS 2014 Pre-Retirement Non-Industrial Death rates (plus Duty-Related Death rates for safety members) with the 20-year static projection used by CalPERS replaced by generational improvements from a base year of 2009 using Scale MP-2014.

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation

(Continued)

Note I - Pension Plans (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.25%. Related to the discount rate is the funding assumption that employees will continue to contribute to the Plan at the required rates and employers will continue the historical and legally required practice of contributing to the Plan based on an actuarially determined contribution, reflecting a payment equal to annual normal cost, a portion of the expected administrative expenses, an amortization payment for the extraordinary losses from 2009 amortized over a closed period (22 years remaining as of June 30, 2016 actuarial valuation) and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level percentage of payroll over a closed period (14 years remaining as of June 30, 2016 actuarial valuation).

The MCERA Board of Retirement has adopted an Investment Policy Statement (IPS), which provides the framework for the management of MCERA's investments. The IPS establishes MCERA's investment objectives and defines the principal duties of the Retirement Board, the custodian bank, and the investment managers. The asset allocation plan is an integral part of the IPS and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. MCERA currently employs external investment managers to manage its assets subject to the provisions of the policy. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plan. The following was the Retirement Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target allocation	Long-Term Expected Real Rate of Return
Domestic equity	32%	4.60%
International equity	22%	4.75%
Fixed income	23%	0.75%
Public real assets	15%	5.60%
Private equity	8%	5.10%
Total	100%	

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - A change in the discount rate would affect the measurement of the total pension liability. A lower discount rate results in a higher total pension liability and higher discount rates results in a lower total pension liability. Because the discount rate does not affect the measurement of assets, the percentage change in the net pension liability can be very significant for a relatively small change in the discount rate. A one percent decrease in the discount rate increases the total pension liability by approximately 13% and increases the net pension liability by approximately 96%. A one percent increase in the discount rate decreases the total pension liability by approximately 11% and decreases the net pension liability by approximately 79%.

(Continued)

Note I - Pension Plans (Continued)

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Description	1% Decrease 6.25%	Discount Rate 7.25%	1% Increase 8.25%
Total pension liability	$ 16,851,230	$ 14,891,101	$ 13,278,743
Fiduciary net pension	12,845,979	12,845,979	12,845,979
Net pension liability	$ 4,005,251	$ 2,045,122	$ 432,764

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

Note J - Deferred Compensation and Defined Contribution Retirement Plans

The District participates in retirement plans administered by the International City Manager's Association Retirement Corporation (ICMA-RC), a not-for-profit retirement plan provider serving local and state government employees. ICMA-RC administers a 457 deferred compensation plan and a 401(a) defined contribution supplemental retirement savings plan for the District.

401(a) Plan - On September 14, 2005, the District established a qualified retirement program in accordance with Internal Revenue Code Section 401(a). This defined contribution 401(a) Money Purchase Retirement Plan was established with ICMA-RC. Total employee contributions to the plan during the year ended June 30, 2018 were $21,273.

457 Plan - The District offers its general manager a deferred compensation plan in accordance with Internal Revenue Code Section 457. Under the plan, the general manager may elect to defer a portion of salary and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by the general manager until termination, death, or unforeseeable emergency. Total employee contributions to the plan during the year ended June 30, 2018 were $21,273.

Note K - Jointly Operating Agreements

The District does not own and operate a separate wastewater treatment plant facility. Pursuant to an agreement with the Sausalito-Marin City Sanitary District, the District's waste is transported through District-owned and District maintained lines for processing at the Sausalito-Marin City Sanitary District's plant. The District is obligated to pay a proportionate share of the operating costs including sewage treatment costs, disposal costs, administrative costs and capital improvements. The District records such operating costs as expenses in its sanitation enterprise. The District also has a similar agreement with the Sewerage Agency of Southern Marin.

Note L - Other Post-Employment Benefits other than Pensions

Plan description and benefits provided

The District administers an Other Post-Employment Benefit (OPEB) Plan, a single-employer defined benefit plan. The District's OPEB Plan provides medical and dental insurance and supplemental Medicare insurance for eligible retirees and spouses through the District's group health insurance which covers both active and retired members. The OPEB plan does not issue a publicly available report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Effective December 2011, the District's OPEB Plan has been extended to cover spouses and family members. In order to be eligible to retire with District-paid health benefits, an employee must have completed 20 years of service with the District and have retired under Marin County Employees' Retirement Association (MCERA). The District pays the full medical, dental, and Medicare B premiums for retirees and dependents. Retirees must enroll in a health plan sponsored by MCERA. The maximum amount payable each month is the single-employee premium that the District pays for medical care, plus dental premiums. The District also reimburses retired employees for their Medicare Part B premiums.

Employees covered

As of the July 1, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	12
Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to, but not yet receiving benefits	0
Total	15

Total OPEB liability

The District's total OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation dated July 1, 2017 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Actuarial Assumptions:

Discount Rate	3.58%
Inflation	2.75% per year
Salary Increases	3.00% per year
Mortality Rate (1)	Derived using 2010 CalPERS OPEB Assumptions Model
Healthcare Cost Trend Rates:	Medical and Part B premiums are assumed to increase 5% per year after 2018. Dental premiums are assumed to increase 4% per year after 2018.

(Continued)

Note L - Other Post-Employment Benefits other than Pensions (Continued)

Notes:

(1) Mortality rates were based on the 2010 CalPERS OPEB Assumptions Model, projected to future years on a generational basis using Scale BB, to approximate the effect of future improvements in life expectancy.

Discount rate

The discount rate used to measure the total OPEB liability was 3.58 percent based on the Bond Buyer 20-Bond General Obligation Index.

Changes in the Total OPEB liability

The changes in the total OPEB liability for the Plan are as follows:

	Total OPEB Liability
Balance at June 30, 2017 (Valuation Date July 1, 2017)	$ 2,752,069
Changes recognized for the measurement period:	
Service cost	75,472
Interest	78,029
Changes of assumptions	(368,150)
Benefit payments	(28,445)
Net changes	(243,094)
Balance at June 30, 2018 (Measurement Date June 30, 2017)	$ 2,508,975

Changes of assumptions reflect a change in the discount rate from 2.85% at July 1, 2016 to 3.58% at July 1, 2017.

(Continued)

Note L - Other Post-Employment Benefits other than Pensions (Continued)

Sensitivity of the Total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58 percent) or one percentage point higher (4.58 percent) than the current discount rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Total OPEB liability	$ 3,032,593	$ 2,508,975	$ 2,105,439

Sensitivity of the Total OPEB liability to changes in the health care cost trend rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower (4.0 percent) or one percentage point higher (6.0 percent) than the current healthcare cost trend rates:

	1% Decrease (4.00%)	Current Healthcare Cost Trend Rates (5.00%)	1% Increase (6.00%)
Total OPEB liability	$ 2,105,806	$ 2,508,975	$ 3,026,578

OPEB expense and deferred outflows/inflows of resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $103,761. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 34,035	$ -
Changes of assumptions	-	318,400
Total	$ 34,035	$ 318,400

(Continued)

Note L - Other Post-Employment Benefits other than Pensions (Continued)

The $34,035 reported as deferred outflows of resources related to employer contributions made subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal year ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (49,750)
2020	(49,750)
2021	(49,750)
2022	(49,750)
2023	(49,750)
Thereafter	(69,650)
	$ (318,400)

Note M - Contingencies

The District is involved in litigation arising in the ordinary course of operations that, in the opinion of management, will not have a material effect on the financial condition of the District.

Note N - Lease Commitments

The District leases office equipment under a lease agreement that expires in 2023. The following summarizes future minimum rental payments required under the operating lease.

Year ending June 30,	
2019	$ 3,115
2020	5,340
2021	5,340
2022	5,340
2023	5,340
Thereafter	2,225
	$ 26,700

Total equipment rent expenses for the year ended June 30, 2018 was $4,313.

Note O - Governing Board

The powers of the District are exercised by a Board of Directors consisting of five directors each elected for a term of four years by the qualified electors within the District.

As of June 30, 2018, the members of the District's Board of Directors were as follows:

Trustee	Term expires
Jeff Brown	December 2018
Steve Levine	December 2020
James Jacobs	December 2018
Steffen Bartschat	December 2020
Matthew McMahon	December 2020

REQUIRED SUPPLEMENTARY INFORMATION

TAMALPAIS COMMUNITY SERVICES DISTRICT

Required Supplementary Information

For the year ended June 30, 2018

Schedule of the District's Proportionate Share of the Net Pension Liability

Last 10 years*

	Measurement Date June 30, 2018	2017	2016	2015
Proportion of the net pension liability	0.5546%	0.5304%	0.4535%	0.4161%
Proportionate share of the net pension liability	$ 2,045,122	$ 2,534,943	$ 1,756,793	$ 1,028,347
Covered - employee payroll	946,274	880,657	852,837	760,797
Proportionate share of the net pension liability as a percentage of covered - employee payroll	216.10%	287.80%	206.00%	135.17%
Plan fiduciary net position as a percentage of the total pension liability	86.30%	81.50%	84.30%	89.04%

Benefit changes - There have been no changes in benefits since the prior valuation.

* The fiscal year ended June 30, 2015 was the first year of implementation, therefore, only four years are shown.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Required Supplementary Information

For the year ended June 30, 2018

Schedule of Contributions - Pension Plan

Last 10 years*

	Measurement Date June 30, 2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 341,283	$ 382,899	$ 372,529	$ 306,954
Contributions in relation to the actuarially determined contributions	(341,283)	(382,899)	(372,529)	(306,954)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 946,274	$ 880,657	$ 852,837	$ 760,797
Contributions as a percentage of covered-employee payroll	36.10	43.50	43.70	40.35

Notes to schedule:

Methods and assumptions used to determine contribution rates:

Valuation date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	13 years	13 years	13 years	13 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:				
Inflation	2.75%	2.75%	2.75%	3.25%
Salary increases	3.00% plus merit component based on employee classification and years of service	3.00% plus merit component based on employee classification and years of service	3.00% plus merit component based on employee classification and years of service	3.25% plus merit component based on employee classification and years of service
Investment rate of return	7.25%	7.25%	7.25%	7.50%
Mortality	CalPERS 2014 Pre-Retirement Non-Industrial Death rates	CalPERS 2014 Pre-Retirement Non-Industrial Death rates	CalPERS 2014 Pre-Retirement Non-Industrial Death rates	RP-2000 Combined Mortality Table

*The fiscal year ended June 30, 2015 was the first year of implementation, therefore, only four years are shown.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Required Supplementary Information

For the year ended June 30, 2018

Schedule of Changes in the Total OPEB Liability and Related Ratios

Last 10 years*

For the Measurement Period Ended June 30,	2017
Total OPEB Liability	
Service cost	$ 75,472
Interest	78,029
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(368,150)
Benefit payments	(28,445)
Net change in total OPEB liability	(243,094)
Total OPEB liability - beginning	2,752,069
Total OPEB liability - ending	$ 2,058,975
Covered - employee payroll	$ 1,160,050
Total OPEB liability as a percentage of covered - employee payroll	216.28%

Notes to Schedule:

* Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Changes of assumptions: Changes of assumptions reflect a change in the discount rate from 2.85% to 3.85% for the measurement period ended June 30, 2017.

TAMALPAIS COMMUNITY SERVICES DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule
Major Special Revenue Fund

Year ended June 30, 2018

	Parks and Recreation Fund		
	Budgeted amounts original/final	Actual amounts	Variance with final budget positive/ (negative)
Fund Balance, July 1	$ 217,154	$ 217,154	$ -
Resources (inflows):			
Property taxes	786,578	801,245	14,667
After school programs	45,000	39,970	(5,030)
Rental income	53,000	36,360	(16,640)
Special events and class fees	120,000	123,066	3,066
Investment income	600	1,412	812
Operating grants and contributions	30,000	30,291	291
Other revenues	8,300	1,277	(7,023)
Amounts available for appropriations	1,260,632	1,250,775	(9,857)
Charges to appropriations (outflows):			
Parks and recreation			
Salaries and benefits	638,881	572,168	66,713
All other	466,700	329,610	137,090
Total charges to appropriations	1,105,581	901,778	203,803
Fund Balance, June 30	$ 155,051	$ 348,997	$ 193,946

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows of resources:	
Actual amounts available for appropriation from budgetary data above	$ 1,250,775
Differences-budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes.	(217,154)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances-governmental funds.	$ 1,033,621

The manager of the District prepares an expenditure budget annually which is approved by the Board of Directors setting forth the contemplated fiscal requirements. The District's budgets are maintained on the modified accrual basis of accounting. The results of operations are presented in the budget to actual schedule in accordance with the budgetary basis.

Reported budget amounts reflect the annual budget as originally adopted. There were no amendments to the budget during the year ended June 30, 2018. The budget amounts are based on estimates of the District's expenditures and the proposed means of financing them. Actual expenditures for capital outlay, debt service and contingencies may vary significantly from budget due to timing of such expenditures.

OTHER INDEPENDENT AUDITORS' REPORT

CROCE, SANGUINETTI, & VANDER VEEN INC.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Tamalpais Community Services District
Mill Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Tamalpais Community Services District** (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 5, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Croce, Sanguinetti, & Vander Veen, Inc.

CROCE, SANGUINETTI, & VANDER VEEN, INC.
Certified Public Accountants
Stockton, California
June 5, 2019