



Sausalito-Marín City Sanitary District  
Governing Board and Management  
Sausalito, California

In planning and performing our audit of the financial statements of Sausalito-Marín City Sanitary District as of and for the year ended June 30, 2023, 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, we considered Sausalito-Marín City Sanitary District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sausalito-Marín City Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Sausalito-Marín City Sanitary District's internal control over financial reporting.

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 over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*: The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*: The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

The following is a summary of new accounting pronouncements from the Governmental Accounting Standards Board:

***GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62, effective fiscal 2024.***

This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB 100 also requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. And GASB 100 addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI).



**GASB Statement No. 101, *Compensated Absences, effective fiscal 2025.***

Updates the recognition and measurement guidance for compensated absences by:

1. Aligning the recognition and measurement guidance under a unified model
2. Amending certain previously required disclosures
3. Amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability
4. Supersedes GASB 16

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Respectfully,

October 18, 2023  
Morgan Hill, California

**SAUSALITO-MARIN CITY SANITARY DISTRICT**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2023**



**Chavan & Associates, LLP**  
Certified Public Accountants  
1475 Saratoga Ave, Suite 180  
San Jose, CA 95129

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Sausalito-Marin City Sanitary District

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June 30, 2023

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the 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, 2023 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Sausalito-Marín City Sanitary District, as of June 30, 2023, 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.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Responsibilities of Management for the Financial Statements

District management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material



misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2023 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.



Chavan and Associates, LLP  
Certified Public Accountants

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C & A LLP

October 18, 2023  
Morgan Hill, California

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# Sausalito-Marin City Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

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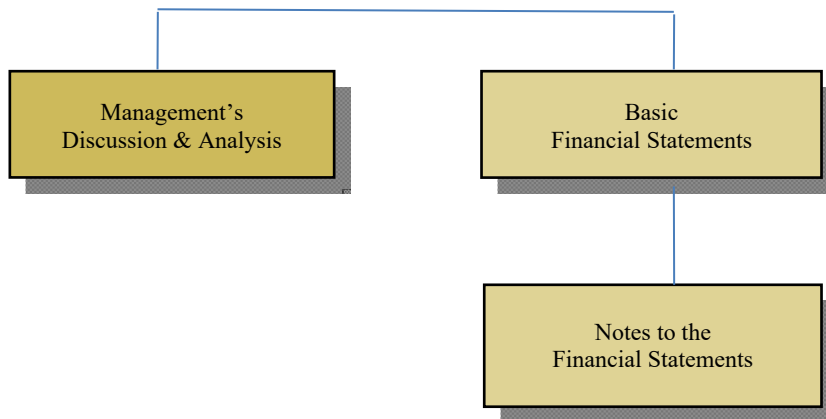
## INTRODUCTION

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, 2023. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

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

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

### Required Components of the Annual Financial Report



## ORGANIZATION AND BUSINESS

The Sausalito-Marin City Sanitary District (SMCSD) is governed by an elected five-member Board of Directors and provides wastewater conveyance and treatment service to the City of Sausalito and wastewater collection, conveyance and treatment service to Marin City and other unincorporated areas within the District's boundaries. Wastewater conveyance and treatment is provided through a wastewater services agreement to Tamalpais Community Services District (TCS) which includes Muir Woods National Monument. Wastewater treatment is also provided to National Parks Service which includes Forts Baker, Barry and Cronkhite, Marine Mammal Center and Cavallo Point Resort in exchange for the District's use of the treatment plant property. It serves approximately 10,000 Equivalent Dwelling Units

## Sausalito-Marín City Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

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(EDUs) and a population of approximately 18,000. 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, on behalf of all ratepayers, a wastewater treatment plant designed to fully treat wastewater under: Primary (I), Secondary (II) and Tertiary (III) treatment levels up to 1.8 million gallons per day (MGD) during average dry weather flow. During wet weather flow, the plant is designed to hydraulically handle up to 12 MGD and can treat up to 9 MGD of full secondary treatment and up to 6 MGD of tertiary treatment. The conveyance system consists of eleven sewage pump stations, and approximately eleven miles of pipelines. The District owns and operates 7 stations and operates and maintains, under a service agreement, 4 stations on behalf of the City of Sausalito. There are twelve (12) approved full-time staff with 10 positions currently filled. Our operations and 5-year Capital Improvements Program (CIP) are funded by a 5-year sewer rate plan (FY 2018/19 to FY 2023/24).

### FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2023 were as follows:

- Total net position increased by \$1,905,849 (3.83%) which included an increase in unrestricted net position of \$1,940,515 (8.15%).
- The District recorded deferred outflows of resources of \$4,082,841 and deferred inflows of resources of \$4,107,341 in order to report the different components required by GASB 68 and GASB 75 for pension and benefit accounting and reporting. Deferred outflows of resources are not assets but increase the Statement of Net Position similar to an asset and deferred inflows of resources are not liabilities but decrease the Statement of Net Position similar to liabilities. See Note 2 in the notes to financial statements for a definition.
- Noncurrent assets decreased by \$1,126,356 (1.74%) mostly from depreciation in excess of capital additions of \$1,097,187.
- Operating revenue increased by \$473,540 (5.04%) primarily due to an increase of \$677,413 in service charges.
- Total operating expenses decreased by \$434,567 (5.19%) mostly because of decreases in salaries, benefits and depreciation and amortization expenses. Salaries and benefits expenses decreased by \$331,873 mostly because of reductions to pension and other postemployment benefit costs.

# Sausalito-Marín City Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

## 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 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, 2023 as compared to June 30, 2022:

**Table 1 - Summary Statement of Net Position**

	2023	2022	Change	Percentage Change
<b>Assets</b>				
Current Assets	\$ 28,398,508	\$ 24,729,432	\$ 3,669,076	14.84%
Noncurrent Assets	63,581,064	64,707,420	(1,126,356)	-1.74%
<b>Total Assets</b>	<b>\$ 91,979,572</b>	<b>\$ 89,436,852</b>	<b>\$ 2,542,720</b>	<b>2.84%</b>
<b>Deferred Outflows</b>				
Deferred Outflows	\$ 4,082,841	\$ 4,547,619	\$ (464,778)	-10.22%
<b>Liabilities</b>				
Current Liabilities	\$ 2,410,357	\$ 1,625,650	\$ 784,707	48.27%
Noncurrent Liabilities	37,819,716	39,471,876	(1,652,160)	-4.19%
<b>Total Liabilities</b>	<b>\$ 40,230,073</b>	<b>\$ 41,097,526</b>	<b>\$ (867,453)</b>	<b>-2.11%</b>
<b>Deferred Inflows</b>				
Deferred Inflows	\$ 4,107,341	\$ 3,067,795	\$ 1,039,546	33.89%
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 25,965,074	\$ 25,954,933	\$ 10,141	0.04%
Restricted	-	44,807	(44,807)	-100.00%
Unrestricted	25,759,925	23,819,410	1,940,515	8.15%
<b>Total Net Position</b>	<b>\$ 51,724,999</b>	<b>\$ 49,819,150</b>	<b>\$ 1,905,849</b>	<b>3.83%</b>

## Sausalito-Marin City Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

Table 2 shows the changes in net position for fiscal year 2023 as compared to 2022.

<b>Table 2 - Change in Net Position</b>				
	2023	2022	Change	Percent Change
<b>Revenues</b>				
Operating Revenue	\$ 9,867,053	\$ 9,393,513	\$ 473,540	5.04%
<b>Operating Expenses</b>				
Salaries and Benefits	3,225,756	3,557,629	(331,873)	-9.33%
Plant Operations	899,106	722,141	176,965	24.51%
Repairs and Maintenance	71,087	73,421	(2,334)	-3.18%
Permit Testing and Monitoring	77,004	60,653	16,351	26.96%
Utilities and Telephone	407,973	362,246	45,727	12.62%
General Administration	249,152	391,308	(142,156)	-36.33%
Depreciation and Amortization	3,014,010	3,211,257	(197,247)	-6.14%
<b>Total Operating Expenses</b>	<b>7,944,088</b>	<b>8,378,655</b>	<b>(434,567)</b>	<b>-5.19%</b>
<b>Operating Income (Loss)</b>	<b>1,922,965</b>	<b>1,014,858</b>	<b>908,107</b>	<b>89.48%</b>
Nonoperating Revenue (Expense)	(17,116)	69,171	(86,287)	-124.74%
<b>Change in Net Position</b>	<b>1,905,849</b>	<b>1,084,029</b>	<b>821,820</b>	<b>75.81%</b>
<b>Beginning Net Position</b>	<b>49,819,150</b>	<b>49,159,331</b>	<b>659,819</b>	<b>1.34%</b>
Prior Period Adjustment	-	(424,210)	424,210	-100.00%
Beginning Net Position - As Adjusted	49,819,150	48,735,121	1,084,029	2.22%
<b>Ending Net Position</b>	<b>\$ 51,724,999</b>	<b>\$ 49,819,150</b>	<b>\$ 1,905,849</b>	<b>3.83%</b>

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.

### CAPITAL ASSETS

Table 3 shows June 30, 2023 capital asset balances as compared to June 30, 2022.

<b>Table 3 - Summary of Capital Assets Net of Depreciation</b>				
	2023	2022	Change	Percentage Change
Construction in Progress	\$ 1,324,019	\$ 8,341,425	\$ (7,017,406)	-84.13%
Original conveyance and treatment facilities	1,252,785	1,277,349	(24,564)	-1.92%
Secondary treatment plant	6,064,082	6,197,642	(133,560)	-2.16%
General equipment, facility upgrade and renewal	34,891,741	34,448,745	442,996	1.29%
Conveyance system upgrade and renewal	12,544,386	6,673,171	5,871,215	87.98%
Collection system upgrade	130,817	262,768	(131,951)	-50.22%
Office Equipment	13,507	19,220	(5,713)	-29.72%
Right of use assets	3,910,515	4,066,936	(156,421)	-3.85%
<b>Total Capital Assets - Net</b>	<b>\$ 60,131,852</b>	<b>\$ 61,287,256</b>	<b>\$ (1,155,404)</b>	<b>-1.89%</b>

## Sausalito-Marín City Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

### LONG TERM LIABILITIES

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

**Table 4 - Summary of Long-term Liabilities**

	2023	2022	Change	Percentage Change
2017 Revenue Bond	\$ 28,325,000	\$ 29,310,000	\$ (985,000)	-3.36%
2017 Revenue Bond Premium	1,402,464	1,472,587	(70,123)	-4.76%
2017 Revenue Bond Reserve Surety	2,159,600	2,159,600	-	0.00%
NPS Lease Liability	4,448,314	4,549,736	(101,422)	-2.23%
Net OPEB Liability	846,715	587,069	259,646	44.23%
Net Pension Liability	1,774,774	2,481,510	(706,736)	-28.48%
Compensated Absences	126,233	121,728	4,505	3.70%
Total Long-term Liabilities	\$ 39,083,100	\$ 40,682,230	\$ (1,599,130)	-3.93%

### CAPITAL PROJECTS

The District invested \$1,916,822 in its capital program to renew infrastructure during the fiscal year ending June 30, 2023. Of this total \$621,808 was spent on major capital projects and \$1,295,014 on depreciable capital projects as noted in Table 3.

The following major capital project work was in progress or completed:

#### Completed

##### **Coloma Pump Station Replacement Project:**

The SMCS D Coloma Pump Station replaced the District's existing Scotties Pump Station and integrated the Whiskey Springs Pump Station, which is owned by the City of Sausalito but operated and maintained by the District, for improved access, capacity and reliability of both pump stations.

The new Coloma Pump Station has a firm capacity of 4.2 MGD in order to increase system conveyance capacity and mitigate potential sanitary sewer overflows (SSOs) during peak storm events. This project also improved safety and reliability as the existing pump station controls were aging and the wet well required confined entry for maintenance.

##### **Generator Reliability Improvements Project:**

This project replaced four of the District's emergency backup generators and one City owned generator, added generators to two City owned stations, procured a portable generator and replaced the control panel at the District's Princess Pump Station (PS). Generators maintain reliability of the collection system, the conveyance systems and the treatment plant during power outages. Relocation and renewal of the Princess PS control panel improves reliability and safety as the existing control panel was aging and located on a deteriorating dock.

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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

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### **In-Progress**

#### **Operations Center and Laboratory Remodel Project:**

The operations building is being remodeled to provide better working space for the control room and lab. A new operations office has been completed utilizing the old break room. A temporary lab has been implemented in the District's garage to support operations during construction. Construction has begun with completion planned by late September.

#### **Primary Digester Heating System Replacement Project:**

This project replaces the District's primary digester heating system in its entirety. The existing heating system has reached the end of its useful life due to corrosion and wear. District staff is currently working with vendors to obtain cost estimates and sizing of equipment. Due to space constraints it is highly desirable to re-use the existing boiler location. The project's scope of work will include a temporary heating system to maintain Digester operations during construction. Installation is planned for FY 2023/2024 pending delivery of new equipment.

#### **South Clarifier and Headworks Gates Rehabilitation Project:**

This project rehabilitates the District's existing clarifier providing increased capacity and redundancy for primary treatment. Enhanced odor control is included in the project scope to reduce odors during warm weather periods. In addition, several of the gates installed in the new headworks require replacement as non-compliant gates were installed by the Contractor during the recent Upgrade Project. New gates will be installed to satisfy leak rate requirements which are necessary for maintenance and to allow for certain modes of operation. The project is planned to bid in November 2023.

#### **Beach Force Main Rehabilitation Project:**

This project will provide force main redundancy from the Main Street Pump Station to improve conveyance system reliability, allow for inspection and cleaning of the Alexander Avenue force main and reduce electricity costs. The existing Beach Force Main will be slip lined and additional pumps and controls installed at the Main Street PS. Permit applications are currently in review by the City of Sausalito and Bay Conservation and Development Commission (BCDC). The City of Sausalito is moving forward with plans to permanently relocate all private laterals currently connected to the District's Beach Force Main as required to construct the project. This project is planned to bid in November 2023.

#### **TCSD Flow Meter Project:**

A flow meter will be installed on the District's conveyance force main in the vicinity of TCSD's connection to the District. This flow meter will improve capacity modeling of the District's conveyance system and provide operators with real time flowrates to help improve response times during high flow events. District staff worked with flow meter manufacturers to identify an acceptable solar powered clamp-on style flow meter. A clamp-on style flow meter will substantially reduce construction cost and risk while maintaining an accuracy of +/- 1%. This project will be bundled with the Beach Force Main Rehabilitation Project which is planned to bid in November 2023.

#### **Plant Electrical Upgrade Project:**

The District's treatment plant was originally built in 1953 with limited facilities. Major plant expansion projects were completed in 1986 and 2020. The majority of existing electrical power systems have been upgraded and meet current NEC (National Electrical Code) requirements. However, facilities constructed in 1986 including the operations building, maintenance shop and the safety building have not been

# Sausalito-Marín City Sanitary District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2023

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upgraded and have reached the end of their useful life. In addition to replacement of conduits and conductors/wires, several transformers installed in the same time period will be replaced to ensure reliability and safety. The project is planned to bid in November 2023.

## **Biosolids Handling Project:**

The District's solids handling process is currently located in the center of the treatment plant and requires operators to transfer biosolids to the shop level for off-haul. This configuration inhibits egress through the treatment plant, results in biosolids requiring cleanup from the plant causeway and requires operator time to transfer biosolids. In addition, this process requires operators to use a front loader tractor to transfer biosolids up the plant's narrow driveway 4 times a day which introduces potential safety concerns.

Carollo Engineers have completed a Technical Memorandum (TM) on biosolids handling to ensure long term regulatory compliance and to minimize the cost of processing and off-hauling biosolids. The TM supports the relocation of the District's existing screw press while maintaining the ability to replace the press in the future with a press capable of producing Class A biosolids. There are currently no near-term regulatory drivers anticipated to require production of Class A biosolids.

District staff is currently working with Carollo Engineers on the development of construction plans to relocate the District's existing press and replace appurtenant equipment to ensure long term reliability. Design is planned to be completed by May 2024 to support construction in FY 2024/2025.

## **BUDGETARY HIGHLIGHTS**

### **Revenues**

The District's adopted and final revenue budgets were \$10.471 million, with actual revenues recorded at \$11.163 million. The difference between budgeted and actual revenues is primarily property taxes and investment revenue.

### **Expenditures**

The District's adopted and final expenditure budgets were \$10.471 million. The actual expenditures totaled \$9.257 million. The difference is the net of principal debt service payments that are included in the budget but not the audited financial statements, accrual-based benefit plan expenses that are included in the audit but not the cash basis budget, and depreciation and amortization expense that is included in the audit but not the budget.

### **Reserves**

Under the proposed budget, the District's cash position continues to improve, insuring stability in the current and future planned rates. The FY22/23 Projected Reserve (Policy) total is expected to be \$8.843 million. The following summarizes the District's budgeted reserves as of June 30, 2023:

Reserved for capital improvements	\$ 3,637,400
Reserved for operations	2,385,682
Reserved for disaster recovery	2,500,000
Reserved for repair and replacement	220,000
Reserved for self insurance	100,000
Total reserves	<u>\$ 8,843,082</u>

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

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

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

Over the next year, the District will implement a new rate study with HF&H Consultants and consider adopting a new sewer service rate 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.

For the past year, the District has been considering other investment options instead of the Local Agency Investment Fund (LAIF) since it has a poor rate of return. In order to generate more investment income, the District will be allocating a portion of its LAIF to be invested in United States Treasuries with JP Morgan Securities starting in Fall 2023. The financial strategy which includes keeping 1/3 of the funds in LAIF and investing 2/3 into U.S. Treasuries with JP Morgan. The amount would be evenly invested into 4 levels of Treasuries.

Also, the District is in the process of renewing the National Pollutant Discharge Elimination System (NPDES) permit from the State Regional Water Quality Board (SRWQB). The permit is expected to be reviewed and renewed in November 2023. 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.

Adequate funding and timely implementation of the Capital Improvement Plan allows us to achieve our mission to protect public health, the environment and the Bay; meet requirements of our National Pollutant Discharge Elimination System (NPDES) Regional Water Quality Control Board Operating Permit; reach compliance of the 2007 EPA order; stay ahead of the ever-changing regulatory environment; and maintain safe and effective working conditions for our staff.

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

Lastly, the District continues to focus on the key areas of the 2023-2028 Strategic Plan. The District completed its annual review of the plan. The adoption and annual review signify the importance of the plan to the District, its Board of Directors, and employees along with the effort placed on achieving continuous improvement in every facet of District operation. The Strategic Plan serves as a framework for decision making over the five-year period.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report of a general overview of the District's finances, is provided to all interested parties. Should there be any questions about this report or if there is a need for additional information, a request in writing should be submitted to: District General Manager, Sausalito-Marín District Sanitary District, 1 East Road, Sausalito, CA, 94965, or telephone (415) 332-0244.

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## **BASIC FINANCIAL STATEMENTS**

**Sausalito-Marin City Sanitary District**

Statement of Net Position

June 30, 2023

<b>Assets</b>	<u>2023</u>
<b>Current Assets:</b>	
Cash and investments	\$ 28,151,474
Restricted cash and investments	56
Accounts receivable	228,619
Prepaid expenses	18,359
Total Current Assets	<u>28,398,508</u>
<b>Noncurrent Assets:</b>	
Restricted cash and investments	44,809
Restricted bond reserve cash and investments	2,159,600
Restricted cash with fiscal agent - pensions CEPPT	1,244,803
<b>Capital assets:</b>	
Non-depreciable	1,324,019
Depreciable capital assets - Net	54,897,318
Right of use assets - Net	3,910,515
Total Capital Assets - Net	<u>60,131,852</u>
Total Noncurrent Assets - Net	<u>63,581,064</u>
Total Assets	<u><u>\$ 91,979,572</u></u>
 <b>Deferred Outflows of Resources</b>	
OPEB adjustments	\$ 1,284,373
Pension adjustments	2,798,468
Total Deferred Outflows of Resources	<u><u>\$ 4,082,841</u></u>
 <b>Liabilities</b>	
<b>Current Liabilities:</b>	
Accounts payable	\$ 863,723
Interest payable	283,250
Current portion of long-term Liabilities	1,263,384
Total Current Liabilities	<u>2,410,357</u>
<b>Noncurrent Liabilities:</b>	
Long-term liabilities, net of current portion	37,819,716
Total Liabilities	<u><u>\$ 40,230,073</u></u>
 <b>Deferred Inflows of Resources</b>	
OPEB adjustments	\$ 907,127
Pension adjustments	3,200,214
Total Deferred Inflows of Resources	<u><u>\$ 4,107,341</u></u>
 <b>Net Position</b>	
Net Investment in Capital Assets	\$ 25,956,074
Unrestricted	25,768,925
Total Net Position	<u><u>\$ 51,724,999</u></u>

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

**Sausalito-Marin City Sanitary District**  
Statement of Revenues, Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2023

	2023
<b>Operating Revenues:</b>	
Service charges	\$ 7,363,686
TCS D service contract	2,364,363
Sausalito service contract	112,177
Other operating revenues	26,827
Total operating revenues	9,867,053
<b>Operating Expenses:</b>	
Salaries and benefits	3,225,756
Plant operations	899,106
Repairs and maintenance	71,087
Permit testing and monitoring	77,004
Depreciation and amortization	3,014,010
Utilities and telephone	407,973
General and administrative	249,152
Total operating expenses	7,944,088
Operating Income (Loss)	1,922,965
<b>Nonoperating Revenues (Expenses):</b>	
Interest and investment income	418,716
Interest expense	(1,255,005)
Property taxes	877,390
Loss on disposal of capital assets	(58,217)
Total nonoperating revenues (expenses)	(17,116)
Change in net position	1,905,849
Beginning net position	49,819,150
Ending net position	\$ 51,724,999

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, 2023

	2023
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers and users	\$ 10,102,692
Cash payments to suppliers for goods and services	(1,654,946)
Cash payments to employees for services and benefits	(2,164,017)
Net Cash Provided (Used) by Operating Activities	<u>6,283,729</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Cash received from property taxes	877,390
Net Cash Provided (Used) by Noncapital Financing Activities	<u>877,390</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(1,201,789)
Principal paid on capital debt and leases payable	(1,086,422)
Interest paid on capital debt	(1,334,978)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,623,189)</u>
<b>Cash Flows from Investing Activities:</b>	
Investment income	418,716
Contributions into CalPERS pension trust held by fiscal agent	(29,046)
Net Cash Provided (Used) by Investing Activities	<u>389,670</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,927,600
Cash and Cash Equivalents Beginning	<u>24,268,739</u>
Cash and Cash Equivalents Ending	<u>\$ 28,196,339</u>
<b>Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 1,922,965
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	3,014,010
(Increase) decrease in:	
Accounts receivable	(4,361)
Prepaid expenses	22,883
Deferred outflows of resources	464,778
TCSD receivable	240,000
Accounts payable	26,493
Net pension liabilities	(706,736)
Net OPEB liability	259,646
Deferred inflows of resources	1,039,546
Compensated absences	4,505
Net Cash Provided (Used) by Operating Activities	<u>\$ 6,283,729</u>
<b>Summary of cash and cash equivalents:</b>	
Cash and cash equivalents	\$ 28,151,474
Restricted cash and cash equivalents	44,865
Total cash and cash equivalents	<u>\$ 28,196,339</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, 2023

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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,

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

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

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

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

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

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

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

#### *Statement of Net Position*

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

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

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

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

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

#### *Statement of Revenues, Expenses, and Changes in Net Position*

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

#### *Cash and Investments*

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

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

Investments are reported in the statement of net position at fair value. Changes in fair market value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

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

# Sausalito-Marín City Sanitary District

## Notes to Financial Statements

June 30, 2023

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

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

### *Accounts Receivable*

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

### *Statement of Cash Flows (Cash and Cash Equivalents)*

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

### *Capital Assets, Intangible Assets and Right of Use Assets*

Capital assets include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets (right of use assets), and all other tangible or intangible assets, that are used in operations and that have initial useful lives extending beyond a single reporting period.

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Right of use assets are recorded at the present value payments expected to be made during the lease term. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized. Depreciation/Amortization of all exhaustible capital assets is recorded as an expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Position. Accumulated depreciation/amortization is reported on the Statement of Net Position

The purpose of depreciation and amortization is to spread the cost of capital assets equitably among all users over the life of these assets. The useful life of right of use assets is typically determined by the associated lease term of those assets. The amount charged to depreciation and amortization expense each year represents that year's pro rata share of the cost of capital assets. The District depreciates using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated or amortized.

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

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

## Sausalito-Marín City Sanitary District

Notes to Financial Statements

June 30, 2023

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### *Long-Term Liabilities*

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

### *Compensated Absences*

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

### *Leases (Lessee)*

The District is a lessee for a noncancellable lease. The District recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported separately with capital assets as right of use assets and lease liabilities are reported with long-term liabilities in the statement of net position.

### *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

**Sausalito-Marin City Sanitary District**

Notes to Financial Statements

June 30, 2023

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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, 2021
Measurement Date	July 1, 2022
Measurement Period	July 1, 2021 to June 30, 2022

*Other Postemployment Benefits Other Than Pensions (OPEB)*

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

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

*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, 2022 and were payable in two installments on November 1, 2022 and February 1, 2023. Property tax revenues are recognized as revenue when received. The County of Marin bills and collects property taxes on behalf of the District on the schedule as follows:

	<b>Secured</b>	<b>Unsecured</b>
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)

## Sausalito-Marín City Sanitary District

Notes to Financial Statements

June 30, 2023

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### *Implemented Accounting and Reporting Changes*

#### **GASB Statement No. 96, *Subscription-based Information Technology Arrangements***

During the year, the District implemented GASB Statement No. 96, *Subscription-based Information Technology Arrangements*. GASB Statement No. 96 is an accounting pronouncement issued by the Governmental Accounting Standards Board (GASB) that provides guidance on how the costs and investments for subscription-based information technology arrangements (SBITAs) are accounted for and disclosed by governmental entities. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The District did not report any material SBITAs as of June 30, 2023.

### *Upcoming Accounting Pronouncements*

The District is currently analyzing its accounting practices to determine the potential impact on the financial statements of the following recent GASB Statements:

#### **GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62, effective fiscal 2024.***

This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. GASB 100 also requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. And, GASB 100 addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI).

#### **GASB Statement No. 101, *Compensated Absences, effective fiscal 2025.***

Updates the recognition and measurement guidance for compensated absences by:

1. Aligning the recognition and measurement guidance under a unified model
2. Amending certain previously required disclosures
3. Amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability
4. Supersedes GASB 16

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

#### NOTE 3 – CASH AND INVESTMENTS

The District's cash and investments consisted of the following as of June 30, 2023:

Cash and Investments	Available for Operations	Restricted	Fair Value
Cash:			
Cash in Banks	\$ 2,890,113	\$ -	\$ 2,890,113
Petty Cash	81	-	81
Cash with Fiscal Agent	-	3,449,268	3,449,268
Money Market	1,377,423	-	1,377,423
<u>Total Cash Deposits</u>	<u>4,267,617</u>	<u>3,449,268</u>	<u>7,716,885</u>
Investments:			
<u>Local Agency Investment Fund</u>	<u>23,883,857</u>	<u>-</u>	<u>23,883,857</u>
<u>Total Cash and Investments</u>	<u>\$ 28,151,474</u>	<u>\$ 3,449,268</u>	<u>\$ 31,600,742</u>

Restricted cash and investments includes \$44,809 in the restricted bond interest account, \$2,159,600 for an insurance surety from the 2017 Revenue Bonds debt service reserve, \$1,244,803 in the CEPPT pension side fund held with fiscal agent, and other residual amounts totaling \$56 related to accounts held from bond issuances.

#### *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 \$4,267,536, exceeded the insured limit by \$4,017,536 as of June 30, 2023. None of the District's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts. All of the District's accounts met the collateral and categorization requirements as noted in the following paragraphs.

#### *Fair Value Measurements*

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

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

## Sausalito-Marín City Sanitary District

Notes to Financial Statements

June 30, 2023

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### *California Local Agency Investment Fund*

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

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

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

LAIF allows local agencies such as the District to participate in a Pooled Money Investment Account managed by the State Treasurers Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2023, was approximately \$177 billion. Of that amount, 100% is invested in non-derivative financial products. The balance in LAIF is available for withdrawal on demand.

### *Investment Policy*

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government. Or its agencies; bankers' acceptances of U.S. banks; commercial paper of prime quality; negotiable certificates of deposit; repurchase or reverse repurchase agreements; and passbook savings account demand deposits. Investments prohibited by the District are inverse floaters, range notes, mortgage pool interest-only strips, and zero interest accrual at maturity notes. The District's investments were in compliance with the above provisions as of and for the year ended June 30, 2023.

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

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 investing only in the LAIF pool.
- *Credit Risk* – Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the District only invests in the LAIF pool.
- *Custodial Credit Risk* – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a written policy for custodial credit risk over deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

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, 2023, 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, 2023:

Capital Assets	Balance June, 30 2022	Additions	Deletions	Balance June 30, 2023
<b>Non-depreciable Capital Assets:</b>				
Construction in progress	\$ 8,341,425	\$ 621,808	\$ (7,639,214)	\$ 1,324,019
Total Non-depreciable Capital Assets	<u>8,341,425</u>	<u>621,808</u>	<u>(7,639,214)</u>	<u>1,324,019</u>
<b>Depreciable Capital Assets:</b>				
Original conveyance and treatment facilities	2,456,434	-	-	2,456,434
Secondary treatment plant	10,943,562	-	-	10,943,562
General equipment, facility upgrade and renewal	47,721,290	2,493,403	-	50,214,693
Conveyance system upgrade and renewal	13,694,755	6,440,825	(126,855)	20,008,725
Collection system upgrade	2,176,604	-	(14,646)	2,161,958
Office equipment	119,521	-	-	119,521
Total Depreciable Capital Assets	<u>77,112,166</u>	<u>8,934,228</u>	<u>(141,501)</u>	<u>85,904,893</u>
<b>Right of Use Assets:</b>				
Leased land	5,005,460	-	-	5,005,460
<b>Less Accumulated Depreciation and Amortization for:</b>				
Original conveyance and treatment facilities	1,179,085	24,564	-	1,203,649
Secondary treatment plant	4,745,920	133,560	-	4,879,480
General equipment, facility upgrade and renewal	13,272,545	2,050,407	-	15,322,952
Conveyance system upgrade and renewal	7,021,584	522,541	(79,786)	7,464,339
Collection system upgrade	1,913,836	120,803	(3,498)	2,031,141
Office equipment	100,301	5,713	-	106,014
Right of use asset leased land amortization	938,524	156,421	-	1,094,945
Total Accumulated Deprec. and Amort.	<u>29,171,795</u>	<u>3,014,009</u>	<u>(83,284)</u>	<u>32,102,520</u>
Depreciable and Amortizable Capital Assets - Net	<u>52,945,831</u>	<u>5,920,219</u>	<u>(58,217)</u>	<u>58,807,833</u>
Total Capital Assets - Net	<u>\$ 61,287,256</u>	<u>\$ 6,542,027</u>	<u>\$ (7,697,431)</u>	<u>\$ 60,131,852</u>

Depreciation and amortization expense for the year ended June 30, 2023 was \$3,014,009.

**Sausalito-Marín City Sanitary District**  
Notes to Financial Statements  
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**NOTE 5 – LONG-TERM LIABILITIES**

The District’s long-term liabilities consisted of the following as of June 30, 2023:

Long-term Liabilities	Balance June 30, 2022	Additions	Deductions	Balance June 30, 2023	Due Within One Year
2017 Revenue Bond	\$ 29,310,000	\$ -	\$ 985,000	\$ 28,325,000	\$ 1,025,000
2017 Revenue Bond Premium	1,472,587	-	70,123	1,402,464	70,123
2017 Revenue Bond Reserve Surety	2,159,600	-	-	2,159,600	-
NPS Lease Liability	4,549,736	-	101,422	4,448,314	105,144
Net OPEB Liability	587,069	1,442,817	1,183,171	846,715	-
Net Pension Liability	2,481,510	3,080,437	3,787,173	1,774,774	-
Compensated Absences	121,728	4,505	-	126,233	63,117
Total Long-term Liabilities	<u>\$ 40,682,230</u>	<u>\$ 4,527,759</u>	<u>\$ 6,126,889</u>	<u>\$ 39,083,100</u>	<u>\$ 1,263,384</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 were 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 will be used to make the final debt service payments, any balance remaining would revert back to the District 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, 2023.

The District’s debt service requirements for the 2017 Revenue Bonds were as follows as of June 30, 2023:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 1,025,000	\$ 1,133,000	\$ 2,158,000
2025	1,065,000	1,092,000	2,157,000
2026	1,105,000	1,049,400	2,154,400
2027	1,150,000	1,005,200	2,155,200
2028	1,195,000	959,200	2,154,200
2029 - 2033	6,740,000	4,038,800	10,778,800
2034 - 2038	8,210,000	2,578,200	10,788,200
2039 - 2043	7,835,000	798,800	8,633,800
Totals	<u>\$ 28,325,000</u>	<u>\$ 12,654,600</u>	<u>\$ 40,979,600</u>

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

#### *National Park Service (NPS) Lease Liability*

The District has a property lease agreement with the National Park Service (NPS) for 32 years expiring in 2049. Under the agreement, the District provides 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. Due to the in-kind nature of the agreement, the charges for services provided to NPS equal the lease payments for the right to use the land.

During the fiscal year, the lease payments totaled \$264,000. The total principal and interest paid during the year was \$101,422 and \$162,578, respectively. The initial present value of the right of use asset and lease liability, at a treasury bond rate of 3.61% over the thirty-two years, was \$5,005,460. The balance of the right of use asset as of June 30, 2023 was \$3,910,515, net of accumulated amortization of \$1,094,945, which is reported with the District’s capital assets in Note 4. The balance of the lease liability as of June 30, 2023 was \$4,448,314. There are termination clauses included in the lease agreement, however management has determined that it is not likely that those clauses will be exercised.

The following summarizes the principal and interest requirements to maturity:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 105,144	\$ 158,856	\$ 264,000
2025	109,003	154,997	264,000
2026	113,004	150,996	264,000
2027	117,152	146,848	264,000
2028	121,452	142,548	264,000
2026-2033	677,487	642,513	1,320,000
2034-2038	811,285	508,715	1,320,000
2039-2043	971,507	348,493	1,320,000
2044-2048	1,163,371	156,629	1,320,000
2049	258,908	5,091	263,999
Totals	\$ 4,448,314	\$ 2,415,685	\$ 6,863,999

#### **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 construction and service contracts with various organizations. As of June 30, 2023, the District’s total commitment remaining for these contracts was \$648,454 from original contract balances of \$11,589,632.

#### **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

# Sausalito-Marín City Sanitary District

## Notes to Financial Statements

June 30, 2023

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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, 2022 (most recent information available):

	<u>June 30, 2022</u>
Total Assets	\$ 32,261,331
Total Liabilities	25,220,675
Total Equity	7,040,656
Total Revenues	17,745,882
Total Expenditures	17,127,478

### NOTE 8 – DEFINED BENEFIT PENSION PLAN

#### *General Information about the Pension Plans*

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

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

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

The Plan's provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous	
	Tier 1	PEPRA
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.7%	2%
Required employee contribution rates	8%	6.75%
Required employer contribution rates	15.3%	7.47%

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, 2023, the District contributed \$329,647 into the plan.

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

As of June 30, 2023, the District reported net pension liabilities for its proportionate shares of the net pension liability of \$1,774,774. 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, 2022, 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, 2021 rolled forward to June 30, 2022 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

The District's proportionate share of the net pension liability for the Plan as of June 30, 2022 and 2023 was as follows:

	<b>Miscellaneous</b>
Proportion - June 30, 2022	0.13069%
Proportion - June 30, 2023	0.03793%
Change - Increase/(Decrease)	-0.09276%

For the year ended June 30, 2023, the District recognized pension expense of \$1,201,390.

As of June 30, 2023, 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	\$ 181,863	\$ -
Differences between Expected and Actual Experience	35,641	23,871
Differences between Projected and Actual Investment Earnings	325,091	-
Differences between Employer's Contributions and Proportionate Share of Contributions	1,912,165	94,139
Change in Employer's Proportion	14,061	3,082,204
Pension Contributions Made Subsequent to Measurement Date	329,647	-
<b>Total</b>	<b>\$ 2,798,468</b>	<b>\$ 3,200,214</b>

The District reported \$329,647 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, 2024.

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>
2024	\$ (358,686)
2025	(342,311)
2026	(229,233)
2027	198,837
2028	-
Thereafter	-
<b>Total</b>	<b>\$ (731,393)</b>

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

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**Actuarial Assumptions** – The total pension liabilities in the June 30, 2021 actuarial valuation were determined using the following actuarial assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.80%
Inflation	2.30%
Payroll Growth	2.80%
Projected Salary Increase	(1)
Investment Rate of Return	6.8% (2)
Mortality	(3)

(1) Varies by entry age and service

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

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

**Discount Rate** – The discount rate used to measure the total pension liability was 7 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 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 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 considered 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. The table below reflects the long-term expected real rate of return by asset class.

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

The rate of return was calculated using the capital market assumptions applied to determine the discount rate.

Asset Class (a)	Assumed Asset Allocation	Long-Term Expected Real Return (1)(2)
Global Equity Cap Weighted	30.00%	4.54%
Global Equity NonCap Weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	27.00%
Mortgage-backed Securities	5.00%	50.00%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	100.00%	

(1) An expected inflation of 2.3% used for this period.

(2) Figures are based on the 2021-22 Asset Liability Study.

**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:

	Miscellaneous
1% Decrease	5.90%
Net Pension Liability	\$ 3,888,831
Current	6.90%
Net Pension Liability	\$ 1,774,774
1% Increase	7.90%
Net Pension Liability	\$ 35,429

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

**IRS Section 115 Trust CEPPT** - The District established an IRS Section 115 Trust with the CalPERS California Employer’ Pension Prefunding Trust (CEPPT) program and contributed \$1,200,000 into the trust to be used toward the annual required contributions of the CalPERS Miscellaneous Plan. The trust is considered a side fund and reported as restricted cash with fiscal agent by the District and does not directly reduce the District’s Net Pension Liability. The trust had a

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

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balance of \$1,244,803 as of June 30, 2023.

#### **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 available for withdrawal by employees until termination, death, or unforeseeable emergency. The District contributes 2% of unrepresented employee's salary as deferred compensation. During the fiscal year, District management evaluated the deferred compensation plan under GASB 84 to determine if it met the definition of a component unit and GASB 97 to determine if it met the definition of a pension plan. Management concluded the deferred compensation plan did not materially meet either definition. The District contributed \$36,066 to the plan during the year.

#### **NOTE 10 – OTHER POST EMPLOYMENT BENEFITS**

##### *Plan Description*

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

##### *Benefits*

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

# Sausalito-Marín City Sanitary District

## Notes to Financial Statements

June 30, 2023

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### *Employees Covered by Benefit Terms*

The benefit terms covered the following employees:

Active employees	11
Inactive employees	<u>13</u>
<b>Total employees</b>	<b><u>24</u></b>

### *Contributions*

The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. The total contributions to the OPEB plan during the year were \$145,498 which were fully offset by trust reimbursements. The actuarially determined contribution for the measurement period was \$123,001. The District's contributions were 8.72% of covered payroll during the measurement period June 30, 2022 (reporting period June 30, 2023). Benefits paid by the OPEB trust during the fiscal year were \$145,498. Employees are not required to contribute to the plan.

### *Actuarial Assumptions*

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

Valuation Date:	June 30, 2021
Measurement Date:	June 30, 2022
Actuarial Cost Method:	Entry-Age Normal
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	4.45%
Inflation	2.75%
Salary Increases	3.00%
Healthcare Trend Rate	5.00%
Investment Rate of Return	5.25%, Net of OPEB plan investment expenses, including inflation
Mortality	Mort and Disb Rates_PA Misc
Retirement	Rx PA Misc 2.5% @ Rx PA Misc 2% @ 62

### *Discount Rate*

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

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

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#### *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.

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

<b>Asset Class</b>	<b>Percentage of Portfolio</b>	<b>Long-Term Expected Rate of Return</b>
All Commodities	4%	3.00%
Fixed Income	43%	0.99%
Global Equity	40%	5.25%
Real Estate Investment Trusts (REITs)	8%	4.50%
Treasury Inflation-Protected Securities (TIPS)	5%	0.45%
<b>Total</b>	<b>100%</b>	

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

The District's net OPEB liability was measured as of June 30, 2022 (measurement date), and the total OPEB liability (TOL) used to calculate the net OPEB liability (NOL) was determined by an actuarial valuation as of June 30, 2021 (valuation date) for the fiscal year ended June 30, 2023 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2023:

<b>Fiscal Year Ended June 30, 2022</b>	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability (Asset)</b>
<b>Balance at June 30, 2022</b>	\$ 3,443,793	\$ 2,856,724	\$ 587,069
Service cost	122,278	-	122,278
Interest in Total OPEB Liability	127,721	-	127,721
Employer contributions	-	23,827	(23,827)
Balance of diff between actual and exp experience	-	-	-
Balance of changes in assumptions	(325,473)	-	(325,473)
Actual investment income	-	(358,224)	358,224
Administrative expenses	-	(723)	723
Benefit payments	(147,709)	(147,709)	-
<b>Net changes</b>	<b>(223,183)</b>	<b>(482,829)</b>	<b>259,646</b>
<b>Balance at June 30, 2023</b>	<b>\$ 3,220,610</b>	<b>\$ 2,373,895</b>	<b>\$ 846,715</b>
Covered Employee Payroll	\$ 1,694,163		
Total OPEB Liability as a % of Covered Employee Payroll	190.10%		
Plan Fid. Net Position as a % of Total OPEB Liability	73.71%		
Service Cost as a % of Covered Employee Payroll	7.22%		
Net OPEB Liability as a % of Covered Employee Payroll	49.98%		

## Sausalito-Marín City Sanitary District

### Notes to Financial Statements

June 30, 2023

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

At June 30, 2023, 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	\$ 123,077	\$ 388,628
Difference between actual and expected earnings	373,184	249,142
Change in assumptions	788,112	269,357
<b>Totals</b>	<b>\$ 1,284,373</b>	<b>\$ 907,127</b>

District contributions totaling \$145,498 subsequent to the measurement date and before the end of the fiscal year were fully offset by trust reimbursements that will be included as a reduction of the net OPEB liability in the year ended June 30, 2024.

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

<b>Year Ended June 30,</b>		
2024	\$	(805)
2025		748
2026		6,820
2027		87,596
2028		14,697
Thereafter		268,190
<b>Total</b>	<b>\$</b>	<b>377,246</b>

#### *OPEB Expense*

The following summarizes the OPEB expense by source during the year ended June 30, 2023:

Service cost	\$	122,278
Interest in TOL		127,721
Expected investment income		(108,256)
Other adjustments		(23,827)
Difference between actual and expected experience		(57,559)
Difference between actual and expected earnings		10,099
Change in assumptions		49,565
Administrative expenses		723
<b>OPEB Expense</b>	<b>\$</b>	<b>120,744</b>

**Sausalito-Marín City Sanitary District**

Notes to Financial Statements

June 30, 2023

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2023:

Net OPEB liability ending	\$ 846,715
Net OPEB liability beginning	<u>(587,069)</u>
Change in net OPEB liability	259,646
Changes in deferred outflows	(390,580)
Changes in deferred inflows	<u>251,678</u>
<b>OPEB Expense</b>	<b><u>\$ 120,744</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:

	<u>Discount Rate</u>		
	<u>(1% Decrease )</u>	<u>4.45%</u>	<u>(1% Increase )</u>
Net OPEB Liability (Asset)	\$ 1,359,993	\$ 846,715	\$ 435,580

*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:

	<u>Trend Rate</u>		
	<u>(1% Decrease )</u>	<u>5.00%</u>	<u>(1% Increase )</u>
Net OPEB Liability (Asset)	\$ 387,444	\$ 846,715	\$ 1,429,791

**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, 2023

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#### *National Park Service (Golden Gate National Recreation Area)*

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

#### *Tamalpais Community Services District (TCSD)*

In February 2020, Boards of the Sausalito-Marín City Sanitary District (SMCSD) and Tamalpais Community Services District (TCSD) approved the 2020 Amended and Restated Agreement which superseded and replaced in its entirety the 2013 Agreement.

The Districts agreed that: (1) TCSD’s payments to SMCSD for Wastewater Service will be based upon the number of Dwelling Units (“DU”) and Equivalent Dwelling Units (“EDU”) within TCSD’s Service Area multiplied by SMCSD’s applicable DU and EDU rates (rate-based approach); (2) the outstanding 2014 Inter-District loan and the Cash Funded Costs Deferral Payments between the two Districts will be paid by TCSD on the payment dates and in the amounts set forth in the amortization and payment schedules, and (3) the One Million Two Hundred Thousand Dollar (\$1,200,000) mediated settlement payment will be paid by TCSD to SMCSD over five (5) years.

During the FY 20/21 year, TCSD paid off all its capital deferral and inter-district obligations totaling \$2,915,953. As of June 30, 2023, there was no balanced due in relation to the mediated settlement and sewer service charges.

#### **NOTE 12 – SUBSEQUENT EVENTS**

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2023, through the date the financial statements were available to be issued, October 18, 2022 and has not identified any material items that are required to be reported.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Sausalito-Marín City Sanitary District**  
**Schedule of CalPERS Pension Plan Contributions**  
**June 30, 2023**

<b>Miscellaneous Plan</b>									
Plan Measurement Date	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Fiscal Year Ended	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Contractually Required Contributions	\$ 181,617	\$ 237,897	\$ 224,173	\$ 257,992	\$ 263,939	\$ 296,675	\$ 329,808	\$ 332,742	\$ 329,647
Contributions in Relation to Contractually Required Contributions	<u>181,617</u>	<u>237,897</u>	<u>224,173</u>	<u>257,992</u>	<u>263,939</u>	<u>296,675</u>	<u>329,808</u>	<u>3,332,742</u>	<u>329,647</u>
<b>Contribution Deficiency (Excess)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,000,000)</u>	<u>\$ -</u>
<b>Covered Payroll</b>	<b>\$ 1,147,300</b>	<b>\$ 1,044,426</b>	<b>\$ 1,032,559</b>	<b>\$ 1,387,443</b>	<b>\$ 1,369,547</b>	<b>\$ 1,447,843</b>	<b>\$ 1,477,814</b>	<b>\$ 1,569,127</b>	<b>\$ 1,458,672</b>
<b>Contributions as a % of Covered Payroll</b>	<b>15.83%</b>	<b>22.78%</b>	<b>21.71%</b>	<b>18.59%</b>	<b>19.27%</b>	<b>20.49%</b>	<b>22.32%</b>	<b>212.39%</b>	<b>22.60%</b>

**Sausalito-Marín City Sanitary District**  
**Schedule of CalPERS Proportionate Share of Net Pension Liability**  
**June 30, 2023**

<b>Miscellaneous Plan</b>									
Plan Measurement Date	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Fiscal Year Ended	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Proportion of Net Pension Liability	0.02827%	0.02714%	0.03425%	0.03430%	0.03476%	0.03538%	0.03579%	0.04588%	0.01536%
Proportion of Net Pension Liability	0.07119%	0.06791%	0.08532%	0.08630%	0.08889%	0.09053%	0.09231%	0.13069%	0.03793%
Proportionate Share of Net Pension Liability	\$ 1,759,386	\$ 1,863,054	\$ 2,964,080	\$ 3,401,917	\$ 3,349,975	\$ 3,625,452	\$ 3,893,670	\$ 2,481,510	\$ 1,774,774
Covered Payroll	\$ 1,112,881	\$ 1,147,300	\$ 1,044,426	\$ 1,032,559	\$ 1,387,443	\$ 1,369,547	\$ 1,447,843	\$ 1,477,814	\$ 1,569,127
<b>Proportionate Share of NPL as a % of Covered Payroll</b>	<b>158.09%</b>	<b>162.39%</b>	<b>283.80%</b>	<b>329.46%</b>	<b>241.45%</b>	<b>264.72%</b>	<b>268.93%</b>	<b>167.92%</b>	<b>113.11%</b>
<b>Plan's Fiduciary Net Position as a % of the TPL</b>	<b>81.15%</b>	<b>77.84%</b>	<b>72.86%</b>	<b>71.39%</b>	<b>72.94%</b>	<b>72.34%</b>	<b>71.73%</b>	<b>82.76%</b>	<b>88.56%</b>

**Sausalito-Marín City Sanitary District**  
**Schedule of OPEB Contributions**  
**June 30, 2023**

<b>Fiscal Year Ended</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Actuarially determined contribution (ADC)	\$ 250,037	\$ 90,675	\$ 140,878	\$ 178,821	\$ 149,558	\$ 123,001
Less: actual contribution in relation to ADC	(2,143,737)	(147,160)	(139,597)	(136,691)	(123,882)	(23,827)
Contribution deficiency (excess)	\$ (1,893,700)	\$ (56,485)	\$ 1,281	\$ 42,130	\$ 25,676	\$ 99,174
Covered employee payroll	\$ 1,338,389	\$ 1,387,443	\$ 1,409,108	\$ 1,447,843	\$ 1,528,000	\$ 1,644,818
Contrib. as a % of cov. Emp. payroll	160.17%	10.61%	9.91%	9.44%	8.11%	1.45% <sup>1</sup>

**Notes to Schedule:**

*Assumptions and Methods*

Valuation Date:	June 30, 2021
Measurement Date:	June 30, 2022
Actuarial Cost Method:	Entry-Age Normal Cost
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	4.45%
Inflation	2.75%
Salary Increases	3.00%
Healthcare Trend Rate	5.00%
Investment Rate of Return	5.25%, Net of OPEB plan investment expenses, including inflation
Mortality	Mort and Disb Rates_PA Misc
Retirement	Rx PA Misc 2.5% @ 55 Rx PA Misc 2% @ 62

*Other Notes*

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

There were not changes in benefit terms.

The discount rate decreased from 6.73% to 4.21% in 2020 and 3.79% in 2022. Health trend rates decreased from 5.5% to 5% in 2020.

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, 2023**

Fiscal Year Ended	2018	2019	2020	2021	2022	2023
<b>Total OPEB liability</b>						
Service cost	\$ 72,979	\$ 75,168	\$ 77,423	\$ 103,153	\$ 106,248	\$ 122,278
Interest	163,427	166,877	170,969	136,718	140,282	127,721
Differences between expected and actual experience	-	-	(182,895)	-	(271,863)	-
Changes of assumptions	-	-	934,682	-	205,346	(325,473)
Benefit payments	(183,982)	(186,322)	(294,320)	(173,738)	(136,691)	(147,709)
Net change in Total OPEB Liability	52,424	55,723	705,859	66,133	43,322	(223,183)
Total OPEB Liability - beginning	2,520,332	2,572,756	2,628,479	3,334,338	3,400,471	3,443,793
Total OPEB Liability - ending	<u>\$ 2,572,756</u>	<u>\$ 2,628,479</u>	<u>\$ 3,334,338</u>	<u>\$ 3,400,471</u>	<u>\$ 3,443,793</u>	<u>\$ 3,220,610</u>
<b>Plan fiduciary net position</b>						
Employer contributions	\$ 311,200	\$ 2,212,454	\$ 147,160	\$ 32,224	\$ 9,691	\$ 23,827
Net investment income	23,597	14,298	173,891	135,368	497,114	(358,224)
Benefit payments	(183,982)	(186,322)	(294,320)	(173,738)	(136,691)	(147,709)
Administrative expense	(159)	(741)	(534)	(1,237)	(912)	(723)
Net change in plan fiduciary net position	150,656	2,039,689	26,197	(7,383)	369,202	(482,829)
Plan fiduciary net position - beginning	278,363	429,019	2,468,708	2,494,905	2,487,522	2,856,724
Plan fiduciary net position - ending	<u>\$ 429,019</u>	<u>\$ 2,468,708</u>	<u>\$ 2,494,905</u>	<u>\$ 2,487,522</u>	<u>\$ 2,856,724</u>	<u>\$ 2,373,895</u>
Net OPEB liability (asset)	\$ 2,143,737	159,771	839,433	912,949	587,069	846,715
Plan fiduciary net position as a percentage of the total OPEB liability	16.68%	93.92%	74.82%	73.15%	82.95%	73.71%
Covered Employee Payroll	\$ 1,333,613	\$ 1,338,389	\$ 1,387,443	\$ 1,409,108	\$ 1,447,843	\$ 1,528,000
Net OPEB liab. as % of cov. Emp. payroll	160.75%	11.94%	60.50%	64.79%	40.55%	55.41%
Total OPEB liab. as % of cov. Emp. payroll	192.92%	196.39%	240.32%	241.32%	237.86%	210.77%

*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.

The discount rate decreased from 6.73% to 4.21% in 2020 and 3.79% in 2022. Health trend rates decreased from 5.5% to 5% in 2020.

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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, 2023, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated October 18, 2023.

**Report on 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) as a basis for designing 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.

**Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

C & A LLP

October 18, 2023  
Morgan Hill, California