

SAUSALITO-MARIN CITY SANITARY DISTRICT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2020**



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Sausalito-Marín City Sanitary District

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June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sausalito-Marín City Sanitary District
Sausalito, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Sausalito-Marín City Sanitary District (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 business-type activities of the Sausalito-Marín City Sanitary District, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for



the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2020 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.

C & A LLP

October 8, 2020
San Jose, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sausalito-Marin City Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

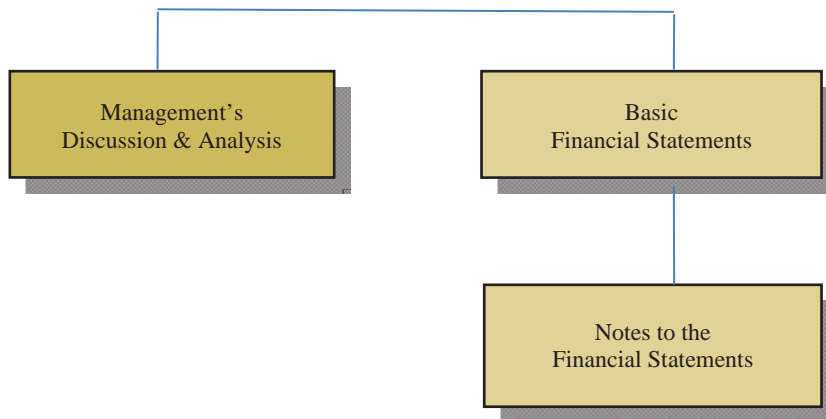
INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing. The annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Required Components of the Annual Financial Report



ORGANIZATION AND BUSINESS

The Sausalito-Marin City Sanitary District (SMCSD) is governed by an elected five-member Board of Directors and provides wastewater conveyance and treatment service to the City of Sausalito and wastewater collection, conveyance and treatment service to Marin City and other unincorporated areas within the District's boundaries. Wastewater conveyance and treatment is provided through a wastewater services agreement to Tamalpais Community Services District (TCS) which includes Muir Woods National Monument. Wastewater treatment is also provided to National Parks Service which includes Forts Baker, Barry and Cronkhite, Marine Mammal Center and Cavallo Point Resort in exchange for the

Sausalito-Marín City Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

District's use of the treatment plant property. The District's treatment plant site, located in Fort Baker, recently renewed its property lease agreement with the National Park Service that continues until 2049.

The District operates and maintains a complex wastewater system protecting the community's public health, the environment, and the San Francisco Bay. The District operates and maintains a six and one half million-gallon per day (MGD) secondary/one MGD tertiary wastewater treatment plant, eleven (11) sewage pump stations, and approximately ten (10) miles of pipelines. Four (4) of these pump stations are operated and maintained by SMCS D for the City of Sausalito on a contract basis. There are thirteen (13) full-time staff approved and funded by the District. In addition, there is an intern program where up to two positions may be funded and filled as temporary part-time (non-benefited).

The District continues to make progress on their 10-year capital improvement plan (CIP) started in FY 2011/12, updated in FY 2018/19 which identifies \$54 million of sewer infrastructure improvements. Following an extensive evaluation of District operations and infrastructure needs, the District adopted a comprehensive financial plan and 5-year sewer rate plan (FY 2018/19 to FY 2023/24) to fund renewal and upgrades for the conveyance system and treatment plant.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2020 were as follows:

- Total net position increased by \$2,784,195 (6.21%) which included an increase in unrestricted net position of \$8,392,978 (79.53%).
- The District recorded deferred outflows of resources of \$1,770,266 and deferred inflows of resources of \$562,164 in order to record the different components required by GASB 68 and GASB 75 for pension and benefit accounting and reporting. Deferred outflows of resources are technically not assets but increase the Statement of Net Position similar to an asset and deferred inflows of resources are technically not liabilities but decrease the Statement of Net Position similar to liabilities. See Note 2 in the notes to financial statements for a definition.
- Current assets decreased by \$3,178,584 (8.59%) mostly from the spending of bond proceeds on capital projects, which can be seen in the corresponding increase to noncurrent assets of \$5,095,977 (9.73%).
- Operating revenue decreased by \$623,630 (6.54%) primarily due to adjustments made with regards to the TCSD agreement, include a mediation settlement of \$1,200,000 in 2019. Payment of the mediation settlement will be paid over a period of five years, commencing in the fiscal year ended June 30, 2019.
- Total operating expenses increased by \$127,541 (2.06%) mostly because of increases to pension and OPEB expense adjustments.

BASIC FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District's accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets, deferred inflows, deferred outflows, and liabilities and provides information about the nature and amounts of

Sausalito-Marín City Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Position. These statements reflect the result of the District's operations over the past year.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2020 as compared to June 30, 2019:

Table 1 - Summary Statement of Net Position				
	2020	2019	Change	Percentage Change
Assets				
Current Assets	\$ 33,842,918	\$ 37,021,502	\$ (3,178,584)	-8.59%
Noncurrent Assets	57,470,660	52,374,683	5,095,977	9.73%
Total Assets	\$ 91,313,578	\$ 89,396,185	\$ 1,917,393	2.14%
Deferred Outflows				
Deferred Outflows	\$ 1,770,266	\$ 975,994	\$ 794,272	81.38%
Liabilities				
Current Liabilities	\$ 3,816,617	\$ 3,783,135	\$ 33,482	0.89%
Noncurrent Liabilities	41,108,223	41,401,009	(292,786)	-0.71%
Total Liabilities	\$ 44,924,840	\$ 45,184,144	\$ (259,304)	-0.57%
Deferred Inflows				
Deferred Inflows	\$ 562,164	\$ 375,390	\$ 186,774	49.75%
Net Position				
Net Investment in Capital Assets	\$ 28,606,148	\$ 34,215,049	\$ (5,608,901)	-16.39%
Restricted	44,799	44,681	118	0.26%
Unrestricted	18,945,893	10,552,915	8,392,978	79.53%
Total Net Position	\$ 47,596,840	\$ 44,812,645	\$ 2,784,195	6.21%

Sausalito-Marín City Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Table 2 shows the changes in net position for fiscal year 2020 as compared to 2019.

Table 2 - Change in Net Position				
	2020	2019	Change	Percent Change
Revenues				
Operating Revenue	\$ 8,967,229	\$ 9,590,859	\$ (623,630)	-6.50%
Operating Expenses				
Salaries and Benefits	2,697,454	2,431,730	265,724	10.93%
Plant Operations	827,007	817,482	9,525	1.17%
Repairs and Maintenance	81,246	91,896	(10,650)	-11.59%
Permit Testing and Monitoring	57,587	68,430	(10,843)	-15.85%
Utilities and Telephone	292,176	302,514	(10,338)	-3.42%
General Administration	199,017	298,923	(99,906)	-33.42%
Depreciation	2,178,260	2,194,231	(15,971)	-0.73%
Total Operating Expenses	6,332,747	6,205,206	127,541	2.06%
Operating Income (Loss)	2,634,482	3,385,653	(751,171)	-22.19%
Nonoperating Revenue (Expense)	138,293	207,079	(68,786)	-33.22%
Connection Fees	6,130	6,130	-	0.00%
Change in Net Position	2,778,905	3,598,862	(819,957)	-22.78%
Beginning Net Position	44,812,645	41,213,783	3,598,862	8.73%
Prior Period Adjustment	5,290	-	5,290	100.00%
Beginning Net Position - As Adjusted	44,817,935	41,213,783	3,604,152	8.75%
Ending Net Position	\$ 47,596,840	\$ 44,812,645	\$ 2,784,195	6.21%

While the Statement of Net Position shows the change in financial position, the Statement of Activities and Changes in Net Position (Table 2 above) provides answers as to the nature and sources of the changes. The increase in net position resulted from the surplus of operating revenues over operating expenses (operating income) during the year.

Sausalito-Marín City Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

CAPITAL ASSETS

Table 3 shows June 30, 2020 capital asset balances as compared to June 30, 2019.

Table 3 - Summary of Capital Assets Net of Depreciation				
	2020	2019	Change	Percentage Change
Construction in Progress	\$ -	\$18,353,300	\$ (18,353,300)	-100.00%
Original conveyance and treatment facilities	1,326,477	1,351,041	(24,564)	-1.82%
Secondary treatment plant	6,464,762	6,648,621	(183,859)	-2.77%
General equipment, facility upgrade and renewal	35,809,617	10,996,428	24,813,189	225.65%
Conveyance system upgrade and renewal	7,720,052	8,273,613	(553,561)	-6.69%
Collection system upgrade	683,786	867,734	(183,948)	-21.20%
Office Equipment	32,555	47,012	(14,457)	-30.75%
Total Capital Assets - Net	\$52,037,249	\$46,537,749	\$ 5,499,500	11.82%

LONG TERM LIABILITIES

Table 4 summarizes the percent changes in long-term liabilities over the past two years.

Table 4 - Summary of Long-term Liabilities				
	2020	2019	Change	Percentage Change
Note Payable - City National Bank	\$ 1,496,185	\$ 1,651,318	\$ (155,133)	-9.39%
2017 Revenue Bond	31,130,334	31,985,000	(854,666)	-2.75%
2017 Revenue Bond Premium	1,535,328	1,631,286	(95,958)	-6.25%
2017 Revenue Bond Reserve Surety	2,159,600	2,159,600	-	0.00%
State Water Resources Control	1,507,017	1,612,888	(105,871)	-6.56%
Net OPEB Liability	839,433	159,771	679,662	425.40%
Net Pension Liability	3,625,452	3,349,975	275,477	8.22%
Compensated Absences	142,027	126,263	15,764	12.49%
Total Long-term Liabilities	\$ 42,435,376	\$42,676,101	\$ (240,725)	-0.56%

CAPITAL PROJECTS

The District invested \$7,754,835 on its capital program to renew infrastructure during the fiscal year ending June 30, 2020. Of this total \$460,225 was spent on major capital projects and \$7,294,610 on depreciable capital projects as noted in Table 3. The following major capital project work was in progress or completed:

Sausalito-Marín City Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Completed

Treatment and Wet Weather Flow Upgrade Project

Project construction began in June of 2017 and was completed by June of 2020. The total project cost including design, construction and management was \$28.5 million which was funded by revenue bond sales in 2017.

This Upgrade Project resulted in an increase in the overall treatment plant capacity, improved reliability and improved water quality being discharged to the Bay. It included new screenings and grit removal which serve to improve effluent water quality and protect downstream treatment facilities from grit and debris. A second primary clarifier was added to provide reliability through redundancy and allow for needed maintenance on the existing primary clarifier. Fixed film reactors (FFRs) were refurbished and fitted with new media to support increased flow capacity. The new FFR feed pumps were increased in capacity to support full secondary treatment up to 9.0 MGD. The thirty-year-old effluent sand filters were demolished and replaced with rotating disc filters to improve effluent water quality and to increase tertiary treatment capacity up to 6.0 MGD.

A 600,000-gallon equalization tank was built and will allow for full secondary treatment during a 10-year storm event. In addition, this tank can be used for daily equalization during dry weather and support treatment plant shutdowns for repair or maintenance.

In -Progress

Design of Coloma Pump Station Replacement Project

The SMCS D Coloma pump station will replace Scotties pump station and be collocated with the Whiskey Springs pump station, which is owned by the City of Sausalito but operated and maintained by the District, for improved access, capacity and reliability of both pump stations.

SMCS D has completed the design of the Coloma Pump Station Replacement Project and permits have been approved by the City of Sausalito. Project bids will be solicited in fall of 2020 with an estimated construction period of 18 months. The new Coloma Pump Station will have a firm capacity of 4.2 MGD in order to increase system conveyance capacity and mitigate potential sanitary sewer overflows (SSOs) during peak storm events. This project will also improve safety and reliability as the existing pump station controls are aging and the existing wet wells require confined entry for maintenance. Detailed design of the project and the preparation of bid documents were awarded to Carollo Engineers for a cost not to exceed \$766,442. This budget included pre-design tasks including a thorough evaluation of siting options and system capacity analysis. The construction cost estimate for the combined pump station is \$5 million. The City of Sausalito has contributed \$1.5 million to the District to fund the City's Whiskey Springs pump station portion of the project. Construction is planned for the 2020/21 and 2021/22 fiscal years.

Generator Reliability Improvements Project

The District has completed the design of the Generator Reliability Improvements Project which was developed by DTN Engineers at a cost of \$142,118. This project will replace all aging generators in the District's service territory including those pump stations owned by the City of Sausalito and operated by

Sausalito-Marín City Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

the District. Project bids will be solicited in fall 2020 with an estimated construction period of 12 months. While construction requirements are limited, there are substantial lead times for generator procurement. This project will increase reliability of the collection system and the treatment plant by improving the reliability of emergency power. Construction is planned to be completed during the summer of 2021, prior to potential PG&E PSPS events which typically occur in the Fall. The construction cost estimate of \$1.5 million will be bond funded.

Clarifier (South) Rehabilitation and Control Room Improvements Project

The District has completed a pre-design report for the rehabilitation of the treatment plant's existing clarifier and digester. The existing clarifier has been in continuous operation since 1953 and requires a complete replacement of its collector mechanism and improvements to odor control. The existing digester requires modest structural repairs and cleaning as it has been operated without a headworks to remove grit and screenings since its construction 68 years ago. As part of the clarifier's rehabilitation, existing offices located inside the primary clarifier and digester building will be relocated to a more appropriate location. To support this relocation, the operations control room will be evaluated for expansion, combining the existing control room and break room into a more usable space for operations and combining the locker room and lab to provide better working space for lab operations. Woodard and Curran were awarded the \$166,263 design contract and are scheduled to complete design by December 2020. Construction is planned for the 2020/21 and 2021/22 fiscal years. The project's cost estimate is anticipated to be approximately \$2 million which will be bond funded.

BUDGETARY HIGHLIGHTS

In Fiscal Year 20/21, the District originally estimated that a \$2.32 million drawdown from fund balance was needed to fund one-time capital improvements and outlay; however due to increased performance in revenues and decreased annual spending, the District ended the year with a positive fund balance.

Revenues

The District's adopted and final revenue budgets was \$10.1 million, with actual revenues recorded at \$8.8 million. The difference between budgeted and actual revenues is primarily related to the TCSD deferred capital charges, decreases in charges for services.

Expenditures

The District's adopted and final expenditure budget was \$9.4 million. The actual expenditures totaled \$6.3 million. The difference is the net of principal debt service payments that are included in the budget but not the audited financial statements and accrual-based benefit plan expenses that are included in the audit but not the cash basis budget.

Reserves

Under the proposed budget, the District's cash position continues to improve ensuring stability in the current and future planned rates. Our total FY20/21 Projected Cash Balance is expected to be \$9,011,167.

Sausalito-Marín City Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020

Of that total, the FY20/21 Projected Reserve (Policy) total is expected to be \$9,011,157. The following summarizes the District's budgeted reserves as of June 30, 2020:

Reserved for capital improvements	\$ 4,030,776
Reserved for operations	2,160,391
Reserved for disaster recovery	2,500,000
Reserved for renewal and replacement	220,000
Reserved for self insurance	100,000
Total reserves	<u>\$ 9,011,167</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District continues to follow the 5-year sewer service rate schedule (FY 2019/2020 to 2023-2024) that was adopted through the Proposition 218 process in July 2019. The rate schedule should maintain adequate reserve funding and the necessary revenue to support the overall District operation and capital costs projected over the next several years and be equitable for all of our customers. The 2017 Revenue Bonds will continue to fund the Treatment and Wet Weather Flow Upgrade Project and other capital projects. Adequate funding and timely implementation of the Capital Improvement Plan allows us to achieve our mission to protect public health, the environment and the Bay; meet requirements of our National Pollutant Discharge Elimination System (NPDES) Regional Water Quality Control Board Operating Permit; reach compliance of the 2007 EPA order; stay ahead of the ever-changing regulatory environment; and maintain safe and effective working conditions for our staff.

The District will continue the implementation of wastewater service contracts, which include pump station operation and maintenance for the City of Sausalito; treatment and conveyance services for the Tamalpais Community Services District; and treatment services for the National Park Service. The District is currently evaluating consolidating sewer collections services and/or updating the long-standing operation and maintenance service agreement with the City of Sausalito. The National Park Service and SMCSD Plant Property and Road Access Right of Entry Lease Agreement, which includes SMCSD provided wastewater services and support funded by a federal grant, continues until 2049.

In February 2020, SMCSD and Tamalpais Community Services District signed an Amended and Restated Wastewater Services Agreement changing the calculation of their annual wastewater services charge to a rate-based approach. In October 2020, the Tamalpais Community Services District plans to pre-pay their 2014 Inter-District Loan and CIP Deferrals as allowed in the agreement totaling \$2,939,807.

Lastly, the District continues to focus on the key areas of the 2020-2025 Strategic Plan. The District completed its annual review of the plan. The adoption and annual review signify the importance of the plan to the District, its Board of Directors, and employees along with the effort placed on achieving continuous improvement in every facet of District operation. The Strategic Plan serves as a framework for decision making over the five-year period.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report of a general overview of the District's finances, is provided to all interested parties. Should there be any questions about this report or if there is a need for additional information, a request in

Sausalito-Marín City Sanitary District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2020

writing should be submitted to: District General Manager, Sausalito-Marín District Sanitary District, 1 East Road, Sausalito, CA, 94965, or telephone (415) 332-0244.

BASIC FINANCIAL STATEMENTS

Sausalito-Marin City Sanitary District

Statement of Net Position

June 30, 2020

Assets	2020
Current Assets:	
Cash and investments	\$ 23,912,715
Restricted cash and investments	9,246,530
Accounts receivable	261,429
Prepaid expenses	15,303
TCS D receivable - current	406,941
Total Current Assets	<u>33,842,918</u>
Noncurrent Assets:	
Restricted cash and investments	44,799
Restricted bond reserve cash and investments	2,159,600
TCS D receivable	3,229,012
Capital assets:	
Depreciable capital assets - Net	<u>52,037,249</u>
Total Capital Assets - Net	<u>52,037,249</u>
Total Noncurrent Assets - Net	<u>57,470,660</u>
Total Assets	<u>\$ 91,313,578</u>
 Deferred Outflows of Resources	
OPEB adjustments	\$ 1,004,572
Pension adjustments	765,694
Total Deferred Outflows of Resources	<u>\$ 1,770,266</u>
 Liabilities	
Current Liabilities:	
Accounts payable	\$ 2,157,930
Interest payable	331,534
Current portion of long-term Liabilities	1,327,153
Total Current Liabilities	<u>3,816,617</u>
Noncurrent Liabilities:	
Long-term liabilities, net of current portion	<u>41,108,223</u>
Total Liabilities	<u>\$ 44,924,840</u>
 Deferred Inflows of Resources	
OPEB adjustments	\$ 226,865
Pension adjustments	335,299
Total Deferred Inflows of Resources	<u>\$ 562,164</u>
 Net Position	
Net Investment in Capital Assets	\$ 26,689,109
Restricted for debt service	44,799
Unrestricted	20,862,932
Total Net Position	<u>\$ 47,596,840</u>

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

Sausalito-Marin City Sanitary District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2020

	2020
Operating Revenues:	
Service charges	\$ 6,530,609
TCSO service contract	2,107,451
Sausalito service contract	116,347
Other operating revenues	212,822
Total operating revenues	8,967,229
 Operating Expenses:	
Salaries and benefits	2,697,454
Plant operations	827,007
Repairs and maintenance	81,246
Permit testing and monitoring	57,587
Depreciation and amortization	2,178,260
Utilities and telephone	292,176
General and administrative	199,017
Total operating expenses	6,332,747
 Operating Income (Loss)	2,634,482
 Nonoperating Revenues (Expenses):	
Interest and investment income	629,420
Interest expense	(1,169,747)
Property taxes	755,695
Loss on disposal of capital assets	(77,075)
Total nonoperating revenues (expenses)	138,293
 Income (loss) before contributions	2,772,775
 Capital contributions - connection fees	6,130
 Change in net position	2,778,905
 Beginning net position	44,812,645
Prior period adjustment	5,290
Beginning net position, as adjusted	44,817,935
 Ending net position	\$ 47,596,840

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

Sausalito-Marin City Sanitary District

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2020

	<u>2020</u>
Cash Flows from Operating Activities:	
Cash received from customers and users	\$ 9,313,846
Cash payments to suppliers for goods and services	(294,438)
Cash payments to employees for services and benefits	(2,328,759)
Net Cash Provided (Used) by Operating Activities	<u>6,690,649</u>
Cash Flows from Noncapital Financing Activities:	
Cash received from property taxes	<u>755,695</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>755,695</u>
Cash Flows from Capital and Related Financing Activities:	
Cash received from connection fees	6,130
Acquisition and construction of capital assets	(8,813,804)
Principal paid on capital debt	(1,115,670)
Interest paid on capital debt	(1,387,465)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,310,809)</u>
Cash Flows from Investing Activities:	
Investment income	<u>843,254</u>
Net Cash Provided (Used) by Investing Activities	<u>843,254</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,021,211)
Cash and Cash Equivalents Beginning	<u>36,225,255</u>
Cash and Cash Equivalents Ending	<u><u>\$ 33,204,044</u></u>
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:	
Operating Income (Loss)	\$ 2,634,482
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	2,178,260
Prior period adjustments	5,290
(Increase) decrease in:	
Accounts receivable	(55,012)
Prepaid expenses	445
Deferred outflows of resources	(794,272)
TCSD receivable	401,629
Increase (decrease) in:	
Accounts payable	1,162,150
Net pension liabilities	275,477
Net OPEB liability	679,662
Deferred inflows of resources	186,774
Compensated absences	15,764
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 6,690,649</u></u>
Summary of cash and cash equivalents:	
Cash and cash equivalents	\$ 23,912,715
Restricted cash and cash equivalents	9,291,329
Total cash and cash equivalents	<u><u>\$ 33,204,044</u></u>

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

Sausalito-Marín City Sanitary District

Notes to Financial Statements

June 30, 2020

NOTE 1 – NATURE OF ORGANIZATION

The Sausalito-Marín City Sanitary District is a political subdivision of the State of California, located in Marin County, California. The District was incorporated in November of 1950 as an independent special district organized under the California Health & Safety Code, codifying the Sanitary District Act of 1923, for the purpose of collecting, conveying, treating and disposing of wastewater within its jurisdictional boundaries, which includes the City of Sausalito and unincorporated areas, including Marin City. The District provides wastewater conveyance, treatment, and disposal service to the Tamalpais Community Services District (TCS D) and the National Park Service under contract and operates and maintains the City of Sausalito pump stations under contract.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

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

Component units are defined as legally separate organizations for which the primary government are financially accountable, and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District considered all potential component units in determining what organizations should be included in the financial statements. The District determined that the Marin Public Financing Authority should be reported on a blended basis. A blended component unit, although a legally separate entity, is, in substance, part of the government's operations and so data from this unit is combined with data of the primary government.

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. With this measurement focus, all assets deferred outflows of resources,

Sausalito-Marín City Sanitary District

Notes to Financial Statements

June 30, 2020

liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

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

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to pension and benefit plans.

In addition, when an asset is recorded in governmental fund financial statements, but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

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

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

Statement of Net Position

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted – This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred

Sausalito-Marín City Sanitary District

Notes to Financial Statements

June 30, 2020

inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Cash and Investments

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

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

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

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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

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

Sausalito-Marín City Sanitary District

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- Cost approach – This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach – This approach converts future amounts (such as cash flows) into a current discounted amount.

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

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.

Statement of Cash Flows (Cash and Cash Equivalents)

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

Capital Assets

Capital assets are defined by the District as long-lived assets acquired for use, and not intended for consumption in operations and that exceed the District's capitalization threshold. Assets contributed or donated have been recorded at the fair market value at the date received.

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

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

The District has assigned the useful lives listed below to capital assets:

Treatment Plant	30-100 years
Equipment	5-25 years
Buildings	25-40 years
Other	5-30 years

Sausalito-Marín City Sanitary District

Notes to Financial Statements

June 30, 2020

Long-Term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Compensated Absences

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

Pensions

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

GASB Statement No. 68, *accounting and financial reporting for Pensions – an amendment of GASB Statement No. 27* requires that the reported results must pertain to liability and asset information within certain defined time frames. For the period, the following time frames were used.

Valuation Date	June 30, 2018
Measurement Date	July 1, 2019
Measurement Period	July 1, 2018 to June 30, 2019

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions are based on the when they are due and payable in accordance with the benefit terms for the measurement period included in the OPEB plan's actuarial reports. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracted that have a maturity at the time of purchase of one year or less, which are reported at cost.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions

Sausalito-Marin City Sanitary District

Notes to Financial Statements

June 30, 2020

that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Property Taxes

Property taxes were levied July 1, 2019 and were payable in two installments on November 1, 2019 and February 1, 2020. Property tax revenues are recognized as revenue when received. The County of Marin

bills and collects property taxes on behalf of the District on the schedule as follows:

	Secured	Unsecured
Valuation/lien dates	January 1	January 1
Levy dates	July 1	July 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 31 (August 31)

Upcoming Accounting and Reporting Changes

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2018 but have been delayed to periods beginning after December 15, 2019, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB issued 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. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2019 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

Sausalito-Marín City Sanitary District

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GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of the Construction Period

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2019 but have been delayed to periods beginning after December 15, 2020, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 90, Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2018, but have been delayed to periods beginning after December 15, 2019, pursuant to GASB Statement No. 95. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 91, Conduit Debt Obligations

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2020 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 92, Omnibus 2020

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers

Sausalito-Marín City Sanitary District

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June 30, 2020

activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 93, Replacement of Interbank Offered Rates

This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 94, Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

Sausalito-Marín City Sanitary District

Notes to Financial Statements

June 30, 2020

NOTE 3 – CASH AND INVESTMENTS

The District's cash and investments consisted of the following as of June 30, 2020:

Cash and Investments	Available for Operations	Restricted	Fair Value June 30, 2020
Cash:			
Cash in Banks	\$ 1,570,133	\$ -	\$ 1,570,133
Petty Cash	300	-	300
Cash with Fiscal Agent	-	2,159,600	2,159,600
Money Market	1,492,942	-	1,492,942
Total Cash Deposits	3,063,375	2,159,600	5,222,975
Investments:			
State of California Local Agency Investment Fund	20,849,340	9,291,329	30,140,669
Total Cash and Investments	\$ 23,912,715	\$ 11,450,929	\$ 35,363,644

Restricted cash and investments includes \$44,799 in proceeds required to be set-aside for the annual State Water Resource Control Board loan debt service requirements, a \$2,159,600 insurance surety for the 2017 Revenue Bonds debt service reserve, and \$9,336,128 restricted for capital projects from bond proceeds.

Cash Deposits

Interest bearing bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC"). The bank balance of the District's cash in bank, which was \$5,271,412, exceeded the insured limit by \$4,771,412 as of June 30, 2020. None of the District's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts. All of the District's accounts met the collateral and categorization requirements as noted in the following paragraphs.

Fair Value Measurements

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

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

The District has the following recurring fair value measurements as of June 30, 2020:

- California Local Agency Investment Fund (LAIF) of \$29,992,863; valued using Level 1 and 2 inputs.
- Money Market of \$1,492,942; valued using Level 1 inputs.

Sausalito-Marín City Sanitary District

Notes to Financial Statements

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California Local Agency Investment Fund

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

- Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

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

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

The total amount invested by all public agencies in LAIF, as of June 30, 2020, was approximately \$101 billion. Of that amount, 99.43% is invested in non-derivative financial products and .57% in structured notes and asset-backed securities. The balance in LAIF is available for withdrawal on demand.

Investment Policy

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government. Or its agencies; bankers' acceptances of U.S. banks; commercial paper of prime quality; negotiable certificates of deposit; repurchase or reverse repurchase agreements; and passbook savings account demand deposits. Investments prohibited by the District are inverse floaters, range notes, mortgage pool interest-only strips, and zero interest accrual at maturity notes. The District's investments were in compliance with the above provisions as of and for the year ended June 30, 2020.

Sausalito-Marin City Sanitary District

Notes to Financial Statements

June 30, 2020

The District follows the California Government Code which authorizes the District to invest in the following:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Medium Term Notes	5 years	30%	No Limit
Money Market and Mutual Funds	N/A	20%	10%
U.S. Treasury Obligations	5 years	No Limit	No Limit
Local Agency Bonds, Notes, Warrants	5 years	No Limit	No Limit
Registered State Bonds, Notes, Warrants	5 years	No Limit	No Limit
U.S. Agency Securities	5 years	No Limit	No Limit
Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	No Limit
County Pooled Investment Funds	N/A	No Limit	No Limit
Joint Power Authority Pools	N/A	No Limit	No Limit
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	No Limit
Repurchase Agreements	1 year	No Limit	No Limit
Reverse Repurchase Agreements	92 days	20%	No Limit
Local Agency Investment Fund (LAIF)	N/A	No Limit	No Limit

Risk Disclosures

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

- *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District manages the sensitivity of investments to interest rate risk by invested only in the LAIF pool.
- *Credit Risk* – Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the District only invests in the LAIF pool.
- *Custodial Credit Risk* – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a written policy for custodial credit risk over deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The 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 public deposits by pledging first trust deed mortgage notes having

Sausalito-Marin City Sanitary District

Notes to Financial Statements

June 30, 2020

a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. In the case of investments, the risk of loss of the investment due failure, impairment, or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial risk.

- *Concentration of Credit Risk* – See the chart on the previous page for the District’s limitations on the amount that can be invested in any one issuer. As of June 30, 2020, the District invested 100% of its cash not deposited in checking, money market accounts, or fiscal agents in LAIF.

NOTE 4 – CAPITAL ASSETS

The District’s capital assets consisted of the following as of June 30, 2020:

Capital Assets	Balance June, 30 2019	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2020
Non-depreciable Capital Assets:					
Construction in progress	\$ 18,353,300	\$ 460,225	\$ -	\$ (18,813,525)	\$ -
Total Non-depreciable Capital Assets	18,353,300	460,225	-	(18,813,525)	-
Depreciable Capital Assets:					
Original conveyance and treatment facilities	2,456,434	-	-	-	2,456,434
Secondary treatment plant	11,148,055	-	(204,493)	-	10,943,562
General equipment, facility upgrade and renewal	19,408,462	7,252,294	(167,289)	18,813,525	45,306,992
Conveyance system upgrade and renewal	13,770,526	13,057	(125,821)	-	13,657,762
Collection system upgrade	2,314,695	29,259	-	-	2,343,954
Office equipment	186,829	-	-	-	186,829
Total Depreciable Capital Assets	49,285,001	7,294,610	(497,603)	18,813,525	74,895,533
Less Accumulated Depreciation for:					
Original conveyance and treatment facilities	1,105,393	24,564	-	-	1,129,957
Secondary treatment plant	4,499,434	140,376	(161,010)	-	4,478,800
General equipment, facility upgrade and renewal	8,412,033	1,237,199	(151,857)	-	9,497,375
Conveyance system upgrade and renewal	5,496,914	548,457	(107,661)	-	5,937,710
Collection system upgrade	1,446,961	213,207	-	-	1,660,168
Office equipment	139,817	14,457	-	-	154,274
Total Accumulated Depreciation	21,100,552	2,178,260	(420,528)	-	22,858,284
Total Depreciable Capital Assets - Net	28,184,449	5,116,350	(77,075)	18,813,525	52,037,249
Total Capital Assets - Net	\$ 46,537,749	\$ 5,576,575	\$ (77,075)	\$ -	\$ 52,037,249

Depreciation expense for the year ended June 30, 2020 was \$2,178,260.

Sausalito-Marin City Sanitary District

Notes to Financial Statements

June 30, 2020

NOTE 5 – LONG-TERM LIABILITIES

The District’s long-term liabilities consisted of the following as of June 30, 2020:

<u>Long-term Liabilities</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Due Within</u> <u>One Year</u>
Note Payable - Direct Borrowing	\$ 1,651,318	\$ -	\$ 155,133	\$ 1,496,185	\$ 161,558
2017 Revenue Bond	31,985,000	-	854,666	31,130,334	890,000
2017 Revenue Bond Premium	1,631,286	-	95,958	1,535,328	95,958
2017 Revenue Bond Reserve Surety	2,159,600	-	-	2,159,600	-
State Water Resources Control - Direct Borrowing	1,612,888	-	105,871	1,507,017	108,623
Net OPEB Liability	159,771	1,202,003	522,341	839,433	-
Net Pension Liability	3,349,975	1,459,488	1,184,011	3,625,452	-
Compensated Absences	126,263	15,764	-	142,027	71,014
Total Long-term Liabilities	<u>\$ 42,676,101</u>	<u>\$ 2,677,255</u>	<u>\$ 2,917,980</u>	<u>\$ 42,435,376</u>	<u>\$ 1,327,153</u>

Note Payable – City National Bank (Direct Borrowing)

On April 1, 2008, the District entered into an installment agreement with Municipal Finance Corporation for the acquisition and construction of wastewater system improvements. Municipal Finance Corporation assigned the loan to City National Bank. The note is payable in semi-annual principal and interest payments of \$110,631 and is secured by a pledge of net revenues of the District. The note has an annual interest rate of 4.1%. 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’s debt service requirements on the note payable with City National Bank were as follows as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 161,558	\$ 59,703	\$ 221,261
2022	168,250	53,012	221,262
2023	175,219	46,043	221,262
2024	182,476	38,786	221,262
2025	190,034	31,228	221,262
2026 - 2029	618,648	45,139	663,787
Total Debt Service	<u>\$ 1,496,185</u>	<u>\$ 273,911</u>	<u>\$ 1,770,096</u>

State Water Resource Control Board (Direct Borrowing)

The District entered into a loan contract with the State of California (State Water Resources Control Board) on August 15, 2011 to finance the Locust Street Pump Station Improvements project. The total loan amount cannot exceed \$2,298,373, with a stated interest rate of 2.6% per annum. To date, the District has received \$2,298,373. Principal and interest payments of \$147,806 are due annually through the fiscal year 2032.

Sausalito-Marin City Sanitary District

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The District's debt service requirements on the State Water Resource Control Board loan were as follows as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 108,623	\$ 39,182	\$ 147,805
2022	111,448	36,358	147,806
2023	114,345	33,461	147,806
2024	117,318	30,488	147,806
2025	120,368	27,437	147,805
2026 - 2030	650,445	88,584	739,029
2031 - 2032	284,470	11,142	295,612
Total Debt Service	<u>\$ 1,507,017</u>	<u>\$ 266,651</u>	<u>\$ 1,773,668</u>

2017 Revenue Bonds

On April 7, 2017, the District issued \$33,630,000 in Series 2017 Revenue Bonds, through the Marin Public Financing Authority, at a premium with an interest rate ranging from 3.0% to 4.0%. The Bonds are being issued to provide funds to (a) finance certain capital improvements to the District's wastewater system; (ii) provide a debt service reserve for the Bonds, which may be funded through the deposit of a reserve surety, as further described herein; and (iii) pay the costs of issuing the Bonds. The Bonds are fully registered with principal due annually on April 1st and interest payable semi-annually on April 1st and October 1st. The premium on the 2017 Revenue Bonds was received as additional proceeds by the District, in the amount of \$2,118,915. This premium, net of related issuance costs, is being amortized over the life of the 2017 Revenue Bonds.

In connection with the issuance of the bond, the District purchased surety bond insurance to establish a debt service reserve. The reserve will be held by a trustee as a fiscal agent and can be used to pay the required debt service payments if the District were unable to meet its debt service requirements. The \$2,159,600 reserve amount would revert back to the insurance company once the bonds mature, or if the bonds are called or defeased. Thus, the reserve balance has been recorded as restricted cash and investments with an offsetting noncurrent liability at June 30, 2020.

The District's debt service requirements for the 2017 Revenue Bonds were as follows as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 890,000	\$ 1,245,200	\$ 2,135,200
2022	930,000	1,209,600	2,139,600
2023	985,000	1,172,400	2,157,400
2024	1,025,000	1,133,000	2,158,000
2025	1,065,000	1,092,000	2,157,000
2026 - 2030	5,990,000	4,786,800	10,776,800
2031 - 2035	7,290,000	3,488,800	10,778,800
2036 - 2040	8,885,000	1,908,200	10,793,200
2041 - 2045	4,070,334	245,800	4,316,134
Total Debt Service	<u>\$ 31,130,334</u>	<u>\$ 16,281,800</u>	<u>\$ 47,412,134</u>

Sausalito-Marin City Sanitary District

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NOTE 6 – COMMITMENTS AND CONTINGENCIES

The District is involved in litigation arising in the ordinary course of its operations that, in the opinion of management, will not have a material effect on the District's results of operations. The District has a dispute with its contractor that completed the Upgrade Project in June 2020. The District is withholding payment of approximately \$1.9 million for contractor defects. The contractor filed a claim of approximately \$4.5 million. The District has determined the claim to be unsubstantiated and without merit. Its more likely than not that the two parties will settle, but no estimate of the likely outcome was available at the issuance of these financial statements.

In addition, the District has entered construction and service contracts with various organizations. As of June 30, 2020, the District's total commitment for these contracts was \$1,642,918.

NOTE 7 – RISK MANAGEMENT

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

The cost to each CSRMA member District for program participation is determined by the Executive Board upon the basis of the cost allocation plan and rating formula. The premium for each participating agency includes the District's share of expected losses, program insurance costs, and program administrative costs for the year, plus the District's share of Authority general expense allocated to the program by the Board. Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2019 (most recent information available):

	<u>June 30, 2019</u>
Total Assets	\$ 26,991,334
Total Liabilities	20,588,497
Total Equity	6,402,837
Total Revenues	12,068,611
Total Expenditures	14,577,244

NOTE 8 – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

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

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Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees’ Retirement Law. The Plan’s provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous	
	Tier 1	PEPRA
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.7%	2.00%
Required employee contribution rates	8.000%	6.750%
Required employer contribution rates	14.387%	6.985%

On September 12, 2012, the Governor signed pension reform AB 340, which the California State Legislature approved on August 31. Within AB 340 is the California Public Employees’ Pension Reform Act of 2013 (PEPRA), which affects most California retirement systems, including CalPERS, effective January 1, 2013. PEPRA generally restricts current pension provisions while increasing flexibility for employee/employer cost sharing. The Tier 1 plan is known as the classic plan offered to miscellaneous employees by CalPERS and is effective for employees hired prior to January 1, 2013.

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

For the year ended June 30, 2020, the District contributed \$296,675 into the plan. During the fiscal year, employees contributed 8% (Classic) and 6.75% (PEPRA) of the contributions. The District contributed its required 14.387% for Classic and 6.985% for PEPRA bringing the total contributions to 21.372% for Classic and 6.985% for PEPRA.

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate shares of the net pension liability of \$3,625,452. The District’s net pension liability for the Plan is measured as the

Sausalito-Marin City Sanitary District

Notes to Financial Statements

June 30, 2020

proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2019, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 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 plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2019 and 2020 was as follows:

	Miscellaneous
Proportion - June 30, 2019	0.08889%
Proportion - June 30, 2020	0.09053%
Change - Increase/(Decrease)	0.00165%

For the year ended June 30, 2020, the District recognized pension expense of \$722,323. At June 30, 2020, 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
Changes of Assumptions	\$ 172,878	\$ 61,284
Differences between Expected and Actual Experience	251,803	19,510
Differences between Projected and Actual Investment Earnings	-	63,384
Differences between Employer's Contributions and Proportionate Share of Contributions	-	156,074
Change in Employer's Proportion	44,338	35,047
Pension Contributions Made Subsequent to Measurement Date	296,675	-
Total	\$ 765,694	\$ 335,299

The District reported \$296,675 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources
2021	\$ 189,554
2022	(82,704)
2023	14,062
2024	12,808
2025	-
Thereafter	-
Total	\$ 133,720

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Actuarial Assumptions – The total pension liabilities in the June 30, 2018 actuarial valuation were determined using the following actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.15% (2)
Mortality	(3)

(1) Varies by entry age and service

(2) Net of pension plan investment expenses, including inflation

(3) Derived using CalPERS' membership data for all funds

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate, and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

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The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate.

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the 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:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 5,388,125
Current	7.15%
Net Pension Liability	\$ 3,625,452
1% Increase	8.15%
Net Pension Liability	\$ 2,170,490

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

NOTE 9 – DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The deferred compensation plan is available to all full-time employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not

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available for withdrawal by employees until termination, death, or unforeseeable emergency. The District contributes 2% of unrepresented employee's salary as deferred compensation.

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Benefits

Eligible employees receive benefits for life. An eligible employee's family members are also covered, both during the employee's lifetime and after the employee's death, provided employee has elected a retirement option that provides for continuation of retirement benefits for the spouse. For employees hired before 2004, the District pays the entire premium for employees and family members. Employees hired after 2004 with 10 years of service, 5 of which must be with the District, receive 50% of the District's contribution toward post-employment health benefits. The amount of health benefit increases proportionally based on the employee's credited years of service to 100% after 20 years. For employees hired after 2004, the maximum premium paid by the District is the Kaiser premium for family coverage, and eligible employee's family members receive 90% of the retiree's health benefit. Retired employees over age 65 are responsible for enrolling in Medicare Parts B and D. Medical benefits are provided through CalPERS.

Employees Covered by Benefit Terms

At June 30, 2019 (the valuation date), the benefit terms covered the following employees:

Active employees	11
Inactive employees	13
Total employees	24

Contributions

The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions to the OPEB plan during the year were \$139,597. The actuarially determined contribution for the measurement period was \$140,878. The District's contributions were 10.20% of covered payroll during the measurement period June 30, 2019 (reporting

Sausalito-Marín City Sanitary District

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period June 30, 2019). Employees are not required to contribute to the plan.

Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry-Age Normal
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	4.21%
Inflation	2.75%
Salary Increases	3.00%
Healthcare Trend Rate	5.00%
Investment Rate of Return	4.21%, Net of OPEB plan investment expenses, including
Mortality	Mort and Disb Rates_PA Misc
Retirement	Rx PA Misc 2.5% @ Rx PA Misc 2% @ 62

Discount Rate

The projection of cash flows used to determine the discount rate assumed that the District contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to cover all future OPEB payments. Therefore, the discount rate was set to be equal to the long-term expected rate of return which was applied to all periods of projected benefit payments to determine the total OPEB liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Percentage of Portfolio	Long-Term Expected Rate of Return
All Commodities	4.00%	4.840%
Domestic Fixed Income	43.00%	4.870%
Global Equity	40.00%	8.320%
Real Estate Investment Trusts (REITs)	8.00%	6.750%
Treasury Inflation-Protected Securities (TIPS)	5.00%	3.940%
Total	100.00%	

Net OPEB Liability (NOL)

The District's net OPEB liability was measured as of June 30, 2019 (measurement date), and the total OPEB liability (TOL) used to calculate the net OPEB liability (NOL) was determined by an actuarial valuation as of June 30, 2019 (valuation date) for the fiscal year ended June 30, 2020 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2020:

Fiscal Year Ended June 30, 2020 (Measurement Date June 30, 2019)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2019	\$ 2,628,479	\$ 2,468,708	\$ 159,771
Service cost	77,423	-	77,423
Interest in Total OPEB Liability	170,969	-	170,969
Employer contributions	-	147,160	(147,160)
Balance of diff between actual and exp experience	(182,895)	-	(182,895)
Balance of changes in assumptions	934,682	-	934,682
Actual investment income	-	173,891	(173,891)
Administrative expenses	-	(534)	534
Benefit payments	(294,320)	(294,320)	-
Net changes	705,859	26,197	679,662
Balance at June 30, 2020	\$ 3,334,338	\$ 2,494,905	\$ 839,433
Covered Employee Payroll	\$ 1,368,066		
Total OPEB Liability as a % of Covered Employee Payroll	243.73%		
Plan Fid. Net Position as a % of Total OPEB Liability	74.82%		
Service Cost as a % of Covered Employee Payroll	5.66%		
Net OPEB Liability as a % of Covered Employee Payroll	61.36%		

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Deferred Inflows and Outflows of Resources

At June 30, 2020, 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
Difference between actual and expected experience	\$ -	\$ 226,866
Difference between actual and expected earnings	570	-
Change in assumptions	864,405	-
OPEB contribution subsequent to measurement date	139,597	-
Totals	\$ 1,004,572	\$ 226,866

Of the total amount reported as deferred outflows of resources related to OPEB, \$139,597 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2021.

The following deferrals will be recognized as OPEB expense in the future:

Year Ended June 30,		
2021	\$	51,411
2022		51,411
2023		52,385
2024		49,475
2025		51,028
Thereafter		382,399
Total	\$	638,109

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2020:

Service cost	\$ 77,423
Interest in TOL	170,969
Expected investment income	(166,126)
Difference between actual and expected experience	(19,249)
Difference between actual and expected earnings	383
Change in assumptions	70,277
Administrative expenses	534
OPEB Expense	\$ 134,211

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The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2020:

Net OPEB liability ending		\$	839,433
Net OPEB liability beginning			(159,771)
Change in net OPEB liability			<u>679,662</u>
Changes in deferred outflows			(856,257)
Changes in deferred inflows			163,646
Employer contributions and implicit subsidy			<u>147,160</u>
OPEB Expense		\$	<u>134,211</u>

Sensitivity to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	Discount Rate		
	(1% Decrease)	4.21%	(1% Increase)
Net OPEB Liability (Asset)	\$ 1,377,269	\$ 839,433	\$ 410,559

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

	Trend Rate		
	(1% Decrease)	5.00%	(1% Increase)
Net OPEB Liability (Asset)	\$ 392,291	\$ 839,433	\$ 1,406,164

NOTE 11 – AGENCY SERVICE AGREEMENTS

The District maintains wastewater service agreements with the City of Sausalito, National Park Service (Golden Gate National Recreation Area) and Tamalpais Community Services District (TCSD). The agreements establish the terms and conditions related to the repair, operation and agency share costs of the wastewater collection system and treatment facility. The agreements are described below.

City of Sausalito

The District has a long-standing agreement with the City to operate and maintain four sewer pump stations that are owned by the City. The agreement is on-going and has no sunset date. Under the agreement, the District estimates the annual cost in the fiscal year budget. The District invoices the

Sausalito-Marin City Sanitary District

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City on a semiannual basis for actual expenses incurred by the District, which includes equipment, supplies, labor, overhead and administrative expenses.

National Park Service (Golden Gate National Recreation Area)

The District recently renewed its property lease agreement with the National Park Service (NPS) for an additional 32 years expiring in 2049. Under the agreement, the District provides to NPS wastewater treatment as an “in-kind service” in exchange for the annual lease payment for the use of approximately five (5) acres of land where the treatment plant is located. The “in kind service” allows the District to operate and maintain the wastewater treatment facility on Federal NPS lands within the Golden Gate National Recreation Area.

Tamalpais Community Services District (TCSD)

In 2017, unresolved disputes between Sausalito-Marin City Sanitary District (SMCSD) and Tamalpais Community Services District (TCSD) over the interpretation of various terms and conditions contained in the 2013 Agreement and the parties’ rights and obligations pursuant to the 2013 Agreement led to the filing of a complaint by SMCSD and a cross-complaint by TCSD in the Marin County Superior Court.

On June 11, 2018, SMCSD and TCSD submitted their unresolved disputes to mediation. During the mediation, the Districts reached a settlement of all the unresolved disputes conditioned on the approval of both Districts’ Board of Directors. The Districts agreed that: (1) TCSD’s payments to SMCSD for Wastewater Service will be based upon the number of Dwelling Units (“DU”) and Equivalent Dwelling Units (“EDU”) within TCSD’s Service Area multiplied by SMCSD’s applicable DU and EDU rates (rate-based approach); (2) the outstanding 2014 Inter-District loan and the Cash Funded Costs Deferral Payments between the two Districts will be paid by TCSD on the payment dates and in the amounts set forth in the amortization and payment schedules, and (3) the One Million Two Hundred Thousand Dollar (\$1,200,000.00) mediated settlement payment will be paid by TCSD to SMCSD over five (5) years. On June 13, 2018, the Board of Directors for SMCSD and TCSD each approved the settlement’s terms and conditions.

In February 2020, the District’s incorporated the June 11, 2018 Settlement Agreement’s terms and conditions in an Amended and Restated Wastewater Services Agreement which was approved by both District’s Board of Directors. This 2020 Amended and Restated Agreement supersedes and replaces in its entirety the 2013 Agreement.

The following schedule summarizes the capital deferral receivable as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 111,788	\$ 77,397	\$ 189,185
2022	115,620	73,566	189,186
2023	119,583	69,602	189,185
2024	123,682	65,504	189,186
2025	127,922	61,264	189,186
2026-2029	557,071	199,675	756,746
2030-2034	810,731	135,201	945,932
2035-2038	291,583	20,487	312,070
<u>Total Debt Service</u>	<u>\$ 2,257,980</u>	<u>\$ 702,696</u>	<u>\$ 2,960,676</u>

Sausalito-Marin City Sanitary District

Notes to Financial Statements

June 30, 2020

The following schedule summarizes the Inter-District receivable as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 55,153	\$ 19,739	\$ 74,892
2022	56,807	18,085	74,892
2023	58,512	16,380	74,892
2024	60,267	14,625	74,892
2025	62,075	12,817	74,892
2026-2029	267,489	32,079	299,568
2030	97,670	2,931	100,601
Total Debt Service	<u>\$ 657,973</u>	<u>\$ 116,656</u>	<u>\$ 774,629</u>

The following is a summary of the total notes receivable from TCSD as of June 30, 2020:

<u>Description</u>	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Capital Deferral Receivable	\$ 111,788	\$ 2,146,192	\$ 2,257,980
Inter-District Receivable	55,153	602,820	657,973
Settlement Receivable	240,000	480,000	720,000
Totals	<u>\$ 406,941</u>	<u>\$ 3,229,012</u>	<u>\$ 3,635,953</u>

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2020, through the date the financial statements were available to be issued, October 8, 2020. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of these financial statements, the District had not yet suffered a material adverse impact from the CV19 Crisis. However, the future impact on the District's financial statements cannot be reasonably estimated.

On August 18, 2020, Tamalpais Community Services District (TCSD) notified SMCSO they were in the process of issuing Certificates of Participation (COP) and they intend on pre-paying their 2014 Inter-District Loan and Capital Improvement Plan deferrals on October 6, 2020 when the process is complete. The TCSD payment totals \$2,939,807 which includes the balances of June 30, 2020 and 98 days interest.

On October 5, 2020, the SMCSO Board authorized the General Manager to pay off loans to City National Bank and California State Revolving Fund upon receipt of funds from Tamalpais Community Services District. On October 6, 2020 TCSD paid SMCSO \$2,939,807.

On October 22, 2020, SMCSO staff issued loan pay-off checks to City National Bank in the amount of \$1,526,857 and California State Revolving Fund Loan in the amount of \$1,525,085.

REQUIRED SUPPLEMENTARY INFORMATION

Sausalito-Marín City Sanitary District
Schedule of CalPERS Pension Plan Contributions
June 30, 2020

Miscellaneous Plan						
Plan Measurement Date	2014	2015	2016	2017	2018	2019
Fiscal Year Ended	2015	2016	2017	2018	2019	2020
Contractually Required Contributions	\$ 181,617	\$ 237,897	\$ 224,173	\$ 257,992	\$ 263,939	\$ 296,675
Contributions in Relation to Contractually Required Contributions	181,617	237,897	224,173	257,992	263,939	296,675
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,147,300	\$ 1,044,426	\$ 1,032,559	\$ 1,387,443	\$ 1,369,547	\$ 1,447,843
Contributions as a % of Covered Payroll	15.83%	22.78%	21.71%	18.59%	19.27%	20.49%

Notes to Schedule:

Valuation Date: June 30, 2018
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
3.8 Years Remaining Amortization Period
Inflation Assumed at 2.5%
Investment Rate of Returns set at 7.15%
CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

Fiscal year 2015 was the first year of implementation, therefore only six years are shown.
The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.
The CalPERS mortality assumptions were adjusted in fiscal year 2019.

Sausalito-Marín City Sanitary District
Schedule of CalPERS Proportionate Share of Net Pension Liability
June 30, 2020

Miscellaneous Plan						
Plan Measurement Date	2014	2015	2016	2017	2018	2019
Fiscal Year Ended	2015	2016	2017	2018	2019	2020
Proportion of Net Pension Liability (Safety and Misc)	0.02827%	0.02714%	0.03425%	0.03430%	0.03476%	0.03538%
Proportion of Net Pension Liability (Misc Plan Only)	0.07119%	0.06791%	0.08532%	0.08630%	0.08889%	0.09053%
Proportionate Share of Net Pension Liability	\$ 1,759,386	\$ 1,863,054	\$ 2,964,080	\$ 3,401,917	\$ 3,349,975	\$ 3,625,452
Covered Payroll	\$ 1,112,881	\$ 1,147,300	\$ 1,044,426	\$ 1,032,559	\$ 1,387,443	\$ 1,369,547
Proportionate Share of NPL as a % of Covered Payroll	158.09%	162.39%	283.80%	329.46%	241.45%	264.72%
Plan's Fiduciary Net Position as a % of the TPL	81.15%	77.84%	72.86%	71.39%	72.94%	72.34%

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

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions were adjusted in fiscal year 2019.

Sausalito-Marin City Sanitary District
Schedule of OPEB Contributions
June 30, 2020

Fiscal Year Ended	2018	2019	2020
Actuarially determined contribution (ADC)	\$ 250,037	\$ 90,675	\$ 140,878
Less: actual contribution in relation to ADC	(2,143,737)	(147,160)	(139,597)
Contribution deficiency (excess)	<u>\$ (1,893,700)</u>	<u>\$ (56,485)</u>	<u>\$ 1,281</u>
Covered employee payroll	\$ 1,338,389	\$ 1,387,443	\$ 1,409,108
Contrib. as a % of covered employee payroll	160.17%	10.61%	9.91%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry-Age Normal Cost
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	4.21%
Inflation	2.75%
Salary Increases	3.00%
Healthcare Trend Rate	5.00%
Investment Rate of Return	4.21%, Net of OPEB plan investment expenses, including inflation
Mortality	Mort and Disb Rates_PA Misc
Retirement	Rx PA Misc 2.5% @ 55 Rx PA Misc 2% @ 62

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

The discount rate decreased from 6.73% to 4.21% in 2020 and health trend rates decreased from 5.5% to 5%.

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Sausalito-Marin City Sanitary District
Schedule of Net OPEB Liability
June 30, 2020

Fiscal Year Ended	2018	2019	2020
Total OPEB liability			
Service cost	\$ 72,979	\$ 75,168	\$ 77,423
Interest	163,427	166,877	170,969
Differences between expected and actual experience	-	-	(182,895)
Changes of assumptions	-	-	934,682
Benefit payments	(183,982)	(186,322)	(294,320)
Net change in Total OPEB Liability	52,424	55,723	705,859
Total OPEB Liability - beginning	2,520,332	2,572,756	2,628,479
Total OPEB Liability - ending	<u>\$ 2,572,756</u>	<u>\$ 2,628,479</u>	<u>\$ 3,334,338</u>
Plan fiduciary net position			
Employer contributions	\$ 311,200	\$ 2,212,454	\$ 147,160
Net investment income	23,597	14,298	173,891
Benefit payments	(183,982)	(186,322)	(294,320)
Administrative expense	(159)	(741)	(534)
Net change in plan fiduciary net position	150,656	2,039,689	26,197
Plan fiduciary net position - beginning	278,363	429,019	2,468,708
Plan fiduciary net position - ending	<u>\$ 429,019</u>	<u>\$ 2,468,708</u>	<u>\$ 2,494,905</u>
Net OPEB liability (asset)	\$ 2,143,737	159,771	839,433
Plan fiduciary net position as a percentage of the total OPEB liability	16.68%	93.92%	74.82%
Covered Employee Payroll	\$ 1,333,613	\$ 1,338,389	\$ 1,387,443
Net OPEB liability as a percentage of covered employee payroll	160.75%	11.94%	60.50%
Total OPEB liability as a percentage of covered employee payroll	192.92%	196.39%	240.32%

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

The discount rate decreased from 6.73% to 4.21% in 2020 and health trend rates decreased from 5.5% to 5%.

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OTHER INDEPENDENT AUDITOR'S REPORTS



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

To the Board of Directors
Sausalito-Marín City Sanitary District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sausalito-Marín City Sanitary District (the “District”) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated October 8, 2020.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of



laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

C & A LLP

October 8, 2020
San Jose, California