

**SAUSALITO-MARIN CITY SANITARY DISTRICT**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2019**

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**Chavan & Associates, LLP**  
Certified Public Accountants  
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San Jose, CA 95129

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Sausalito-Marin City Sanitary District

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June 30, 2019

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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, 2019, 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, 2019, 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 December 23, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*C & A CP*

December 23, 2019  
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, 2019

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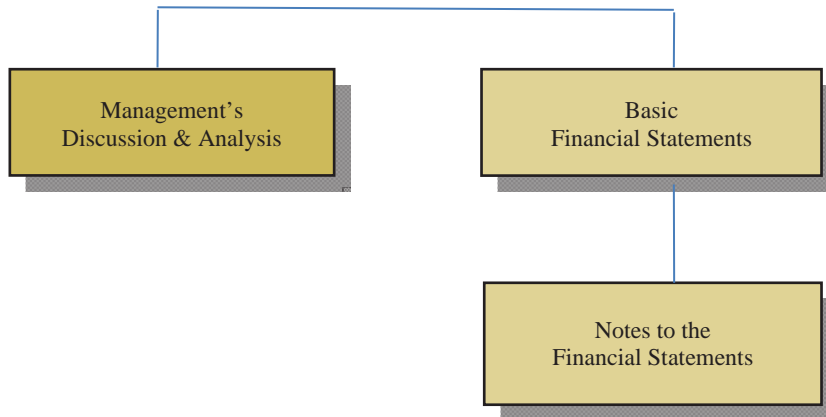
## INTRODUCTION

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, 2019. 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 (TCSO) 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



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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

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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 \$43 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 2014/15 to FY 2018/19) to fund renewal and upgrades for the conveyance system and treatment plant.

Two years ago, the District completed the design for the wet weather upgrades as required to satisfy the 2008 EPA Order. The Wet Weather Plant Upgrade Project upgrades and rehabilitates the District's infrastructure to address new discharge regulations, address peak wet weather flows, and to improve treatment plant performance and reliability. The Wet Weather Plant Upgrade Project includes new screenings and grit removal, refurbishing treatment towers and pumps, improving flow storage to minimize the impact of peak flowrates, and replacement of effluent filters. The project bid was awarded for \$20,808,870 which was within the engineer's construction cost estimate. The construction Notice to Proceed was given on June 21, 2017. Construction of the project is underway and expected to be completed by March 2020. The Upgrade Project along with other future capital projects are financed with revenue bonds.

In February 2017, the District formed the Marin Public Financing Authority with Las Gallinas Sanitary District to issue 2017 Revenue Bonds. The Bonds were issued primarily to finance the District's Wet Weather Plant Upgrade Project and other capital improvement projects included in the District's Capital Plan over the next five fiscal years. The bonds for financing have been sold and awarded in the amount of \$33,630,000 with an annual average debt service of \$2,153,000 over 25 years.

To date, approximately \$22 million of the treatment plant and conveyance improvements have been completed. Of the remaining \$11.6 million, approximately \$5 million is programmed for the treatment plant, \$6.6 million for sewer conveyance projects. The District's Capital Plan is subject to change, and the project costs and timing of projects will be reviewed annually.

Other Capital projects include the Coloma and Whiskey Springs Pump Station Improvements Project and District's Generator Reliability Improvements Project. The Coloma Pump Station Improvements Project increases conveyance system capacity to prevent SSO's during 10-year storm events. Project design has progressed to approximately 90% completion and is currently on hold pending comments and permit approvals from the City of Sausalito. The project is scheduled to bid in March of 2020 and project construction is anticipated by Spring of 2021. The estimated cost of design and construction is approximately \$5 million.

## Sausalito-Marín City Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

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Staff is moving forward with the development of design and bid documents for the District's Generator Reliability Improvements Project. This project will update all backup generators in the District's service area which have exceeded their useful life expectancy. Additional work includes the replacement of control panels for the District's Princess pump station for improved reliability. Design of the Generator Reliability Improvements Project is scheduled for completion by December 2019. Project construction is targeting completion by December 2020. The estimated cost of design and construction is approximately \$2 million.

### FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2019 were as follows:

- Total net position increased by \$3,598,8652 (8.73%) which included an increase in unrestricted net position of \$3,755,963 (55.26%).
- The District recorded deferred outflows of resources of \$975,994 and deferred inflows of resources of \$375,390 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.
- The District's contributions to the other postemployment benefit (OPEB) plan trust decreased from prior year to current year, \$2,143,737 to \$147,160, thus decreasing the deferred outflow of resources related to contributions subsequent to measurement date.
- Total liabilities decreased by \$1,689,542 (3.62%) mostly because the District contributed \$2,143,737 to other postemployment benefits (OPEB) fiduciary plan during measurement date June 30, 2018 which is reflected in fiscal year June 30, 2019 financial statements.
- Current assets decreased by \$2,684,905 (6.76%) mostly from the spending of bond proceeds on capital projects, which can be seen in the corresponding increase to noncurrent assets of \$6,887,110 (15.14%).
- Operating revenue increased by \$128,213 (4.48%) primarily due to the mediation settlement of \$1,200,000 with TCSD offset by a decrease in NPS Waste Water Service Charges and the Sausalito Service contract.
- Total operating expenses decreased by \$286,589 (4.41%) mostly because of reductions to pension and OPEB expense adjustments totaling and the deferral of OPEB contributions.

### 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, 2019

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, 2019 as compared to June 30, 2018:

<b>Table 1 - Summary Statement of Net Position</b>				
	2019	2018	Change	Percentage Change
<b>Assets</b>				
Current Assets	\$ 37,021,502	\$ 39,706,407	\$ (2,684,905)	-6.76%
Noncurrent Assets	52,374,683	45,487,573	6,887,110	15.14%
<b>Total Assets</b>	<b>\$ 89,396,185</b>	<b>\$ 85,193,980</b>	<b>\$ 4,202,205</b>	<b>4.93%</b>
<b>Deferred Outflows</b>				
Deferred Outflows	\$ 975,994	\$ 3,079,518	\$ (2,103,524)	-68.31%
<b>Liabilities</b>				
Current Liabilities	\$ 3,783,135	\$ 2,118,855	\$ 1,664,280	78.55%
Noncurrent Liabilities	41,401,009	44,763,831	(3,362,822)	-7.51%
<b>Total Liabilities</b>	<b>\$ 45,184,144</b>	<b>\$ 46,882,686</b>	<b>\$ (1,698,542)</b>	<b>-3.62%</b>
<b>Deferred Inflows</b>				
Deferred Inflows	\$ 375,390	\$ 177,029	\$ 198,361	112.05%
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 34,215,049	\$ 34,372,282	\$ (157,233)	-0.46%
Restricted	44,681	44,549	132	0.30%
Unrestricted	10,552,915	6,796,952	3,755,963	55.26%
<b>Total Net Position</b>	<b>\$ 44,812,645</b>	<b>\$ 41,213,783</b>	<b>\$ 3,598,862</b>	<b>8.73%</b>

## Sausalito-Marín City Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

Table 2 shows the changes in net position for fiscal year 2019 as compared to 2018.

<b>Table 2 - Change in Net Position</b>				
	2019	2018	Change	Percent Change
<b>Revenues</b>				
Operating Revenue	\$ 9,443,699	\$ 9,315,486	\$ 128,213	1.38%
<b>Operating Expenses</b>				
Salaries and Benefits	2,431,730	2,540,801	(109,071)	-4.29%
Plant Operations	817,482	799,129	18,353	2.30%
Repairs and Maintenance	91,896	242,886	(150,990)	-62.16%
Permit Testing and Monitoring	68,430	53,508	14,922	27.89%
Utilities and Telephone	302,514	277,659	24,855	8.95%
General Administration	298,923	387,363	(88,440)	-22.83%
Depreciation	2,194,231	2,190,449	3,782	0.17%
<b>Total Operating Expenses</b>	6,205,206	6,491,795	(286,589)	-4.41%
<b>Operating Income (Loss)</b>	3,238,493	2,823,691	414,802	14.69%
Nonoperating Revenue (Expense)	354,239	134,037	220,202	164.28%
Connection Fees	6,130	-	6,130	0.00%
<b>Change in Net Position</b>	3,598,862	2,957,728	641,134	21.68%
<b>Beginning Net Position</b>	41,213,783	39,873,189	1,340,594	3.36%
Prior Period Adjustment	-	(1,617,134)	1,617,134	100.00%
Beginning Net Position - As Adjusted	41,213,783	38,256,055	2,957,728	7.73%
<b>Ending Net Position</b>	\$ 44,812,645	\$ 41,213,783	\$ 3,598,862	8.73%

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-Marin City Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

### CAPITAL ASSETS

Table 3 shows June 30, 2019 capital asset balances as compared to June 30, 2018.

<b>Table 3 - Summary of Capital Assets Net of Depreciation</b>				
	2019	2018	Change	Percentage Change
Construction in Progress	\$ 18,353,300	\$ 10,264,700	\$ 8,088,600	78.80%
Original conveyance and treatment facilities	1,351,041	1,375,605	(24,564)	-1.79%
Secondary treatment plant	6,648,621	6,788,997	(140,376)	-2.07%
General equipment, facility upgrade and renewal	10,996,428	11,678,631	(682,203)	-5.84%
Conveyance system upgrade and renewal	8,273,613	8,782,136	(508,523)	-5.79%
Collection system upgrade	867,734	1,093,205	(225,471)	-20.62%
Office Equipment	47,012	62,510	(15,498)	-24.79%
<b>Total Capital Assets - Net</b>	<b>\$ 46,537,749</b>	<b>\$ 40,045,784</b>	<b>\$ 6,491,965</b>	<b>16.21%</b>

### LONG TERM LIABILITIES

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

<b>Table 4 - Summary of Long-term Liabilities</b>				
	2019	2018	Change	Percentage Change
Note Payable - City National Bank	\$ 1,651,318	\$ 1,800,280	\$ (148,962)	-8.27%
2017 Revenue Bond	31,985,000	32,810,000	(825,000)	-2.58%
2017 Revenue Bond Premium	1,631,286	1,727,244	(95,958)	-5.88%
2017 Revenue Bond Reserve Surety	2,159,600	2,159,600	-	0.00%
State Water Resources Control	1,612,888	1,716,076	(103,188)	-6.01%
Net OPEB Liability	159,771	2,143,737	(1,983,966)	-92.55%
Net Pension Liability	3,349,975	3,401,917	(51,942)	-1.53%
Compensated Absences	126,263	121,627	4,636	3.81%
<b>Total Long-term Liabilities</b>	<b>\$ 42,676,101</b>	<b>\$ 45,880,481</b>	<b>\$ (3,204,380)</b>	<b>-6.98%</b>

### CAPITAL PROJECTS

The District invested \$1,077,150 on its capital program to renew infrastructure during the fiscal year ending June 30, 2019. Of this total \$8,088,600 was spent on major capital projects and \$597,596 on depreciable capital projects as noted in Table 3. The following major capital project work was in progress or completed:

#### Projects In-Progress

##### Treatment and Wet Weather Flow Upgrade Project

Project construction began in June of 2016 and is currently anticipated to be complete by March of 2020. The total project cost including design, construction and management is estimated at \$26 million. The District successfully completed revenue bond sales to fund the project.

## Sausalito-Marín City Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

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The SMCS D Treatment and Wet Weather Flow Upgrade Project implements facility and process improvements to the existing treatment plant, including the addition of a headworks, new primary clarifier, secondary upgrades, tertiary polishing and equalization storage. The project has been developed to address regulatory compliance, plant operation, reliability, performance, and to reduce wet weather blending events for continuous flow of up to 9.0 MGD.

### Design of Whiskey Springs & Coloma Pump Stations Improvements Project

The SMCS D Coloma pump station will 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. The project design is 75% complete and construction is planned for FY 2018/2019 and FY 2019/2020 pending funding and permit approval from the City of Sausalito. Detailed design of the project was awarded to Carollo Engineers for \$452,418. Whiskey Springs improvements will be funded through a \$1.5 million funding agreement with the City of Sausalito. The remainder of the project costs will be funded by SMCS D.

### **BUDGETARY HIGHLIGHTS**

In Fiscal Year 19/20, the District originally estimated that a \$2.77 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 \$9.7 million, with actual revenues recorded at \$9.4 million. The difference between budgeted and actual revenues is primarily related to the TCS D deferred capital charges, increases in charges for services and better than anticipated investment returns.

#### **Expenditures**

The District's adopted and final expenditure budget was \$9.7 million. The actual expenditures totaled \$6.2 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 FY19/20 Projected Cash Balance is expected to be \$11,102,111. Of that total, the FY19/20 Projected Reserve (Policy) total is expected to be \$8,932,627. The FY19/20 Projected Working Capital is expected to be \$2,169,484 which includes the \$106,103 transfer to reserve. The following summarizes the District's budgeted reserves as of June 30, 2019:

Reserved for capital improvements	\$ 4,030,776
Reserved for operations	2,081,851
Reserved for disaster recovery	2,500,000
Reserved for renewal and replacement	220,000
Reserved for self insurance	100,000
Total reserves	<u>\$ 8,932,627</u>

## **Sausalito-Marín City Sanitary District**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

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### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

On July 8, 2019, the District adopted a new 5-year sewer service rate schedule through the Proposition 218 process. The new rate 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 human 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 planning to update our long-standing operation and maintenance service agreement with the City of Sausalito reflecting a more modern service agreement. The National Park Service and SMCSD recently signed a 32-year Plant Property and Road Access Right of Entry Lease Agreement which includes SMCSD provided wastewater services and support funded by a federal grant. Due to litigation, a Stipulation for Settlement Agreement is in place with the Tamalpais Community Services District pending the completion of an Amended and Restated Wastewater Services Agreement changing the calculation of their annual wastewater services charge to a rate-based approach.

On August 1, 2018 the District received a 5-year renewal of the National Pollutant Discharge Elimination System (NPDES) permit from the State Regional Water Quality Board. Evolving regulatory compliance standards to improve discharge water quality continue to pose challenges, both from an operational and permitting standpoint, along with continued funding requirements for needed capital infrastructure improvements.

In May 2019, the District approved the District's 2019-2024 Sewer System Management Plan (SSMP) which was a major revision from the 2013 SSMP. As required by the State Water Resources Control Board Order No. 2006-0003 Statewide General Waste Discharge Requirements for sanitary sewer systems, the SSMP elements contain plans and actions that directly address the management, operation, and maintenance of the SMCSD collection system designed to prevent SSOs and mitigate and properly report any SSOs that do occur.

Lastly, the District continues to focus on the key areas of the 2019-2024 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 is to provide interested parties with a general overview of the District's finances. 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, 2019

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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, 2019

Assets	2019
<b>Current Assets:</b>	
Cash and investments	\$ 17,051,692
Restricted cash and investments	19,128,882
Accounts receivable	206,417
Interest receivable	213,834
Prepaid expenses	15,748
TCSD receivable - current	404,929
Total Current Assets	37,021,502
<b>Noncurrent Assets:</b>	
Restricted cash and investments	44,681
Restricted bond reserve cash and investments	2,159,600
TCSD receivable	3,632,653
<b>Capital assets:</b>	
Non-depreciable	18,353,300
Depreciable capital assets - net	28,184,449
Total Capital Assets - Net	46,537,749
Total Noncurrent Assets - Net	52,374,683
Total Assets	\$ 89,396,185
 <b>Deferred Outflows of Resources</b>	
OPEB adjustments	\$ 155,879
Pension adjustments	820,115
Total Deferred Outflows of Resources	\$ 975,994
 <b>Liabilities</b>	
<b>Current Liabilities:</b>	
Accounts payable	\$ 2,054,749
Interest payable	453,294
Current portion of long-term Liabilities	1,275,092
Total Current Liabilities	3,783,135
<b>Noncurrent Liabilities:</b>	
Long-term liabilities, net of current portion	41,401,009
Total Liabilities	\$ 45,184,144
 <b>Deferred Inflows of Resources</b>	
OPEB adjustments	\$ 63,220
Pension adjustments	312,170
Total Deferred Inflows of Resources	\$ 375,390
 <b>Net Position</b>	
Net Investment in Capital Assets	\$ 34,215,049
Restricted for debt service	44,681
Unrestricted	10,552,915
Total Net Position	\$ 44,812,645

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, 2019

	2019
<b>Operating Revenues:</b>	
Service charges	\$ 6,368,328
TCSO service contract	2,893,082
Sausalito service contract	102,851
Other operating revenues	79,438
Total operating revenues	9,443,699
<b>Operating Expenses:</b>	
Salaries and benefits	2,431,730
Plant operations	817,482
Repairs and maintenance	91,896
Permit testing and monitoring	68,430
Depreciation and amortization	2,194,231
Utilities and telephone	302,514
General and administrative	298,923
Total operating expenses	6,205,206
Operating Income (Loss)	3,238,493
<b>Nonoperating Revenues (Expenses):</b>	
Interest and investment income	944,714
Interest expense	(1,440,654)
Other revenue (expenses)	145,510
Property taxes	704,669
Total nonoperating revenues (expenses)	354,239
Income (loss) before contributions	3,592,732
Capital contributions - connection fees	6,130
Change in net position	3,598,862
Beginning net position	41,213,783
Ending net position	\$ 44,812,645

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, 2019

	2019
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers and users	\$ 9,086,201
Cash payments to suppliers for goods and services	(1,039,107)
Cash payments to employees for services and benefits	(2,161,117)
Net Cash Provided (Used) by Operating Activities	<u>5,885,977</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Cash received from property taxes	704,669
Net Cash Provided (Used) by Noncapital Financing Activities	<u>704,669</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(7,828,126)
Principal paid on capital debt	(1,077,150)
Interest paid on capital debt	(1,283,808)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(10,182,954)</u>
<b>Cash Flows from Investing Activities:</b>	
Investment income	910,112
Net Cash Provided (Used) by Investing Activities	<u>910,112</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,682,196)
Cash and Cash Equivalents Beginning	<u>38,907,451</u>
Cash and Cash Equivalents Ending	<u>\$ 36,225,255</u>
<b>Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 3,238,493
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	2,194,231
(Increase) decrease in:	
Accounts receivable	442,444
Prepaid expenses	(336)
Deferred outflows of resources	2,103,524
TCSD receivable	(799,942)
Increase (decrease) in:	
Accounts payable	540,474
Net pension liabilities	(51,942)
Net OPEB liability	(1,983,966)
Deferred inflows of resources	198,361
Compensated absences	4,636
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,885,977</u>
<b>Summary of cash and cash equivalents:</b>	
Cash and cash equivalents	\$ 17,051,692
Restricted cash and cash equivalents	<u>19,173,563</u>
Total cash and cash equivalents	<u>\$ 36,225,255</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, 2019

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## **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, liabilities, and

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

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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 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.

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

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- 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.
- 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.

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

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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

#### *Long-Term Debt*

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



## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

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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, 2017
Measurement Date	July 1, 2018
Measurement Period	July 1, 2017 to June 30, 2018

#### *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	July 1, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

#### *Accounting Estimates*

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

#### *Property Taxes*

Property taxes were levied July 1, 2018 and were payable in two installments on November 1, 2018 and February 1, 2019. Property tax revenues are recognized as revenue when received. The County of Marin

# Sausalito-Marin City Sanitary District

## Notes to Financial Statements

June 30, 2019

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

	<u>Secured</u>	<u>Unsecured</u>
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)

### *Implemented New Accounting Pronouncements*

#### **GASB Statement No. 83, *Certain Asset Retirement Obligations***

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. As of June 30, 2019, this Statement did not have an impact on the District's financial statements.

#### **GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements***

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. As of June 30, 2019, this Statement did not have an impact on the District's financial statements.

### *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 are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't 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, 2019

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### **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 are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

### **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 are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't 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 are effective for financial statements for periods beginning after December 15, 2018. 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 doesn't 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, 2019

### **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 are effective for financial statements for periods beginning after December 15, 2020. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

### **NOTE 3 – CASH AND INVESTMENTS**

The District's cash and investments consisted of the following as of June 30, 2019:

Cash and Investments	Available for Operations	Restricted	Fair Value June 30, 2019
Cash:			
Cash in Banks	\$ 307,044	\$ -	\$ 307,044
Petty Cash	300	-	300
Cash with Fiscal Agent	-	2,159,600	2,159,600
Money Market	2,417,233	-	2,417,233
<u>Total Cash Deposits</u>	<u>2,724,577</u>	<u>2,159,600</u>	<u>4,884,177</u>
Investments:			
<u>State of California Local Agency Investment Fund</u>	<u>14,327,115</u>	<u>19,173,563</u>	<u>33,500,678</u>
<u>Total Cash and Investments</u>	<u>\$ 17,051,692</u>	<u>\$ 21,333,163</u>	<u>\$ 38,384,855</u>

Restricted cash and investments includes \$44,681 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 \$19,128,882 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 \$2,694,559, exceeded the insured limit by \$2,444,559 as of June 30, 2019. 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.

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

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#### *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, 2019:

- California Local Agency Investment Fund (LAIF) of \$33,352,872; valued using Level ½ inputs.
- Money Market of \$2,417,233; valued using Level 2 inputs.

#### *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, 2019, was approximately \$105.7 billion. Of that amount, 99.26% is invested in non-derivative financial products and .74% in structured notes and asset-backed securities. The balance in LAIF is available for withdrawal on demand.

## Sausalito-Marin City Sanitary District

### Notes to Financial Statements

June 30, 2019

#### *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, 2019.

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.

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

- *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 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, 2019, 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, 2019:

Capital Assets	Balance June, 30 2018	Additions	Deletions	Balance June 30, 2019
<b>Non-depreciable Capital Assets:</b>				
Construction in progress	\$ 10,264,700	\$ 8,088,600	\$ -	\$ 18,353,300
<b>Total Non-depreciable Capital Assets</b>	<b>10,264,700</b>	<b>8,088,600</b>	<b>-</b>	<b>18,353,300</b>
<b>Depreciable Capital Assets:</b>				
Original conveyance and treatment facilities	2,456,434	-	-	2,456,434
Secondary treatment plant	11,148,055	-	-	11,148,055
General equipment, facility upgrade and renewal	18,862,895	545,567	-	19,408,462
Conveyance system upgrade and renewal	13,718,497	52,029	-	13,770,526
Collection system upgrade	2,314,695	-	-	2,314,695
Office equipment	186,829	-	-	186,829
<b>Total Depreciable Capital Assets</b>	<b>48,687,405</b>	<b>597,596</b>	<b>-</b>	<b>49,285,001</b>
<b>Less Accumulated Depreciation for:</b>				
Original conveyance and treatment facilities	1,080,829	24,564	-	1,105,393
Secondary treatment plant	4,359,058	140,376	-	4,499,434
General equipment, facility upgrade and renewal	7,184,264	1,227,769	-	8,412,033
Conveyance system upgrade and renewal	4,936,361	560,553	-	5,496,914
Collection system upgrade	1,221,490	225,471	-	1,446,961
Office equipment	124,319	15,498	-	139,817
<b>Total Accumulated Depreciation</b>	<b>18,906,321</b>	<b>2,194,231</b>	<b>-</b>	<b>21,100,552</b>
<b>Total Depreciable Capital Assets - Net</b>	<b>29,781,084</b>	<b>(1,596,635)</b>	<b>-</b>	<b>28,184,449</b>
<b>Total Capital Assets - Net</b>	<b>\$ 40,045,784</b>	<b>\$ 6,491,965</b>	<b>\$ -</b>	<b>\$ 46,537,749</b>

Depreciation expense for the year ended June 30, 2019 was \$2,194,231.

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

#### NOTE 5 – LONG-TERM LIABILITIES

The District’s long-term liabilities consisted of the following as of June 30, 2019:

<u>Long-term Liabilities</u>	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
Note Payable - Change to Direct Borrowing	\$ 1,800,280	\$ -	\$ 148,962	\$ 1,651,318	\$ 155,132
2017 Revenue Bond	32,810,000	-	825,000	31,985,000	855,000
2017 Revenue Bond Premium	1,727,244	-	95,958	1,631,286	95,958
2017 Revenue Bond Reserve Surety	2,159,600	-	-	2,159,600	-
State Water Resources Control - Direct Borrowing	1,716,076	-	103,188	1,612,888	105,871
Net OPEB Liability	2,143,737	1,335,345	3,319,311	159,771	-
Net Pension Liability	3,401,917	1,341,660	1,393,602	3,349,975	-
Compensated Absences	121,627	4,636	-	126,263	63,132
Total Long-term Liabilities	<u>\$ 45,880,481</u>	<u>\$ 2,681,641</u>	<u>\$ 5,886,021</u>	<u>\$ 42,676,101</u>	<u>\$ 1,275,092</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, 2019:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 155,132	\$ 66,129	\$ 221,261
2021	161,558	59,703	221,261
2022	168,250	53,012	221,262
2023	175,219	46,044	221,263
2024	182,476	38,786	221,262
2025 - 2029	808,683	76,367	885,050
Total Debt Service	<u>\$ 1,651,318</u>	<u>\$ 340,041</u>	<u>\$ 1,991,359</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 beginning through the fiscal year 2032.



## Sausalito-Marin City Sanitary District

### Notes to Financial Statements

June 30, 2019

The District's debt service requirements on the State Water Resource Control Board loan were as follows as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 105,871	\$ 41,935	\$ 147,806
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 - 2029	633,962	105,067	739,029
2030 - 2032	421,321	22,096	443,417
Total Debt Service	<u>\$ 1,612,888</u>	<u>\$ 308,586</u>	<u>\$ 1,921,474</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 1<sup>st</sup> and interest payable semi-annually on April 1<sup>st</sup> and October 1<sup>st</sup>. 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, 2019.

The District's debt service requirements for the 2017 Revenue Bonds were as follows as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 855,000	\$ 1,279,400	\$ 2,134,400
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 - 2029	5,760,000	5,017,200	10,777,200
2030 - 2034	7,010,000	3,769,200	10,779,200
2035 - 2039	8,540,000	2,249,800	10,789,800
2040 - 2044	5,990,000	485,400	6,475,400
Total Debt Service	<u>\$ 31,985,000</u>	<u>\$ 17,561,200</u>	<u>\$ 49,546,200</u>

# Sausalito-Marin City Sanitary District

## Notes to Financial Statements

June 30, 2019

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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.

In addition, the District has entered into construction and service contracts with various organizations. As of June 30, 2019, the District's total commitment for these contracts was \$7,387,110.

### 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, 2018 (most recent information available):

	<u>June 30, 2018</u>
Total Assets	\$ 25,703,119
Total Liabilities	17,997,369
Total Equity	7,705,750
Total Revenues	10,453,421
Total Expenditures	13,926,188

### 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 employer 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.

**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

## Sausalito-Marin City Sanitary District

### Notes to Financial Statements

June 30, 2019

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, 2019, are summarized as follows:

	Miscellaneous	
	Tier 1	PEPRA
Benefit formula	2% @ 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 2.5%	2.00%
Required employee contribution rates	8.000%	6.250%
Required employer contribution rates	13.386%	6.842%

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, 2019, the District contributed \$263,939 into the plan.

During the fiscal year, employees contributed 8% (Classic) and 6.5% (PEPRA) of the contributions. The District contributed its required 13.386% for Classic and 6.842% for PEPRA bringing the total contributions to 21.428% for Classic and 13.386% for PEPRA.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability of \$3,349,975. The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, 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, 2017 rolled forward to June 30, 2018 using

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

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, 2018 and 2019 was as follows:

	<b>Miscellaneous</b>
Proportion - June 30, 2018	0.08630%
Proportion - June 30, 2019	0.08889%
Change - Increase/(Decrease)	0.00259%

For the year ended June 30, 2019, the District recognized pension expense of \$517,203. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of Assumptions	\$ 381,907	\$ 93,598
Differences between Expected and Actual Experience	128,534	43,739
Differences between Projected and Actual Investment Earnings	16,561	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	120,315
Change in Employer's Proportion	29,174	54,518
Pension Contributions Made Subsequent to Measurement Date	263,939	-
<b>Total</b>	<b>\$ 820,115</b>	<b>\$ 312,170</b>

The District reported \$263,939 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Fiscal Year Ending June 30:</b>	<b>Deferred Outflows/ (Inflows) of Resources</b>
2020	\$ 274,438
2021	133,290
2022	(133,591)
2023	(30,131)
2024	-
Thereafter	-
<b>Total</b>	<b>\$ 244,006</b>

# Sausalito-Marín City Sanitary District

## Notes to Financial Statements

June 30, 2019

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**Actuarial Assumptions** – The total pension liabilities in the June 30, 2017 actuarial valuation were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
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 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.

## Sausalito-Marin City Sanitary District

### Notes to Financial Statements

June 30, 2019

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	<u>100.00%</u>		

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity 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	\$ 5,024,568
Current	7.15%
Net Pension Liability	\$ 3,349,975
1% Increase	8.15%
Net Pension Liability	\$ 1,967,626

**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

# Sausalito-Marín City Sanitary District

## Notes to Financial Statements

June 30, 2019

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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 retirees 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 July 1, 2017 (the valuation date), the benefit terms covered the following employees:

Active employees	12
Inactive employees	13
<b>Total employees</b>	<u>25</u>

#### *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 \$147,160. Total benefit payments included in the measurement period were \$2,212,454. The actuarially determined contribution for the measurement period was \$250,037. The District's contributions were 10.61% of

# Sausalito-Marín City Sanitary District

## Notes to Financial Statements

June 30, 2019

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covered payroll during the measurement period June 30, 2018 (reporting 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:

<b>Valuation Date:</b>	July 1, 2017
<b>Measurement Date:</b>	June 30, 2018
<b>Actuarial Cost Method:</b>	Entry-Age Normal
<b>Amortization Period:</b>	20 years
<b>Asset Valuation Method:</b>	Level percentage of payroll, closed
<b>Actuarial Assumptions:</b>	
<b>Discount Rate</b>	6.73%
<b>Inflation</b>	2.75%
<b>Salary Increases</b>	3.000%
<b>Healthcare Trend Rate</b>	5.50%
<b>Investment Rate of Return</b>	6.73%, Net of OPEB plan investment expenses, including inflation
<b>Mortality</b>	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous"
<b>Retirement</b>	Rx PA Misc 2% @ 55
<b>Service Requirement</b>	Either pension eligibility or Section 22893 depending on hire date and employee choice

### *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.



## Sausalito-Marin City Sanitary District

### Notes to Financial Statements

June 30, 2019

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

<u>Asset Class</u>	<u>Percentage of Portfolio</u>	<u>Long-Term Expected Rate of Return</u>
Global Equity	40.00%	7.795%
Fixed Income	43.00%	7.795%
Treasury Inflation-Protected Securities (TIPS)	5.00%	5.295%
Real Estate Investment Trusts (REITs)	8.00%	4.500%
Commodities	4.00%	7.795%
<b>Total</b>	<b>100.00%</b>	

#### *Net OPEB Liability (NOL)*

The District's net OPEB liability was measured as of June 30, 2018 (measurement date), and the total OPEB liability (TOL) used to calculate the net OPEB liability (NOL) was determined by an actuarial valuation as of July 1, 2017 (valuation date) for the fiscal year ended June 30, 2019 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2019:

<u>Fiscal Year Ended June 30, 2019 (Measurement Date June 30, 2018)</u>	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability (Asset)</u>
<b>Balance at June 30, 2018</b>	\$ 2,572,756	\$ 429,019	\$ 2,143,737
Service cost	75,168	-	75,168
Interest in Total OPEB Liability	166,877	-	166,877
Employer contributions	-	2,212,454	(2,212,454)
Actual investment income	-	14,298	(14,298)
Administrative expenses	-	(741)	741
Benefit payments	(186,322)	(186,322)	-
<b>Net changes</b>	<b>55,723</b>	<b>2,039,689</b>	<b>(1,983,966)</b>
<b>Balance at June 30, 2019</b>	<b>\$ 2,628,479</b>	<b>\$ 2,468,708</b>	<b>\$ 159,771</b>
Covered Employee Payroll	\$ 1,387,443		
Total OPEB Liability as a % of Covered Employee Payroll	189.45%		
Plan Fid. Net Position as a % of Total OPEB Liability	93.92%		
Service Cost as a % of Covered Employee Payroll	5.42%		
Net OPEB Liability as a % of Covered Employee Payroll	11.52%		

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

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#### *Deferred Inflows and Outflows of Resources*

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between actual and expected experience	\$ -	\$ 63,220
Difference between actual and expected earnings	8,719	-
Change in assumptions	-	-
OPEB contribution subsequent to measurement date	147,160	-
<b>Totals</b>	<b>\$ 155,879</b>	<b>\$ 63,220</b>

Of the total amount reported as deferred outflows of resources related to OPEB, \$155,879 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, 2019.

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

Year Ended June 30,	
2020	\$ (3,561)
2021	(3,561)
2022	(3,561)
2023	(2,589)
2024	(5,497)
Thereafter	(35,732)
<b>Total</b>	<b>\$ (54,501)</b>

#### *OPEB Expense*

The following summarizes the OPEB expense by source during the year ended June 30, 2019:

Service cost	\$ 75,168
Interest in TOL	166,877
Expected investment income	(28,848)
Difference between actual and expected experience	(5,497)
Difference between actual and expected earnings	1,936
Administrative expenses	741
<b>OPEB Expense</b>	<b>\$ 210,377</b>

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2019:

Net OPEB liability ending	\$ 159,771
Net OPEB liability beginning	(2,143,737)
Change in net OPEB liability	<u>(1,983,966)</u>
Changes in deferred outflows	(12,614)
Changes in deferred inflows	63,220
Employer contributions and implicit subsidy	<u>2,143,737</u>
<b>OPEB Expense</b>	<b><u>\$ 210,377</u></b>

#### *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 )	6.73%	(1% Increase )
Net OPEB Liability (Asset)	\$ 504,065	\$ 159,771	\$ (122,370)

#### *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 )	3.84%	(1% Increase )
Net OPEB Liability (Asset)	\$ (147,613)	\$ 159,771	\$ 537,447

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

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

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#### *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)*

The District and TCSD approved the current agreement in 2013. The agreement is valid for a 30-year term to expire in 2043. The District annually estimates TCSD’s allocated share of total operation & maintenance and capital improvement expenses for their use of the SMCSO wastewater conveyance and treatment system. The estimate is done during the annual fiscal year budget process. The budget and TCSD’s annual estimated charge is adopted by the Board. SMCSO invoices TCSD quarterly for the estimated annual charge. Following the District’s annual fiscal year audit by our CPA, the District reconciles the Estimated Annual Charge versus Actual Annual Charge utilizing a mutually agreed upon financial professional to calculate their proportional share of the actual annual expense. SMCSO invoices or credits TCSD for the difference. The District calculated the Actual Annual Charge for Fiscal Year 2018/19 to be \$2,347,625. Due to litigation, a Stipulation for Settlement Agreement is in place with Tamalpais Community Services District pending the completion of an Amended and Restated Wastewater Services Agreement changing their calculation and annual charge for wastewater services to to be a rate-based approach. The Invoice for FY 2019/20 was calculated in this manner.

Over the past several years, the District has loaned funds to TCSD by deferring the annual cash funded capital expenses. As of June 30, 2019, TCSD owed the District \$3,077,582 for deferred capital expenses, which is reported in the District’s financial statements as a receivable. As of June 30, 2019, TCSD’s debt service total consisted of cash funded capital deferrals of \$2,365,918 and an Inter-District Loan balance of \$711,664. Through this agreement TCSD also pays \$121,156 annually for their portion of capital expenses funded by a City National Bank Loan and State Revolving Loan. Beginning in FY17/18 TCSD begin paying \$725,804 annually for their portion of a 25-year revenue bond funding the plant upgrade requirements of the 2008 EPA order to increase the system capacity for their respective percentage of wet weather flow. The following schedule summarizes the capital deferral receivable:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 111,387	\$ 72,468	\$ 183,855
2021	114,799	69,057	183,856
2022	118,315	65,539	183,854
2023	121,939	61,917	183,856
2024	125,674	58,181	183,855
2025-2029	688,523	230,751	919,274
2030-2034	800,630	118,644	919,274
2035-2038	284,651	17,857	302,508
<u>Total Debt Service</u>	<u>\$ 2,365,918</u>	<u>\$ 694,414</u>	<u>\$ 3,060,332</u>

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2019

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The following schedule summarizes the Inter-District receivable:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 53,542	\$ 21,350	\$ 74,892
2021	55,148	19,744	74,892
2022	56,803	18,089	74,892
2023	58,507	16,385	74,892
2024	60,262	14,630	74,892
2025-2029	329,537	44,923	374,460
2030	97,865	3,713	101,578
<u>Total Debt Service</u>	<u>\$ 711,664</u>	<u>\$ 138,834</u>	<u>\$ 850,498</u>

In October of 2018, the District received a \$1,200,000 mediation settlement related to amounts owed the District by TCSD for actual District costs incurred to provide services in prior years. The settlement will be paid twice a year over a five-year period at \$240,000 per year, through the fiscal year ending 2023. There is no interest on the settlement, however, there is a ten percent annual penalty for late payments. During the year ended June 30, 2019, the District received a payment of \$240,000. As of June 30, 2019, the outstanding receivable was \$960,000. The entire settlement amount was reported as operating revenue in 2018-19.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**Sausalito-Marín City Sanitary District**  
**Schedule of CalPERS Pension Plan Contributions**  
**June 30, 2019**

**Miscellaneous Plan**

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

**Notes to Schedule:**

Valuation Date: June 30, 2017  
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 five 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 was adjusted in fiscal year 2019.



**Sausalito-Marín City Sanitary District**  
**Schedule of CalPERS Proportionate Share of Net Pension Liability**  
**June 30, 2019**

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<b>Miscellaneous Plan</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Plan Measurement Date	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Fiscal Year Ended	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Proportion of Net Pension Liability	0.08889%	0.08630%	0.08532%	0.06791%	0.07119%
Proportionate Share of Net Pension Liability	\$ 3,349,975	\$ 3,401,917	\$ 2,964,080	\$ 1,863,054	\$ 1,759,386
Covered Payroll	\$ 1,387,443	\$ 1,032,559	\$ 1,044,426	\$ 1,147,300	\$ 1,112,881
<b>Proportionate Share of NPL as a % of Covered Payroll</b>	<b>241.45%</b>	<b>329.46%</b>	<b>283.80%</b>	<b>162.39%</b>	<b>158.09%</b>
<b>Plan's Fiduciary Net Position as a % of the TPL</b>	<b>72.94%</b>	<b>71.39%</b>	<b>72.86%</b>	<b>77.84%</b>	<b>81.15%</b>

Fiscal year 2015 was the first year of implementation, therefore only five 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 was adjusted in fiscal year 2019.

**Sausalito-Marin City Sanitary District**  
**Schedule of OPEB Contributions**  
**June 30, 2019**

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

**Notes to Schedule:**

*Assumptions and Methods*

Valuation Date:	July 1, 2017
Measurement Date:	June 30, 2018
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	20 years
Asset Valuation Method:	Level percentage
Actuarial Assumptions:	
Discount Rate	6.73%
Inflation	2.750%
Salary Increases	3.000%
Healthcare Trend Rate	5.50%
Investment Rate of Return	6.73%, Net of OPEB plan investment expenses, including inflation
Mortality	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous"
Retirement	Rx PA Misc 2% @ 55
Service Requirement	Either pension eligibility or Section 22893 depending on hire date and employee choice

*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 not changes in benefit terms.

There were no changes in discount rates, trend rates or assumptions.

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, 2019**

<b>Fiscal Year Ended</b>	<u><b>2018</b></u>	<u><b>2019</b></u>
<b>Total OPEB liability</b>		
Service cost	\$ 72,979	\$ 75,168
Interest	163,427	166,877
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Benefit payments	(183,982)	(186,322)
Implicit subsidy fulfilled	-	-
Net change in Total OPEB Liability	<u>52,424</u>	<u>55,723</u>
Total OPEB Liability - beginning	<u>2,520,332</u>	<u>2,572,756</u>
Total OPEB Liability - ending	<u>\$ 2,572,756</u>	<u>\$ 2,628,479</u>
<b>Plan fiduciary net position</b>		
Employer contributions	\$ 311,200	\$ 2,212,454
Employer implicit subsidy	-	-
Employee contributions	-	-
Net investment income	23,597	14,298
Difference between estimated and actual earnings	-	-
Benefit payments	(183,982)	(186,322)
Implicit subsidy fulfilled	-	-
Other	-	-
Administrative expense	<u>(159)</u>	<u>(741)</u>
Net change in plan fiduciary net position	150,656	2,039,689
Plan fiduciary net position - beginning	<u>278,363</u>	<u>429,019</u>
Plan fiduciary net position - ending	<u>\$ 429,019</u>	<u>\$ 2,468,708</u>
Net OPEB liability (asset)	\$ 2,143,737	159,771
Plan fiduciary net position as a percentage of the total OPEB liability	16.68%	93.92%
Covered Employee Payroll	\$ 1,333,613	\$ 1,338,389
Net OPEB liability as a percentage of covered employee payroll	160.75%	11.94%
Total OPEB liability as a percentage of covered employee payroll	192.92%	196.39%

*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 not changes in benefit terms.

There were no changes in discount rates, trend rates or assumptions.

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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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 23, 2019.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control 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

December 23, 2019  
San Jose, California