

Sanitation District No. 2 of Marin County

Corte Madera, California

Annual Financial Report

For the Year Ended June 30, 2022



Sanitation District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Annual Financial Report
For the Year Ended June 30, 2022
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INDEPENDENT AUDITORS' REPORT

To the Honorable Chair and Members of the Board
of the Sanitary District No. 2 of Marin County
Corte Madera, California

Opinion

We have audited the accompanying financial statements of the Sanitary District No. 2 of Marin County (the "District"), a component of unit of the Town of Corte Madera (the "Town"), which comprise the statement of net position, as of June 30, 2022, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the basic 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 2021 financial statements and those financial statements, were audited by other auditors whose report thereon dated October 21, 2021, expressed an unmodified opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2022, and the changes in financial position and cash flows 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 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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.

Auditors' 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 opinion. 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 auditing standards generally accepted in the United States of America and *Government Auditing Standards* 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 auditing standards generally accepted in the United States of America and *Government Auditing Standards*, 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 as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

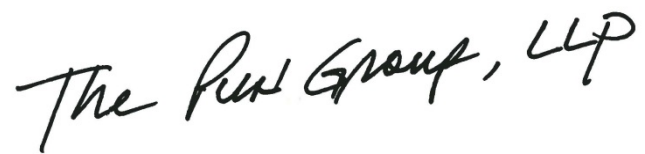
To the Honorable Chair and Members of the Board
of the Sanitary District No. 2 of Marin County
Corte Madera, California
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Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise District's basic financial statements. The Budgetary Comparison Information, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Budgetary Comparison Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022, on our consideration of District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of District's 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
November 18, 2022

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MANAGEMENT'S DISCUSSION & ANALYSIS
(Unaudited)

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Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2022

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, 2022. 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, 2022, the District's net position increased by \$2,229,201 from \$33,001,227 in 2021, to \$35,230,428 in 2021, as can be seen on page 15. Operating revenue decreased by \$328,693, primarily due to a one time correction of Sanitary District revenue in 2020-2021. Non-operating revenue increased \$771,391 compared to the previous year. This increase is mainly the result of increased property tax revenue, as well as to the fact that CMSA debt service commitment payments were included in this category in the previous year, but are included in operating expenses in 2021-2022. Operating expenses increased by \$351,041. The increase in operating expenses is due mainly to the \$668,608 CMSA debt service payment being moved to this category. A \$203,010 decrease in depreciation expense partially offset the addition of the debt service payment.. The overall increase in the district's net position is due in large part to the increase in capital assets of \$4,180,881 as a result of capital projects being completed. The unrestricted portion of the District's net position (the portion available for capital projects and other expenditures) was \$6,611,095 as of June 30, 2022, a decrease of \$1,951,680 compared to the previous year. The decrease in the unrestricted portion is due to the spend down of cash that had been accumulated for the completion of capital projects. Additionally, the District's \$2.5 million emergency reserve is unchanged from the previous year.

Using This Report

The annual financial statements include the Independent Auditors' 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
A Component Unit of the Town of Corte Madera
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2022

Financial Analysis of the District

The following schedule is prepared from the District's Statement of Net Position (page 15), which is presented on the full accrual basis of accounting in which capital assets are systematically depreciated.

	<u>2022</u>	<u>2021</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	\$ 9,684,078	\$ 11,729,950	\$ (2,045,872)	-17.4%
Noncurrent Assets	26,119,333	21,938,452	4,180,881	19.1%
Total Assets	35,803,411	33,668,402	2,135,009	6.3%
Total Liabilities	572,983	667,175	(94,192)	-14.1%
Net Position:				
Net Investment Capital Assets	26,119,333	21,938,452	4,180,881	19.1%
Emergency Reserve	2,500,000	2,500,000	-	0.0%
Unrestricted	6,611,095	8,562,775	(1,951,680)	-22.8%
Total Net Position	<u>\$ 35,230,428</u>	<u>\$ 33,001,227</u>	2,229,201	6.8%

Change in Net Position

As can be seen above, the District's Net Position increased by \$2,229,201 this year, from \$33,001,227 in FY 2021, to \$35,230,428 in FY 2022.

	<u>2022</u>	<u>2021</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenue	\$ 2,963,911	\$ 3,292,604	\$ (328,693)	-10.0%
Operating Expenses	4,752,775	4,401,735	351,040	8.0%
Operating Income (Loss)	(1,788,864)	(1,109,131)	(679,733)	-61.3%
Nonoperating Revenue (Expenses)	4,018,065	3,246,674	771,391	23.8%
Change in Net Position	<u>\$ 2,229,201</u>	<u>\$ 2,137,543</u>	91,658	4.3%

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 17).

Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2022

Operating and Nonoperating Revenue

Property Taxes increased by \$262,065 or 7.4%. Charges for services decreased by \$366,232 or 11%. A large part of the decrease is due to one time revenue in 2020-2021, which was the result of a correction of 2019-2020 revenue. Other operating revenue increased by \$37,539, mostly due to increased sewer connection fees.

FY 2021-2022		Revenue	FY 2020-2021		Increase (Decrease)
\$ 3,981,260	57.0%	Property Taxes	\$ 3,719,195	52.3%	\$ 262,065
2,841,560	40.7%	Sewer User Fees	3,207,792	45.1%	(366,232)
36,804	0.5%	Investment Earnings	64,016	0.9%	(27,212)
122,351	1.8%	Other Revenue	127,068	1.8%	(4,717)
<u>\$ 6,981,975</u>	<u>100.0%</u>	TOTALS	<u>\$ 7,118,071</u>	<u>100.0%</u>	<u>\$ (136,096)</u>

Operating and Nonoperating Expenses

Operating expenses increased by \$351,040, or 8%. CMSA Debt Service has been included in expenses in 2021-2022 whereas this had been deducted from Non Operating Revenue in the previous year. This addition has been partially offset by decreases in other categories.

FY 2021-2022		Operating Expenses	FY 2020-2021		Increase (Decrease)
\$ 262,425	5.5%	Administration & General	\$ 234,538	5.3%	\$ 27,887
1,222,452	25.7%	Collection Maintenance	1,335,324	30.3%	(112,872)
362,515	7.6%	Pump Station Maintenance	456,321	10.4%	(93,806)
668,608	14.1%	CMSA Debt Service			
177,396	3.7%	Utilities	220,229	5.0%	(42,833)
1,127,450	23.7%	Treatment & Disposal	1,030,384	23.4%	97,066
931,929	19.6%	Deprecation Expense	1,124,939	25.6%	(193,010)
<u>\$ 4,752,775</u>	<u>100.0%</u>	TOTALS	<u>\$ 4,401,735</u>	<u>100.0%</u>	<u>\$ (317,568)</u>

Administration and General expenditures increased by \$27,887. This category includes legal expenditures, training, audits, and supplies, as well as grant payments to property owners for sewer lateral work.

Depreciation expense decreased by \$193,010 and accounts for the largest decrease. Several capital assets have been fully depreciated, and some capital projects were in progress as of June 30, 2022 and not yet depreciated.

Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Management’s Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2022

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:

<u>Fiscal Year</u> <u>July 1 - June 30</u>	<u>Charge per</u> <u>Sewer User Unit</u>	<u>Collection Charge</u> <u>Per Parcel Billing</u>
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

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.” There have been no increases since the 2009-2010 fiscal year.

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.

Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2022

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.

Sewer System User Fees

A Sewer System Master Plan Update and fee study is currently in progress.

There has been no increase in the sewer user fee rates since FY 2009-10 and no increase is scheduled for the 2022-2023 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.

Property taxes currently account for 57% of revenue and are expected to increase at least 2% annually in accordance with the provisions of Proposition 13. This revenue source is used to subsidize operating cost, and provide funds for capital projects. As a result of receiving property tax revenue, the District has been able to avoid raising Sewer User Fees since 2009-2010.

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.

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BASIC FINANCIAL STATEMENTS

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Sanitation District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Statement of Net Position
June 30, 2022

	2022	<i>for comparative purposes only</i> 2021
ASSETS		
Current assets:		
Cash and investments	\$ 9,573,326	\$ 11,671,941
Intergovernmental receivable	93,814	56,399
Interest receivable	16,938	-
Prepaid items and deposits	-	1,610
Total current assets	9,684,078	11,729,950
Noncurrent assets:		
Capital assets:		
Non-depreciable	1,395,539	4,310,034
Depreciable, net	24,723,794	17,628,418
Capital assets, net	26,119,333	21,938,452
Total noncurrent assets	26,119,333	21,938,452
Total assets	35,803,411	33,668,402
LIABILITIES		
Current liabilities:		
Accounts payable	468,938	667,175
Deposits payable	104,045	-
Total current liabilities	572,983	667,175
Total liabilities	572,983	667,175
NET POSITION		
Investment in capital assets	26,119,333	21,938,452
Restricted:		
Emergency reserve	2,500,000	2,500,000
Total restricted	2,500,000	2,500,000
Unrestricted	6,611,095	8,562,775
Total net position	\$ 35,230,428	\$ 33,001,227

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Sanitation District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

	2022	<i>for comparative purposes only</i> 2021
OPERATING REVENUES:		
Charges for services	\$ 2,841,560	\$ 3,207,792
Other operating revenue	122,351	84,812
Total operating revenues	2,963,911	3,292,604
OPERATING EXPENSES:		
Treatment and disposal	1,796,058	1,030,384
Collection maintenance and repairs	1,222,452	1,335,324
Pump station maintenance	362,515	456,321
Utilities	177,396	220,229
General and administrative	262,425	234,538
Depreciation	931,929	1,124,939
Total operating expenses	4,752,775	4,401,735
OPERATING INCOME (LOSS)	(1,788,864)	(1,109,131)
NONOPERATING REVENUES (EXPENSES):		
Property tax assessments	3,981,260	3,719,195
Investment income	36,805	64,016
CMSA debt service commitment	-	(578,793)
Other non-operating revenues (expenses)	-	42,256
Total nonoperating revenues (expenses)	4,018,065	3,246,674
CHANGES IN NET POSITION	2,229,201	2,137,543
NET POSITION:		
Beginning of year	33,001,227	30,863,684
End of year	\$ 35,230,428	\$ 33,001,227

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Sanitation District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Statement of Cash Flows
For the Year Ended June 30, 2022

	2022	<i>for comparative purposes only</i> 2021
Cash Flows from Operating Activities:		
Cash received from customers	\$ 2,805,755	\$ 3,340,196
Cash payments to contract services and supplies	(3,915,038)	(3,175,032)
Other	122,351	-
Net cash provided by operating activities	(986,932)	165,164
Cash Flows from Noncapital Financing Activities:		
Property tax assessments	3,981,260	3,719,195
CMSA debt service commitment	-	(578,793)
Net cash (used in) noncapital financing activities	3,981,260	3,140,402
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(5,112,810)	(3,976,167)
Net cash provided by (used in) capital and related financing activities	(5,112,810)	(3,976,167)
Cash Flows from Investing Activities:		
Investment earnings	19,867	64,016
Other nonoperating revenue (expenses)	-	42,256
Net cash provided by investing activities	19,867	106,272
Net increase (decrease) in cash and cash equivalents	(2,098,615)	(564,329)
Cash and Cash Equivalents:		
Beginning of year	11,671,941	12,236,270
End of year	\$ 9,573,326	\$ 11,671,941
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (1,788,864)	\$ (1,109,131)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	931,929	1,124,939
Change in assets and liabilities:		
Accounts receivable	(37,415)	47,592
Prepaid items and deposits	1,610	-
Accounts payable	(198,237)	101,764
Deposits payable	104,045	-
Total adjustments	801,932	1,274,295
Net cash provided by (used in) operating activities	\$ (986,932)	\$ 165,164

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
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For the Year Ended June 30, 2022

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Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the Sanitary District No. 2 of Marin County, California (the “District”) have been prepared in conformity with Accounting Standards Generally Accepted in the United States of America (U.S. GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards in the United States. The more significant of the District’s accounting policies are described below.

A. Financial Reporting Entity

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 “Town”). 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 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.

B. Basis of Presentation, Accounting and Measurement Focus

The District’s financial statements have been prepared in accordance with U.S. GAAP as applied to governmental entities. 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.

The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. Nonoperating revenue results from non-exchange transactions, ancillary activities or subsidies, and investment earnings.

Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investments

The Authority's cash and investments considered to be cash equivalents, consist of cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and reported as cash and investments. The Authority's cash and investments are held by the Town in its pooled cash and investments.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Certain disclosure requirements, if applicable, for deposits and investment risks in the following areas:

- Interest rate risk
- Credit risk
 - Overall
 - Custodial credit risk
 - Concentration of credit risk
- Foreign currency 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.

D. Receivables

Customer or trade receivables are reported as "accounts receivable" and are shown net of an allowance for uncollectible accounts based on historical and management estimates. 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. Intergovernmental 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.

E. Prepaid Items

Prepaid items are recorded at cost. Using the consumption method, prepaid items are recorded as expenditures over the period that service is provided. Reported inventory and prepaid items are equally offset by a fund balance reservation, which indicates that they do not constitute "available spendable resources" even though they are a component of current assets.

Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

Note 1 – Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at the fair value of the assets on the date on which they were contributed. Donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The District utilizes a capitalization threshold of \$25,000.

Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets as follows:

Asset Category	Useful Lives (years)
Collections Equipment, Pump Stations, Infrastructure, Sewer Lines and Appurtenances	25-50
Building and Structure	50
Building and Structure Improvements	20
Other Improvements	35
Vehicles, Equipment and Machinery	5

For all infrastructure systems, the Town elected to use the Basic Approach for infrastructure reporting. The Town defines infrastructure as the basic physical assets that allow the Town to function. The assets include sewer lines and infrastructure.

G. Property Taxes

Marin County (County) assesses properties and it bills, collects, and distributes property taxes to all taxing entities within its jurisdiction including the District. Under State law, known as the Teeter Plan, the County remits the entire secure amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are assessed on January 1. Secured property tax is due in two installments, on November 1 and March 1. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the District in the fiscal year they are levied provided they become available as defined above.

H. Use of Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions, in some cases when applicable, that affect the amounts in the financial statements and the accompanying notes. Actual results could differ from the estimates.

Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

Note 2 – Cash and Investments

The carrying amounts of the District’s pooled cash and investment with the Town was \$9,573,326 at June 30, 2022.

The District pools its cash and investments of all funds with the Town of Corte Madera, California to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The pool is managed by the Town Treasurer for investing, except for certain restricted funds and investments held in trust, which are held and invested by outside custodians through contractual agreements. These restricted funds include cash with fiscal agents.

Investments held in the Town's cash and investments pool are available on demand. Information regarding the Town's cash and investment pools is described in the Town's Annual Financial Report.

The Authority does not have a specific investment policy but follows the guidelines of the Town of Corte Madera’s Investment Policy. All funds invested are managed to meet the guidelines stated in both California Code Section 53600, et. seq. and the Town’s investment policy.

Note 3 – Capital Assets

The summary of changes in capital assets for the year ended June 30, 2022, is as follows:

	Balance July 1, 2021	Additions	Deletions	Adjustments/ Transfers	Balance June 30, 2022
Capital assets, not being depreciated					
Land	\$ 580,265	\$ -	\$ -	\$ -	\$ 580,265
Construction in progress	3,729,769	1,736,863	-	(4,651,358)	815,274
Total capital assets, not being depreciated	4,310,034	1,736,863	-	(4,651,358)	1,395,539
Capital assets, being depreciated					
CMSA treatment plant	2,798,561	-	-	-	2,798,561
Infrastructure	21,977,937	3,375,947	-	2,379,719	27,733,603
Pump stations and improvements	15,738,997	-	-	2,271,639	18,010,636
Vehicles	451,867	-	-	-	451,867
Equipment	82,696	-	-	-	82,696
Subtotal	41,050,058	3,375,947	-	4,651,358	49,077,363
Less: accumulated depreciation					
CMSA treatment plant	(2,547,856)	(69,964)	-	-	(2,617,820)
Infrastructure	(10,669,102)	(213,337)	-	-	(10,882,439)
Pump stations and improvements	(9,696,533)	(638,062)	-	-	(10,334,595)
Vehicles	(451,868)	-	-	-	(451,868)
Equipment	(56,281)	(10,566)	-	-	(66,847)
Subtotal	(23,421,640)	(931,929)	-	-	(24,353,569)
Total capital assets, being depreciated, net	17,628,418	2,444,018	-	4,651,358	24,723,794
Total capital assets, net	\$ 21,938,452	\$ 4,180,881	\$ -	\$ -	\$ 26,119,333

Depreciation expense was charged to the District in the amount of \$931,929.

Sanitary District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

Note 4 – 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.

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SUPPLEMENTARY INFORMATION

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Sanitation District No. 2 of Marin County
A Component Unit of the Town of Corte Madera
Budgetary Comparison Information
For the Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
OPERATING REVENUES:				
Charges for services	\$ 3,065,000	\$ 3,065,000	\$ 2,841,560	\$ (223,440)
Other operating revenue	70,000	70,000	122,351	52,351
Total operating revenues	<u>3,135,000</u>	<u>3,135,000</u>	<u>2,963,911</u>	<u>(171,089)</u>
OPERATING EXPENSES:				
Treatment and disposal	1,746,112	1,746,112	1,796,058	(49,946)
Collection maintenance and repairs	2,050,597	2,050,597	1,222,452	828,145
Pump station maintenance	410,000	410,000	362,515	47,485
Utilities	210,000	210,000	177,396	32,604
General and administrative	700,000	700,000	262,425	437,575
Depreciation	1,400,000	1,400,000	931,929	468,071
Total operating expenses	<u>6,516,709</u>	<u>6,516,709</u>	<u>4,752,775</u>	<u>1,763,934</u>
OPERATING INCOME (LOSS)	<u>(3,381,709)</u>	<u>(3,381,709)</u>	<u>(1,788,864)</u>	<u>1,592,845</u>
NONOPERATING REVENUES (EXPENSES):				
Property tax assessments	3,633,939	3,633,939	3,981,260	347,321
Investment income	85,000	85,000	36,805	(48,195)
Total nonoperating revenues (expenses)	<u>3,718,939</u>	<u>3,718,939</u>	<u>4,018,065</u>	<u>299,126</u>
OPERATING FUND SURPLUS (DEFICIT)	<u>337,230</u>	<u>337,230</u>	<u>\$ 2,229,201</u>	<u>\$ 1,891,971</u>

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**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***

Independent Auditors' Report

To the Honorable Chair and Members of the Board
of the Sanitary District No. 2 of Marin County
Corte Madera, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the of the Sanitary District No. 2 of Marin County (the "District"), a component unit of the Town of Corte Madera (the "Town"), as of and for the year ended June 30, 2022, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 18, 2022.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

To the Honorable Chair and Members of the Board
of the Sanitary District No. 2 of Marin County
Corte Madera, California
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Compliance and Other Matters

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

Purpose of this Report

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

The PwC Group, LLP

Walnut Creek, California
November 18, 2022