

**ALTO SANITARY DISTRICT
MILL VALLEY, CALIFORNIA**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Alto Sanitary District
Mill Valley, California

Report on the Financial Statements

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

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 our 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, we consider internal control relevant to Alto Sanitary District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Alto Sanitary District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of Alto Sanitary District, as of June 30, 2020, and the respective changes in financial position and its cash flows 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 (pages 3-6), 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.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
February 23, 2021

Alto Sanitary District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 For the Year Ended June 30, 2020

The purpose of this section of the financial statements is to present management's discussion and analysis of the Alto Sanitary District's (the District's) financial performance during the fiscal year that ended on June 30, 2020. We recommend that readers review this in conjunction with the remainder of the financial statements.

FINANCIAL HIGHLIGHTS

- The net position of the District's business-type activities increased by \$530,800 in fiscal 2020 compared to an increase of \$549,400 in fiscal year 2019. Total operating expenses in fiscal 2020 increased by a net \$40,385 or 9 percent more than in fiscal 2019. Most of the fiscal 2020 cost increases relate to higher sewage treatment and disposal costs.
- In fiscal 2020, sewer service charge revenues from District customers decreased by \$2,531 which is less than 1 percent difference compared to fiscal 2019.
- The District expended about \$479,742 on line improvements in fiscal 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts — *management's discussion and analysis* (this section), and the *basic financial statements including related disclosures*. The basic financial statements include one kind of statement that present both a short-term and long-term view of the District:

- Proprietary enterprise fund-type statements offer *short-* and *long-term* financial information about the activities that the District operates *like businesses*, such as the District's wastewater collection and treatment system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

FIGURE A-1

Basic Financial Statement Features	Basic Financial Statements
Scope	Activities the District operates similar to a to a private business; the wastewater collection and treatment systems.
Required Financial Statements	Statement of net position; statement of revenues, expenses, and changes in net position, and the statement of cash flows.
Accounting Basis and Measurement Focus	Accrual accounting and economic measurement focus
Type of Asset and Liability Information	All assets and liabilities, both financial and capital and short term and long-term focus.
Type of Inflow and Outflow Information	All revenues and expenses during the year regardless of when the cash is received.

Alto Sanitary District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2020

Basic Financial Statements

The basic financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position regardless of when cash is received or paid.

The basic financial statements report the District's *net position* and how it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health, or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The basic financial statements of the District consist of one category:

- *Business-type activities* - The District charges fees to help it cover the costs of certain services it provides. All of the District's operations are accounted for in this category. *The District uses proprietary enterprise fund type accounting principles to account for all operations.* Proprietary accounting provides both long-and short-term financial information.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position – The District's *combined* net position increase by \$530,800 in fiscal year 2020 (See Table A-1).

TABLE A-1
NET POSITION OF THE DISTRICT
(Rounded to the nearest dollar)

	Business-type Activities		Change	
	2020	2019	\$	%
Assets				
Current assets	\$ 969,987	\$ 652,112	\$ 317,875	49%
Capital assets, net	<u>2,426,454</u>	<u>2,009,978</u>	<u>416,476</u>	<u>21%</u>
Total assets	<u>3,396,441</u>	<u>2,662,090</u>	<u>734,351</u>	<u>28%</u>
Liabilities				
Current liabilities	<u>229,418</u>	<u>25,867</u>	<u>203,551</u>	<u>787%</u>
Total liabilities	<u>229,418</u>	<u>25,867</u>	<u>203,551</u>	<u>787%</u>
Net Position				
Net investment in capital assets	2,426,454	2,009,978	416,476	21%
Unrestricted	<u>740,569</u>	<u>626,245</u>	<u>114,324</u>	<u>18%</u>
Total net position	<u>\$ 3,167,023</u>	<u>\$ 2,636,223</u>	<u>\$ 530,800</u>	<u>20%</u>

The primary reason for the large increase in net position was that in fiscal 2020 operating revenues were about \$407,924 more than operating expenses including depreciation expense.

There was about a \$40,385 increase in total expenses in fiscal 2020. Most of the expense increase resulted from \$27,000 higher spent on sewage treatment and disposal and \$11,000 higher spent on-line cleaning and repairs.

Alto Sanitary District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2020

Change in Net Position

The District's total revenues (exclusive of capital contributions) increased less than 1 percent in fiscal 2020.

The Table below reports the fiscal 2020 revenues and expenses by category and their relative change compared to 2019.

Table A-2 presents the cost of each of the District's largest functions from an expense perspective - operating expenses and depreciation on capital assets.

TABLE A-2
DISTRICT'S REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>Business-type Activities</u>		<u>Change</u>	
	<u>2020</u>	<u>2019</u>	<u>\$</u>	<u>%</u>
Revenues				
Program revenues:				
Charges for sewer services	\$ 869,038	\$ 871,569	\$ (2,531)	0%
Property taxes	85,775	78,527	7,248	9%
Franchise fees	14,860	14,896	(36)	0%
Permits and fees	14,059	14,308	(249)	-2%
Investment income	<u>16,761</u>	<u>12,989</u>	<u>3,772</u>	<u>29%</u>
Total revenues	<u>1,000,493</u>	<u>992,289</u>	<u>8,204</u>	<u>1%</u>
Expenses				
Operating expense	426,767	397,045	29,722	7%
Depreciation	<u>63,266</u>	<u>52,603</u>	<u>10,663</u>	<u>20%</u>
Total expenses	<u>490,033</u>	<u>449,648</u>	<u>40,385</u>	<u>9%</u>
Income (loss) before contributions	510,460	542,641	(32,181)	-6%
Capital contributions	<u>20,340</u>	<u>6,756</u>	<u>13,584</u>	<u>100%</u>
Change in Net Position	530,800	549,397	(18,597)	-3%
Net Position, beginning	<u>2,636,223</u>	<u>2,086,826</u>	<u>549,397</u>	<u>26%</u>
Ending Net Position	<u>\$ 3,167,023</u>	<u>\$ 2,636,223</u>	<u>\$ 530,800</u>	<u>20%</u>

In fiscal 2020 there was about a \$40,385 increase in total expenses compared to fiscal 2019 total expenses, and operating revenues were sufficient to cover all operating expenses.

The District paid for these costs by using all of the direct charges collected from its customers.

The District's cash and investment holdings at the end of 2020 were invested primarily in the Marin County Treasurer's investment pool.

Alto Sanitary District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 For the Year Ended June 30, 2020

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2020, the District's investment in capital assets increased by about \$416,476 after the impact of reductions for depreciation charges. The District in fiscal 2020 completed its 2019-2020 capital improvement projects and closed out the construction improvement costs to line extensions and replacement capital costs.

**TABLE A-3
 DISTRICT INVESTMENTS IN CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	<u>Business-type Activities</u>		<u>Total Percentage Change</u>
	<u>2020</u>	<u>2019</u>	<u>%</u>
Line extensions and replacements	\$ 2,576,946	\$ 2,097,204	23%
Other improvements	452,855	452,854	0%
Construction in progress	-	-	0%
Total property and equipment	3,029,801	2,550,058	19%
Total accumulated depreciation	<u>(603,347)</u>	<u>(540,080)</u>	<u>12%</u>
Total	<u>\$ 2,426,454</u>	<u>\$ 2,009,978</u>	<u>21%</u>

More information about capital assets can be found starting on page 14 of the notes to the financial statements.

Long-Term Debt

There was no new long-term debt issued by the District in fiscal 2020. The District has no Long-Term debt outstanding.

ECONOMIC FACTORS AND NET YEAR'S OPERATING PLAN AND RATES

In the capital area, the District has determined that it is in need of significant capital projects and programs. These will in large part deal with aging infrastructure of the District which is now reaching the end of its useful life due to improvement needs in the District collection system. In addition, the pending plant improvements to be made by the SASM will result in higher treatment costs to the District in future years.

Prior to fiscal year end 2020, a separate fund was established to fund pending improvements and future costs. In addition, in 2019 the District approved an increase in the annual sewer service charges to be assessed on properties within the District, increasing the EDU rate from \$1,100 per EDU in fiscal 2017 to \$1,500 per EDU in fiscal 2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager, Alto Sanitary District, P.O. Box 163, Mill Valley, California, 94942.

Alto Sanitary District
STATEMENT OF NET POSITION
 June 30, 2020

ASSETS

Current assets:	
Cash and investments	\$ 533,045
Receivables:	
Franchise fees	3,590
Customers	1,122
Prepaid items	-
Total current assets	<u>537,757</u>
Noncurrent assets:	
Capital improvement fund:	
Designated cash and investments	<u>432,230</u>
Total designated cash and investments	<u>432,230</u>
Capital assets:	
Collection system:	
Line extensions and replacements	2,576,946
Other improvements	452,855
Less accumulated depreciation	<u>(603,347)</u>
Total capital assets being depreciated	<u>2,426,454</u>
Total assets	<u>3,396,441</u>

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	229,418
Accrued expenses	-
Total current liabilities	<u>229,418</u>
Net position:	
Net investment in capital assets	2,426,454
Unrestricted	<u>740,569</u>
Total net position	<u>\$ 3,167,023</u>

The accompanying notes are an integral part of these financial statements.

Alto Sanitary District
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended June 30, 2020

Operating revenues:	
Sewer service fees	\$ 869,038
Franchise fees	14,860
Permits and fees	<u>14,059</u>
Total operating revenues	<u>897,957</u>
Operating expenses:	
Salaries and benefits	49,961
Intergovernmental treatment costs	307,670
Line cleaning, inspection and repairs	36,161
Insurance and claims	814
Contract and professional services	6,000
Other operating expenses	26,161
Depreciation	<u>63,266</u>
Total operating expenses	<u>490,033</u>
Operating income (loss)	<u>407,924</u>
Non-operating revenues (expenses):	
Property taxes	85,775
Investment income	<u>16,761</u>
Total non-operating revenues (expenses)	<u>102,536</u>
Contributed capital:	
Connection fees	<u>20,340</u>
Change in net position	530,800
Net position, beginning of period	<u>2,636,223</u>
Net position, end of period	<u>\$ 3,167,023</u>

The accompanying notes are an integral part of these financial statements.

Alto Sanitary District
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020

Cash flows from operating activities:	
Receipts from customers	\$ 871,876
Other operating receipts	28,919
Payments to suppliers for goods and services	(163,255)
Payments to employees for services and benefits	<u>(54,030)</u>
Net cash provided (used) by operating activities	<u>683,510</u>
Cash flows from non-capital financing activities:	
Property tax collections	<u>85,775</u>
Net cash provided (used) by non-capital financing activities	<u>85,775</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(479,742)
Capital connections	<u>20,340</u>
Net cash provided (used) by capital and related financing activities	<u>(459,402)</u>
Cash flows from investing activities:	
Interest earned	<u>16,761</u>
Net cash provided by investing activities	<u>16,761</u>
Net increase (decrease) in cash and cash equivalents	326,644
Cash and cash equivalents - beginning of period	<u>638,631</u>
Cash and cash equivalents - end of period	<u>\$ 965,275</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	\$ 407,924
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	63,266
Changes in certain assets and liabilities:	
Accounts receivable	2,838
Prepaid items	5,931
Accounts payable	207,620
Accrued expenses	<u>(4,069)</u>
Net cash provided (used) by operating activities	<u>\$ 683,510</u>

The accompanying notes are an integral part of these financial statements.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Alto Sanitary District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This summary of significant accounting policies of the District is presented to assist in understanding the financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

A. Reporting Entity

The District was organized in 1950 as a special district under Provisions of the Sanitary District Act of 1923, and it is governed by five elected Directors. The District's service area includes about 116 acres in or adjacent to the Northeastern portion of the City of Mill Valley in the County of Marin, California. The District provides sewerage collection and disposal services and contract administration for the collection of municipal solid waste and recycling services. The District has no component units. The District does not own or operate its own wastewater treatment plant. As a member of the Sewerage Agency of Southern Marin (A joint powers agency), the District is charged an annual fee for the treatment of its wastewater.

B. Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property taxes, service fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The District is engaged in only business-type activities and the District's basic financial statements consist of only the financial statements required for enterprise funds. These include management's discussion and analysis, a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and these notes to the basic financial statements.

The District applies all applicable Financial Accounting Standards Board (FASB) Pronouncements issued before November 30, 1989 in accounting for its proprietary operations, and the provisions of GASB Statement Number 62.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (concluded)

Proprietary enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to the customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The District's investment policy has been to invest all cash in the Marin County Treasurer's Investment Pool. Investments are reported at fair value. The County Pool is operated in accordance with applicable state laws and regulations, and the reported value of the District's investment in the County Pool are the same as the fair value of the County Pool shares.

Receivables, Property Taxes and Sewer Service Revenues

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Marin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1 and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District and accrues as receivable such taxes. Accordingly, the District provides for no allowance for doubtful accounts.

Sewer service fees (used to supplement tax revenues) are set by the District based upon rates applied to the number of equivalent dwelling units (EDUs) for nonvacant properties and adjusted flows applicable to commercial properties. The sewer service fees are incorporated into the property tax billings, and such fees are due in two equal installments on December 10 and April 10 following the assessment date. The District recognizes these fees as revenues in the year earned, which is also the year in which the service is provided to properties within the District. Under an arrangement with the County known as the Teeter Plan, the County advances substantially all of the sewer fees to the District each year, and the County bears the burden of any uncollectible accounts. Therefore, the District does not provide for an allowance for uncollectible accounts or bad debts.

Inventories and Prepaid Items

All inventories are valued at cost based upon physical determinations made at the end of each year.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position (continued)

Designated Cash Equivalents and Investments

Cash equivalents and investments restricted for use in only capital projects are reported as noncurrent assets. The District follows the practice of reporting in this category the funds (if any such funds are held), which by Resolution of the Board of Directors, can only be used for the purpose of financing the design, construction, replacement and improvement of related District facilities.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (mainly the existing wastewater system) are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets and assets constructed by developers are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Subsurface lines	40
Facilities and structures	40

Compensated Absences, Sick Leave, Other Post-Employment Benefits and Claims

The District's policy is to provide employees with no vacation or sick pay benefits that can be accumulated and subject to payment upon termination of employment. Accordingly, the District reports no liability for compensated absences/unpaid vacation or sick leave in these financial statements. The District does comply with California's Healthy Workplaces/Healthy Families Act of 2014 and provides up to 24 hours of paid sick leave as part of employee's annual salary.

The District does not provide any other post-employment retirement benefits (OPEB) such as retiree medical benefits, and accordingly the District reports no liability for such OPEB plans in these financial statements.

The District does not participate in the Public Employees Retirement System (PERS) and provides employees with no pension benefits, accordingly, the District reports no information about pension plans or contributions in these financial statements.

The District obtains insurance coverage for property and equipment, fidelity bonds, automobile liability and general liability, through its membership with the Sewerage Agency of Southern Marin (SASM). The District pays a prorated share of the premiums charged to SASM for coverage under a master policy. The risk of loss is transferred from the District to the SASM's insurance provider in exchange for the District's payment of annual premiums. Incurred and unbilled claims, if any, are accrued as a liability when it is probable that an asset has been impaired, the amount of the obligation can be reasonably estimated, and the claim is not covered by insurance. The District has a self-insured retention limit, similar to a deductible, of \$25,000.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

D. Assets, Liabilities, and Net Position (concluded)

Long-term Obligations

In enterprise fund-type financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. The District has no outstanding long-term debt obligations.

Net Position

In the financial statements, fund net position is reported in two categories as follows:

- Net investment in capital assets - This category of net position reports the net book value of capital assets used in District operations including construction in progress all net of related accumulated depreciation, and reduced by the carrying value of related long-term debt issued to finance the acquisition of such assets.
- Unrestricted - Unrestricted net position represented all other assets net of related liabilities available for use by the District.

NOTE 2 - DETAILED NOTES

A. Cash Equivalents and Investments

Cash equivalents and investments at June 30, 2020, consisted of the following:

Marin County Treasurer's Investment Pool:	
District operating account	\$ 527,575
District capital improvement account	432,230
Payroll clearing account and cash on hand	<u>5,470</u>
Total cash equivalents and investments	<u>\$ 965,275</u>

Custodial Credit Risk - Deposits: 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's policy for deposits is that they will all be deposited with the County of Marin Treasurer's Investment Fund. The District maintains no separate bank checking, savings, money market, or time deposit accounts other than a payroll clearing account. The District had no custodial credit risk as to deposits because the bank balance was fully insured by the FDIC.

Custodial Credit Risk - Investments: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the District's investments were invested in specific securities. All of the District's monies in the Marin County Treasurer's Investment Pool are not evidenced by specific securities; and therefore are not subject to custodial credit risk.

Credit Risk- Investments: State law limits investments in various securities to certain levels of risk ratings issued by nationally recognized statistical rating organizations. It is the County of Marin's Treasurer's Investment Pool policy to comply with those requirements. The Marin County Treasurer's Investment Pool is unrated.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 2 - DETAILED NOTES (concluded)

A. Cash Equivalents and Investments (concluded)

Fair Value Measurements - Investments: The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs. The District has no separately held investments and its funds are held primarily by the Marin County Investment Pool which pool values its investments monthly using real-time pricing viewed as Level 1 inputs.

Designated Cash and Cash Equivalents: The District, by resolution of its Board of Directors approved in fiscal 2016, the establishment of a separate fund to hold cash set aside for future specific purposes including major repairs, replacements, and capital improvements. At June 30, 2020, \$432,230 was held in this fund.

B. Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance at 07/01/19	Additions	Deletions	Balance at 6/30/20
<u>Business-type Activities</u>				
Capital assets, being depreciated:				
Line extensions and replacements	\$ 2,097,204	\$ 479,742	\$ -	\$ 2,576,946
Other improvements	452,855	-	-	452,855
Total capital assets, being depreciated	<u>2,550,059</u>	<u>479,742</u>	<u>-</u>	<u>3,029,801</u>
Less accumulated depreciation for:				
Line extensions and replacements	(406,540)	(59,269)	-	(465,809)
Other improvements	<u>(133,540)</u>	<u>(3,998)</u>	<u>-</u>	<u>(137,538)</u>
Total accumulated depreciation	<u>(540,080)</u>	<u>(63,267)</u>	<u>-</u>	<u>(603,347)</u>
Net capital assets being depreciated	<u>2,009,979</u>	<u>416,475</u>	<u>-</u>	<u>2,426,454</u>
Business-type activities capital assets - net	<u>\$ 2,009,979</u>	<u>\$ 416,475</u>	<u>\$ -</u>	<u>\$ 2,426,454</u>

NOTE 3 - OTHER INFORMATION

A. Jointly Governed Organizations

The District is a member of the Sewerage Agency of Southern Marin (SASM). The SASM was formed in 1979 as a joint powers agency with six members: The City of Mill Valley, the Richardson Bay, Almonte, Alto and Homestead Sanitary Districts and the Tamalpais Community Services District. The SASM is a stand-alone governmental entity and it is not financially accountable for any other governmental entity and it has no component units. SASM's primary function is the maintenance and operation of its owned wastewater treatment plant and related lines and facilities.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 3 - OTHER INFORMATION (continued)

A. Jointly Governed Organizations (concluded)

Member agencies pay annual assessments to SASM, based upon the concept of their respective number of equivalent dwelling units (EDUs), in exchange for the treatment and disposal of wastewater collected through their respective collection systems and conveyed to SASM's treatment plant and facilities. Member agency assessments are expected to increase in future years as SASM undertakes plant modernization and improvement projects.

In August of 2016, the District entered into a financing agreement with the SASM wherein the District agreed to maintain its net system revenues at a level equal to at least 120 percent of its obligation to SASM to support the SASM Bonds. The SASM issued \$38,000,000 in revenue bonds to provide financing for improvements to its wastewater treatment plant and refund other debt obligations. The District's annual financial obligations under the JPA Agreement and the Financing Agreement are passed through to the District each year in the form of a billing for an annual assessment payable in two equal semi-annual installments. These annual assessments are reported by the District as intergovernmental treatment costs in the statement of revenues, expenses and changes in net position. The costs were \$307,670 in fiscal 2020.

Under the Joint Powers Agreement, all excess administration, operations and maintenance funds, from any source, are the property of SASM and not its members. If excess monies are available, the SASM may, but is not required to, reduce member assessments for the subsequent year. There are no provisions for sharing among the members the net earnings of SASM. Accordingly, the District is deemed to have no equity interest in SASM.

B. Risk Management

The District obtains general liability, property, and automobile insurance through its membership in the SASM. Each member agency is assessed a premium based on ratable exposure. The SASM purchases insurance coverage from the California Sanitation Risk Management Authority (CSRMA) for SASM and the member Districts.

The risk of loss is transferred from the District to the Authority under the arrangement to the extent that the insurance coverage pertains to the District membership in SASM. Subject insurance coverage does not extend to claims arising from the sole acts of the District independent of its SASM membership. The Authority provides coverage for the first \$500,000 in general liability and auto claims with the District being responsible for the first \$25,000 and a \$25,000 sewer back-up deductible. The Authority provides coverage for the next \$15 million in claims by purchasing commercial insurance coverages. The Authority provides insurance coverage for the buildings and plant of all SASM members. Flood insurance is also provided with a \$2 million coverage limit which limit is shared with other member agencies and has a \$500,000 deductible in zones A and V and a \$100,000 deductible in other zones. The District paid no uninsured losses during the last three fiscal years.

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The District had no significant uninsured claim liabilities at June 30, 2020 and 2019.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 3 - OTHER INFORMATION (concluded)

C. Contingencies and Commitments

Litigation

In the opinion of the District's general counsel, there is no pending or threatened litigation which would have a material adverse impact on the accompanying financial statements.

NOTE 4 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) began to spread among various countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S., including California, have declared a state of emergency and issued shelter-in-place orders in response to the outbreak. Since most District staff are considered "essential", the immediate impact to the District's operations includes new restrictions on employees' work location and planning heightened sanitation awareness requirements on office staff. It is anticipated that the impacts from this pandemic will continue for some time. As of the report date, the financial impact of the coronavirus outbreak cannot be measured.