

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
California

Annual Financial Report

Year Ended
June 30, 2020

SANITARY DISTRICT NO. 2 OF MARIN COUNTY

Table of Contents

INDEPENDENT AUDITOR'S REPORT1-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

 Required Supplementary Information, as prepared by management.....3-8

BASIC FINANCIAL STATEMENTS

 Statements of Net Position9

 Statements of Revenue, Expenses, and Change in Net Position 10

 Statements of Cash Flows 11

NOTES TO FINANCIAL STATEMENTS.....12-20

OTHER SUPPLEMENTARY INFORMATION

 Budgetary Comparison Information.....21

MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Post Office Box 60127 / Sacramento, California 95860-0127

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sanitary District No. 2 of Marin County
Corte Madera, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Sanitary District No. 2 of Marin County, a component unit of the Town of Corte Madera, California (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the District's 2019 financial statements and, in our report dated August 23, 2019, we expressed an unqualified opinion on the financial statements of the business-type activities.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based upon our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Directors
Sanitary District No. 2 of Marin County
Corte Madera, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sanitary District No. 2 of Marin County, as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Marcello & Company

Certified Public Accountants
Sacramento, California
November 9, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

As Prepared by Management

(unaudited)

**SANITARY DISTRICT NO. 2 OF MARIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

This section of the Sanitary District No. 2 of Marin County's basic financial statements presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2020. Since this management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the District's Basic Financial Statements and the Notes to Financial Statements.

Financial Highlights

For the fiscal year ended June 30, 2020, the District's net position increased by \$1,806,572 from \$29,057,112 in 2019, to \$30,863,684 in 2020, as can be seen on page 10. Operating revenue decreased by \$75,193 due to a decrease in sewer user fee revenue. Nonoperating revenue less nonoperating expenses including connection fees increased by \$49,174. This increase is mainly the result of increased property tax revenue. Operating expenses excluding depreciation expense, increased by \$914,786, mainly as a result of Town staff performing an increased amount of repair work on behalf of the Sanitary District. This increase is reported in the Collection Maintenance category on page 10.

Using This Report

In December 1998, the Governmental Accounting Standards Board (GASB) released statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which revised the reporting of property tax revenue. In June 1999, GASB released Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Changes in Statement No. 34 (GASB 34) require a comprehensive one-line look at the entity as a whole, and capitalization of assets and depreciation for agencies not reporting on the accrual basis of accounting. Since the District has historically reported all activities in its enterprise funds in a manner similar to business activities, and followed the accrual basis of accounting, the District merely has been required to reclassify certain balances to utilize the GASB 34 terminology. There were no major reconciling items necessary or elimination of balances due to the implementation of GASB 34.

The annual financial statements include the Independent Auditor's Report, this management's discussion and analysis, the basic financial statements, notes to basic financial statements, and supplementary schedules.

**SANITARY DISTRICT NO. 2 OF MARIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Financial Analysis of the District

The following schedule is prepared from the District's Statement of Net Position (page 9), which is presented on the full accrual basis of accounting in which capital assets are systematically depreciated.

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	\$ 12,340,261	\$ 14,030,184	\$ (1,689,923)	-12.0%
Noncurrent Assets	19,087,224	15,256,374	3,830,850	25.1%
Total Assets	<u>31,427,485</u>	<u>29,286,558</u>	2,140,927	7.3%
Total Liabilities	563,801	229,446	334,355	145.7%
Net Position:				
Net Investment Capital Assets	19,087,224	15,256,374	3,830,850	25.1%
Unrestricted	11,776,460	13,800,738	(2,024,278)	-14.7%
Total Net Position	<u>\$ 30,863,684</u>	<u>\$ 29,057,112</u>	1,806,572	6.2%

Change in Net Position

As can be seen above, the District's Net Position increased by \$1,806,572 this year, from \$29,057,112 in FY 2019, to \$30,863,684 in FY 2020.

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenue	\$ 3,062,593	\$ 3,137,786	\$ (75,193)	-2.4%
Operating Expenses	4,439,755	3,518,249	921,506	26.2%
Operating Income (Loss)	(1,377,162)	(380,463)	(996,699)	-262.0%
Nonoperating Revenue (Expenses)	3,183,734	3,134,560	49,174	1.6%
Change in Net Position	<u>\$ 1,806,572</u>	<u>\$ 2,754,097</u>	(947,525)	-34.4%

While the Statement of Net Position shows the components of financial position, the operating results are reflected in the Statement of Revenue, Expenses, and Change in Net Position. This statement provides details as to the nature and source of the change in financial position (Page 10).

**SANITARY DISTRICT NO. 2 OF MARIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

Operating and Nonoperating Revenue

Property Taxes increased by \$113,454 or 3.3%. Property taxes currently account for 52% of revenue and are expected to increase at least 2% annually in accordance with the provisions of Proposition 13. Sewer user fees decreased by \$73,345 or 2.4%. Investment Earnings decreased by \$57,618 due to decreased interest rates. Other revenue decreased by \$9,370.

FY 2019-20		Revenue	FY 2018-19		Increase (Decrease)
\$ 3,523,798	51.6%	Property Taxes	\$ 3,410,344	49.8%	\$ 113,454
2,977,371	43.6%	Sewer User Fees	3,050,716	44.5%	(73,345)
240,239	3.5%	Investment Earnings	297,857	4.3%	(57,618)
85,222	1.2%	Other Revenue	94,592	1.4%	(9,370)
<u>\$ 6,826,630</u>	<u>100.0%</u>	TOTALS	<u>\$ 6,853,509</u>	<u>100.0%</u>	<u>\$ (26,879)</u>

Operating and Nonoperating Expenses

Operating expenses increased by \$921,506, mainly due to Town staff performing work on behalf of the Sanitary District. The Sanitary District reimburses the Town for staff time. Expenditures for Town staff performing Sanitary District work increased by \$513,123 as compared with the previous year. The District also expended \$153,507 for repairs to the Variable Frequency Drives; there were no expenditures for this equipment in the previous year.

FY 2019-20		Operating Expenses	FY 2018-19		Increase (Decrease)
\$ 360,970	8.1%	Administration & General	\$ 241,169	6.9%	\$ 119,801
1,951,027	43.9%	Collection Maintenance	1,176,876	33.5%	774,151
993,458	22.4%	Treatment & Disposal	972,624	27.6%	20,834
1,134,300	25.5%	Deprecation Expense	1,127,580	32.0%	6,720
<u>\$ 4,439,755</u>	<u>100.0%</u>	TOTALS	<u>\$ 3,518,249</u>	<u>100.0%</u>	<u>\$ 921,506</u>

Administration and General expenditures increased by \$119,801. This category includes legal expenditures, utilities, supplies, as well as grant payments. Grant payments to property owners totalled \$35,976. Grant payments were not made in the previous year. The grant payments were made to assist property owners in replacing sewer laterals and were approved by the Sanitary District Board as part of the 2019-20 Adopted Budget. Legal expenditures increased by \$29,900 as compared with the previous year. Expenditures related to staff training are also included in this category and totaled \$4734; there were no

**SANITARY DISTRICT NO. 2 OF MARIN COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

training expenditures in the previous year.

Economic Factors and Potential Future Results

The District completed a Sewer System Master Plan in September 2003 which identified 50% of the sewer system as being over 34 years old. The Master Plan provides guidance for fiscal planning on system upgrades, refurbishments and replacements. Over the next 40 years (FY 2003-04 through FY 2043-44), capital investment costs are estimated at \$49,000,000. After the Master Plan was completed, some construction project costs far exceeded the Plan’s original estimates. To some extent, this was due to the inclusion of a lateral replacement program being incorporated into most of the sewer main rehabilitation projects, which was not contemplated in the original estimate.

Using the Master Plan as a guide, the District continues an aggressive program of repair and replacement of the District infrastructure. To finance this effort, as well as on-going operations and maintenance, sewer user fees increased over a five year period beginning in FY 2005-06 and ending FY 2009-10. This amounted to an annual \$62 increase per sewer user unit.

At their meeting of May 17, 2005, the District’s Board of Directors adopted Ordinance No. 40, increasing the individual sewer user service fee as follows:

Fiscal Year July 1 to June 30	Charge Per User Unit	Collection Charge Per Parcel
FY 2004-2005	\$ 188.00	\$ 2.00
FY 2005-2006	\$ 250.00	\$ 2.00
FY 2006-2007	\$ 312.00	\$ 2.00
FY 2007-2008	\$ 374.00	\$ 2.00
FY 2008-2009	\$ 436.00	\$ 2.00
FY 2009-2010	\$ 498.00	\$ 2.00
FY 2010-2011	\$ 498.00	\$ 2.00
FY 2011-2012	\$ 498.00	\$ 2.00
FY 2012-2013	\$ 498.00	\$ 2.00
FY 2013-2014	\$ 498.00	\$ 2.00
FY 2014-2015	\$ 498.00	\$ 2.00
FY 2015-2016	\$ 498.00	\$ 2.00
FY 2016-2017	\$ 498.00	\$ 2.00
FY 2017-2018	\$ 498.00	\$ 2.00
FY 2018-2019	\$ 498.00	\$ 2.00
FY 2019-2020	\$ 498.00	\$ 2.00

**SANITARY DISTRICT NO. 2 OF MARIN COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

The stepped increase was to fund the costs of operation and maintenance, and repair and replacement, of infrastructure as set forth in the Sewer Master Plan on a “cash basis.”

Since the District’s September 2003 Sewer System Master Plan (SSMP) was completed, the State and Regional Water Boards have implemented a system of new requirements for wastewater collection agencies that set out additional parameters for master plans that were not addressed in the original plan. In order to meet the new regulatory requirements, the District updated its Master Plan in FY 2010-11 to include the following items:

1. A review of design criteria for the District, including a review of General Plans for proposed land uses within the District, wastewater flow projections, and flow monitoring activities.
2. A hydraulic evaluation of the trunk sewers, including development of a GIS-based hydraulic model.
3. Initiation of an Asset Management Program.
4. A review of existing conditions within the system, including review of maintenance reports and inspection of pump stations.
5. Development of a Capital Projects Plan to address hydraulic or condition issues.

Asset Management refers to the establishment of levels of services for the District. These levels of service, similar to roles or the function of the sewer system, are as follows:

1. Maintain sewer service to customers.
2. Maintain regulatory compliance.
3. Minimize inflow and infiltration (I/I).

Projects recommended in the Capital Projects Plan were developed to support the levels of service. The costs associated with maintaining the levels of service are highly dependent on the age of the system, I/I issues, and the topography of the system. Wastewater flow from individual dwelling units is a relatively minor component when determining projects and their associated costs. The rehabilitation/replacement of sewer mains and laterals is as much a result of changes in design requirements as it is a result of deteriorated pipes. In other words, that portion of the gravity system that is over 30 years old would need to be replaced or upgraded even when considered in “as new” condition.

**SANITARY DISTRICT NO. 2 OF MARIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

There has been no increase in the sewer user fee rates since FY 2009-10 and no increase is scheduled for the 2020-21 fiscal year. Staff continues to evaluate the possibility of the need for an increase to the sewer user fee rates basically to keep up with the continuing and rising operating costs of labor and equipment due to inflation, as well as to finance the necessary capital projects and aging equipment and infrastructure replacements, in accordance with the District's Master Plan.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money and it receives. If you have questions about this report, please contact the Sanitary District No. 2 of Marin County, in care of the Town of Corte Madera, Office of the Director of Finance, 300 Tamalpais Drive, Corte Madera, CA 94976-0159.

BASIC FINANCIAL STATEMENTS

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
A Component Unit of the Town of Corte Madera
Statements of Net Position
June 30, 2020 and 2019

	2020	<i>for comparative purposes only</i> 2019
Current Assets		
Cash and investments	\$ 12,236,270	\$ 13,901,526
Accounts receivable	103,991	128,658
Total current assets	12,340,261	14,030,184
 Noncurrent Assets		
Capital assets not being depreciated	4,646,575	580,265
Capital assets, net of depreciation	14,440,649	14,676,109
Total noncurrent assets	19,087,224	15,256,374
Total assets	31,427,485	29,286,558
 Current Liabilities		
Accounts payable	552,613	229,446
Accrued liabilities	11,188	-
Total liabilities	563,801	229,446
 Net Position		
Net investment in capital assets	19,087,224	15,256,374
Unrestricted	11,776,460	13,800,738
Total Net Position	\$ 30,863,684	\$ 29,057,112

The accompanying notes are an integral part of these financial statements

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
A Component Unit of the Town of Corte Madera
Statements of Revenue, Expenses, and Change in Net Position
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<i>for comparative purposes only</i> <u>2019</u>
Operating Revenue		
Sewer user fees	\$ 2,977,371	\$ 3,050,716
Permits and fees	<u>85,222</u>	<u>87,070</u>
Total operating revenue	<u>3,062,593</u>	<u>3,137,786</u>
Operating Expenses		
Treatment and disposal	993,458	972,624
Collection maintenance	1,375,190	603,181
Pump station maintenance	575,837	573,695
Utilities	185,394	127,660
General and administrative	175,576	113,509
Depreciation expense	<u>1,134,300</u>	<u>1,127,580</u>
Total operating expenses	<u>4,439,755</u>	<u>3,518,249</u>
Operating Income (Loss)	<u>(1,377,162)</u>	<u>(380,463)</u>
Nonoperating Revenue (Expenses)		
Property tax assessments	3,523,798	3,410,344
CMSA debt service commitment	(580,303)	(581,163)
Investment earnings	240,239	297,857
Other revenue	<u>-</u>	<u>7,522</u>
Total nonoperating revenue (expenses)	<u>3,183,734</u>	<u>3,134,560</u>
Change in Net Position	1,806,572	2,754,097
Net Position - beginning	<u>29,057,112</u>	<u>26,303,015</u>
Net Position - end of year	<u><u>\$ 30,863,684</u></u>	<u><u>\$ 29,057,112</u></u>

The accompanying notes are an integral part of these financial statements

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
A Component Unit of the Town of Corte Madera
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

Cash Flows Provided By (Used For):	<i>for comparative purposes only</i>	
	2020	2019
Operating Activities		
Cash received from customers	\$ 3,087,260	\$ 3,162,551
Cash payments for contract services and supplies	(2,971,100)	(2,300,548)
Net cash provided (used)	116,160	862,003
Noncapital Financing Activities		
Property tax assessments	3,523,798	3,410,344
CMSA debt service commitment	(580,303)	(581,163)
Net cash provided (used)	2,943,495	2,829,181
Capital and Related Financing Activities		
Purchase of property and equipment	(4,965,150)	(695,502)
Net cash provided (used)	(4,965,150)	(695,502)
Investing Activities		
Investment earnings	240,239	297,857
Other revenue	-	7,522
Net cash provided (used)	240,239	305,379
Increase (decrease) in cash	(1,665,256)	3,301,061
Cash and investments - beginning	13,901,526	10,600,465
Cash and investments - end of year	\$ 12,236,270	\$ 13,901,526
Operating Activities Analysis		
Operating Income (Loss)	\$ (1,377,162)	\$ (380,463)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation, a noncash expense	1,134,300	1,127,580
Changes in assets and liabilities:		
(increase) decrease in receivables	24,667	24,765
increase (decrease) in payables	334,355	90,121
Net cash provided (used)	\$ 116,160	\$ 862,003

The accompanying notes are an integral part of these financial statements

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
Notes to Financial Statements
June 30, 2020

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the District as follows:

Note 1 - Defining the Reporting Entity

Note 2 - Summary of Significant Accounting Policies

Note 3 - Cash and Investments

Note 4 - Receivables

Note 5 - Capital Assets

Note 6 - Payables

Note 7 - Risk Management

Note 8 - Subsequent Events

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
Notes to Financial Statements
June 30, 2020

Note 1 - Defining the Reporting Entity

The Sanitary District No. 2 of Marin County (the District) was incorporated January 21, 1901, and was re-incorporated January 15, 1969 as a subsidiary district of the Town of Corte Madera. The District is governed under the provisions of the Sanitary District Act of 1923, Health and Safety Code, Section 6400 et seq., as amended. The function of the District is to provide, operate and maintain sewage collection, treatment, and disposal facilities for the properties included within its boundaries. The Corte Madera Town Council also acts as the District's Board of Directors. Oversight responsibility is determined on the basis of selection of the governing board, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service. The District is exempt from federal income and state franchise taxes.

The District is a member of the Central Marin Sanitation Agency (CMSA) which is a Joint Powers Authority (JPA) and is governed by its own board of Directors. The primary mission of CMSA is to provide engineering, management, and operational services for its Regional Wastewater Treatment Facility for its JPA members located in the surrounding community. CMSA personnel also provide engineering, management, and operational services for wastewater collection systems, collection pump station maintenance, and other related services for its members. As part of the agreement to join the CMSA, members agree to share in the debt service obligations incurred to finance construction of, and improvements to, the Regional Wastewater Treatment Facility.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The financial transactions of the District are recorded in a Proprietary Fund type.

Proprietary Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the expenses, including depreciation, of providing goods or services to the general public are recovered through user charges.

Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District is such an enterprise fund.

The basic financial statements are prepared using the accrual basis of accounting. Accordingly all assets and liabilities (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses, and change in net position presents increases (revenue) and decreases (expenses) in total net position. Capital contributions of property and equipment are reported as a separate line item in the statement of revenue, expenses, and change in net position.

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
Notes to Financial Statements
June 30, 2020

Other Agencies

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause that reporting entity's financial statements to be misleading or incomplete. The criteria provided in GASB Statement No. 14 have been considered and there are no agencies or entities, which should be presented with the District.

Accounts and Records

Records of the District are maintained at its office in Corte Madera, California. These records include cash receipts and disbursements journals, a general ledger, complete minutes of the Board of Directors' meetings, resolutions, ordinances, and files of supporting documents.

OTHER SIGNIFICANT ACCOUNTING POLICIES ARE:

Basis of Accounting

The accounting methods and procedures adopted by the District conform to accounting principles generally accepted in the United States of America as applied to governmental enterprises funds. These financial statements are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This Statement provides for; recognition of contributions in the Statement of Revenue, Expenses, and Change in Net Position; and inclusion of a Management Discussion and Analysis as required supplementary information.

Cash and Investments

The District's financial institution bank accounts are combined and pooled with the Town's bank accounts. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per individual financial institution. As an enterprise fund of the Town of Corte Madera, the District follows the Town's adopted Investment Policy which is reviewed and approved annually by the Town Council. Investment funds of the District are on deposit with the California State Treasurer's Local Agency Investment Fund (LAIF). The District considers all highly liquid assets purchased with an original term to maturity of ninety days or less to be cash equivalents. Cash and cash equivalents are reported as "cash and investments" on the financial statement.

Accounts Receivable

All annual sewer user fee invoices are added to the County assessed property tax invoices, mailed to property owners annually, and collected by the County Assessor. Account receivables are considered fully collectible since the County provides the District with all sewer user fees regardless of collection, similar to the State's Teeter Plan program for property tax revenue.

Property, Plant & Equipment

Capital assets are accounted for at historical cost or estimated cost. In accordance with the District's Capital Assets Policy, minor expenditures under \$25,000 for renewals and betterments are charged to expense as incurred. Major expenditures for renewals and betterments are capitalized. In situations where assets are donated to the District, construction costs or estimated market values are recorded on the date received. Costs of assets sold, retired or otherwise disposed of have been eliminated from the accounts, and gains or losses on disposition are included in the applicable year's financial statement. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend lives, are also expensed in the current period.

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
Notes to Financial Statements
June 30, 2020

The cost of property and equipment is depreciated from the date of acquisition, using the straight-line method of depreciation over their estimated useful lives, as follows:

<u>Asset Category</u>	<u>Useful Lives</u>
Buildings and Structures	50 years
Building and Structure Improvements	20 years
Other Improvements	35 years
Collections Equipment, Pump Stations, Infrastructure, Sewer Lines and Appurtenances	25-50 years
Vehicles, Equipment and Machinery	5 years

Net Position

The business-type activities financial statements utilize a net position presentation. Net position represents the difference between assets, as compared to liabilities, and is displayed in the following three components:

- *Net Investment in Capital Assets* - this component groups all capital assets, reduced by accumulated depreciation, and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of the assets.
- *Restricted Net Position* - this component represents net position that is subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* - this component represents net position of the District that is not restricted for any other purpose.

When both restricted and unrestricted net position is available, restricted resources are used first, then unrestricted resources as they are needed.

Operating and Nonoperating Revenue

Operating revenue and expenses consist of revenue that results from the ongoing principal operations of the District. Operating revenue consists primarily of charges for service. Nonoperating revenue results from non-exchange transactions, ancillary activities or subsidies, and investment earnings.

Property Taxes

Property taxes in the State of California are administered for all local agencies at the County level and consist of secured, unsecured and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

- *Property Valuations* - are established by the Assessor of Marin County for the secured and unsecured property tax rolls; the utility property tax roll is valued by the California State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13), properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increase to full value is allowed

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
Notes to Financial Statements
June 30, 2020

for property improvements or upon change in ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.

- Tax Levies - are limited to 1% of full assessed value which results in a tax rate of \$1.00 per \$100 assessed valuation under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.
- Tax Levy Dates - are attached annually on January 1, preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.
- Tax Collections - are the responsibility of the Marin County's tax collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.
- Tax Levy Apportionments - due to the nature of the County-wide maximum levy, it is not possible to identify general-purpose tax rates for specific entities such as the District. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by each County auditor-controller based primarily on the ratio that each agency represented of the total County-wide levy for the three fiscal years prior to fiscal year 1979.
- Property Tax Administration Fees - the State of California fiscal year 1990-91 Budget Act authorized Counties to collect an administrative fee for its collection and distribution of property taxes.
- Marin County bills and collects property taxes and user fees for the District in addition to its own property taxes.

Use of Estimates

Preparing the District's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
Notes to Financial Statements
June 30, 2020

Note 3 - Cash and Investments

Cash and investments at fiscal year-end are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 12,236,270
Cash and investments are comprised of the following:	
Deposits with financial institutions:	
Checking accounts	\$ 1,187,598
State investment pool	11,048,672
	\$ 12,236,270

Participation in an external State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the California State Treasurer. There is a five member Local Investment Advisory Board that is chaired by the State Treasurer. LAIF determines fair value of its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available. LAIF is part of the Pooled Money Investment Account (PMIA) and under the control of the State Treasurer's Office, which is audited by the Bureau of State Audits on an annual basis. As of June 30, 2020, PMIA had approximately \$103 billion in investments. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Audited financial statements of PMIA may be obtained from the California State Treasurer's web site at www.treasurer.ca.gov.

Investments Authorized by the District's Investment Policy

The District does not have a specific investment policy but follows the guidelines of Town's Investment Policy. The table below identifies the investment types that are authorized under provisions of the Town's investment policy adopted for fiscal year 2019-20, and in accordance with Section 53600 of the California Government Code. The table also identifies certain provisions of the investment policy that address concentration or maximum percentages and maturity.

Permitted Investments/Deposits	Maximum Percentages	Maximum Maturity
<u>Investment Type A:</u>		
Securities of the US Government, Treasury obligations, Agency obligations, and Federal Instrumentalities	n/a	n/a
State of California Bonds and Registered Warrants	n/a	n/a
Commercial Paper (A-1, P-1 or better)	10% to 25%	270 days
Local Agency Investment Fund (LAIF)	n/a	n/a

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
Notes to Financial Statements
June 30, 2020

Passbook Savings Account Demand Deposits	n/a	n/a
<u>Investment Type B:</u>		
Negotiable Certificates of Deposit	30%	n/a
Bankers Acceptances	30%	180 days
Repurchase Agreements	n/a	1 year
Medium Term Notes	30%	n/a

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date and yield of each investment:

		<u>Maturity Date and Yield</u>
State investment pool (LAIF)	\$11,048,672	due on demand, 1.47% yield

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the Town contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At year end, 90% of the District's cash was invested with LAIF.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At year end the District had \$937,598 in bank financial institutions that was not covered by the FDIC, but was covered by collateralized securities of the bank financial institutions where the deposits were maintained.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
Notes to Financial Statements
June 30, 2020

government's indirect investment in securities through the use of mutual funds or government investment pools such as LAIF.

Note 4 - Receivables

Receivables at year end consist of the following:

Property tax revenue	\$	103,991
Total accounts receivable	<u>\$</u>	<u>103,991</u>

Note 5 - Capital Assets

Capital assets activity for the year consists of the following:

	<u>Beginning Balance</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
<i><u>Non-depreciable Assets</u></i>				
Land and land rights	\$ 580,265	\$ -	\$ -	\$ 580,265
Construction-in-progress	-	4,066,310	-	4,066,310
totals	<u>580,265</u>	<u>4,066,310</u>	<u>-</u>	<u>4,646,575</u>
<i><u>Depreciable Assets</u></i>				
CMSA Treatment plant	2,798,561	-	-	2,798,561
Collection pump stations	13,501,934	629,589	-	14,131,523
Underground sewer lines	19,012,450	-	-	19,012,450
Improvements	-	269,251	-	269,251
Vehicles	451,867	-	-	451,867
Equipment	73,698	-	-	73,698
totals	<u>35,838,510</u>	<u>898,840</u>	<u>-</u>	<u>36,737,350</u>
<i><u>Accumulated Depreciation</u></i>	<u>(21,162,401)</u>	<u>(1,134,300)</u>	<u>-</u>	<u>(22,296,701)</u>
<i><u>Net Capital Assets</u></i>	<u>\$ 15,256,374</u>	<u>\$ 3,830,850</u>	<u>\$ -</u>	<u>\$ 19,087,224</u>

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
a Component Unit of the Town of Corte Madera
Notes to Financial Statements
June 30, 2020

Note 6 - Payables

Payables at year end consist of the following:

Construction, engineering and consultants	\$ 491,722
Repairs and maintenance	15,477
Utilities	32,222
Legal and professional	13,192
	<u>\$ 552,613</u>

Note 7 - Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The Town and the District purchase insurance policies to protect against catastrophic loss. The District has elected to be self-insured through the Town of Corte Madera Internal Service Funds to cover the cost of insurance policy deductibles. The Town charges the District a pro-rata share of expenses and claims. Any claims or liabilities of the District are reflected and reported in the Town's financial statements.

Note 8 - Subsequent Events

The management of the District has reviewed the results of operations for the period from its year end June 30, 2020 through November 9, 2020, the date the draft financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

OTHER SUPPLEMENTARY INFORMATION

SANITARY DISTRICT NO. 2 OF MARIN COUNTY
Budgetary Comparison Information
Revenue and Expenses
Year Ended June 30, 2020

	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>Operating Revenue</u>			
Sewer user fees	\$ 3,050,000	\$ 2,977,371	\$ (72,629)
Permits and fees	50,000	85,222	35,222
Total operating revenue	<u>3,100,000</u>	<u>3,062,593</u>	<u>(37,407)</u>
<u>Operating Expenses</u>			
Treatment and disposal - CMSA plant	1,025,268	993,458	31,810
Collection maintenance	-	1,375,190	(1,375,190)
Pump station maintenance	1,090,000	575,837	96,542
Utilities	110,000	185,394	(75,394)
General and administrative	1,227,000	175,576	1,051,424
Depreciation expense	-	1,134,300	(1,134,300)
Total operating expenses	<u>3,452,268</u>	<u>4,439,755</u>	<u>(1,405,108)</u>
Operating income (loss)	(352,268)	(1,377,162)	(1,442,515)
<u>Nonoperating Revenue (Expenses)</u>			
Property tax assessments	3,447,000	3,523,798	76,798
CMSA debt service commitment	(580,303)	(580,303)	-
Investment earnings	220,000	240,239	20,239
Total nonoperating revenue (expenses)	<u>3,086,697</u>	<u>3,183,734</u>	<u>97,037</u>
Net income (loss)	<u>\$ 2,734,429</u>	<u>\$ 1,806,572</u>	<u>\$ (1,345,478)</u>

