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6/11/2025

To be used only for management discussion purposes; engagement is incomplete; this draft is subject to final review and possible revision. **Report/Letter date is TENTATIVE-TBD**

**ALTO SANITARY DISTRICT
MILL VALLEY, CALIFORNIA**

ANNUAL FINANCIAL REPORT

JUNE 30, 2024

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis - Required Supplementary Information (unaudited)	3-6
Basic Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Basic Financial Statements	10-16

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Alto Sanitary District, as of and for the year ended June 30, 2024, 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.

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 Alto Sanitary District, as of June 30, 2024, 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 and the State Controller's Minimum Audit Requirements for California Special Districts.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Alto Sanitary District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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 Alto Sanitary District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America 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 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, 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 Alto Sanitary 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 Alto Sanitary 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 other required supplementary information, 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 the 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.

O'Connor & Company

Novato, California

Alto Sanitary District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2024

The following discussion provides readers of Alto Sanitary District's (the District's) financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ended on June 30, 2024. Please read this document in conjunction with the accompanying Basic Financial Statements.

FISCAL YEAR 2024 FINANCIAL HIGHLIGHTS

- The net position of the District's business-type activities increased by \$445,773 in fiscal year 2024 compared to an increase of \$413,971 in fiscal year 2023. Total operating expenses in fiscal year 2024 decreased by a net \$19,159 or 3 percent less than in fiscal year 2023. The fiscal year 2024 cost decreases are related to a decrease in line cleaning, inspections, repairs and other operating expenses offset by an increase in treatment costs.
- In fiscal year 2024, sewer service charge revenues from District customers decreased by \$2,401, which is a 0.3 percent difference compared to fiscal year 2023.
- In fiscal year 2023, the District received grant income of \$20,118, which was not received in fiscal year 2024.
- The District expended approximately \$295,162 for on line improvements in fiscal year 2024.

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 presents both a short-term and long-term view of the District:

- The Proprietary fund business-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 that 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 like 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, 2024

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* of the District's assets and liabilities. All 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 on 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 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 increased by \$445,773 in fiscal year 2024 (See Table A-1).

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

	Business-type Activities		Change	
	2024	2023	\$	%
Assets				
Current assets	\$ 1,302,815	\$ 1,041,225	\$ 261,590	25%
Capital assets, net	<u>3,601,228</u>	<u>3,412,226</u>	<u>189,002</u>	<u>6%</u>
Total assets	<u>4,904,043</u>	<u>4,453,451</u>	<u>450,592</u>	<u>10%</u>
Liabilities				
Current liabilities	<u>9,894</u>	<u>5,075</u>	<u>4,819</u>	<u>95%</u>
Total liabilities	<u>9,894</u>	<u>5,075</u>	<u>4,819</u>	<u>95%</u>
Net Position				
Net investment in capital assets	3,601,228	3,412,226	189,002	6%
Unrestricted	<u>1,292,921</u>	<u>1,036,150</u>	<u>256,771</u>	<u>25%</u>
Total net position	<u>\$ 4,894,149</u>	<u>\$ 4,448,376</u>	<u>\$ 445,773</u>	<u>10%</u>

The primary reason for the large increase in net position was that in fiscal 2024 operating revenues were about \$445,773 more than operating expenses including depreciation expense.

Alto Sanitary District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2024

Change in Net Position

The District's total revenues (exclusive of capital contributions) increased 6 percent in fiscal 2024.

The Table below reports the fiscal 2024 revenues and expenses by category and their relative change compared to 2023.

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

	Business-type Activities		Change	
	2024	2023	\$	%
Revenues				
Program revenues:				
Charges for sewer services	\$ 881,289	\$ 883,690	\$ (2,401)	0%
Property taxes	107,404	97,769	9,635	10%
Franchise fees	18,571	17,024	1,547	9%
Permits and fees	4,362	13,753	(9,391)	-68%
Grant income	-	20,118	(20,118)	100%
Investment income	46,272	12,901	33,371	259%
Total revenues	<u>1,057,898</u>	<u>1,045,255</u>	<u>12,643</u>	<u>1%</u>
Expenses				
Operating expense	505,965	545,278	(39,313)	-7%
Depreciation	106,160	86,006	20,154	23%
Total expenses	<u>612,125</u>	<u>631,284</u>	<u>(19,159)</u>	<u>-3%</u>
Income (loss) before contributions	<u>445,773</u>	<u>413,971</u>	<u>31,802</u>	<u>8%</u>
Change in Net Position	445,773	413,971	31,802	8%
Net Position, beginning	<u>4,448,376</u>	<u>4,034,405</u>	<u>413,971</u>	<u>10%</u>
Ending Net Position	<u>\$ 4,894,149</u>	<u>\$ 4,448,376</u>	<u>\$ 445,773</u>	<u>10%</u>

In fiscal 2024 there was about a \$19,159 decrease in total expenses compared to fiscal 2023 total expenses, mostly the result of \$39,313 lower spent on operating expenses and a \$20,154 depreciation increase compared to 2023. Operating revenues were sufficient to cover all operating expenses.

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

The District's cash and investment holdings at the end of 2024 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, 2024

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2024, the District's investment in capital assets increased by about \$189,002 after the impact of reductions for depreciation charges.

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

	Business-type Activities		Total Percentage Change
	2024	2023	%
Line extensions and replacements	\$ 4,104,692	\$ 3,809,530	8%
Other improvements	452,855	452,855	0%
Construction in progress	-	-	0%
Total property and equipment	4,557,547	4,262,385	7%
Total accumulated depreciation	(956,319)	(850,159)	12%
Total	<u>\$ 3,601,228</u>	<u>\$ 3,412,226</u>	<u>6%</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 2024. The District has no long-term debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S OPERATING PLAN AND RATES

In the capital area, the District is in its 8th year of a significant long-term capital replacement program. This was undertaken in large part to deal with aging collection system infrastructure which has reached the end of its useful life. In addition, recent sewer treatment plant improvements by the Sewerage Agency of Southern Marin have resulted in higher shared capital costs to the District. The District holds a separate reserve fund that was established for emergency repairs and future improvements. Contributions are made annually to maintain the Boards' reserve target of \$500,000 to \$800,000. From 2017 to 2019, the District increased the annual sewer service charge assessed on properties from \$1,100 per EDU in fiscal 2017 to \$1,500 per EDU in fiscal 2019, which is the maximum level set by Alto Sanitary District Ordinance 2016-01. The current charge has allowed the District to continue to adequately fund operations and capital improvements.

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, 2024

ASSETS

Current assets:

Cash and investments	\$ 729,318
Designated cash and investments	564,174
Accounts receivable	9,323
Total current assets	<u>1,302,815</u>

Capital assets:

Collection system:

Line extensions and replacements	4,104,692
Other improvements	452,855
Less accumulated depreciation	<u>(956,319)</u>

Total capital assets being depreciated	<u>3,601,228</u>
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Total assets	<u>4,904,043</u>
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	<u>9,894</u>
Total current liabilities	<u>9,894</u>

Net position:

Net investment in capital assets	3,601,228
Unrestricted	<u>1,292,921</u>
Total net position	<u>\$ 4,894,149</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, 2024

Operating revenues:	
Sewer service fees	\$ 881,289
Franchise fees	18,571
Permits and fees	4,362
Grant income	-
Total operating revenues	<u>904,222</u>
Operating expenses:	
Salaries and benefits	70,292
Intergovernmental treatment costs	381,817
Line cleaning, inspection and repairs	16,969
Insurance and claims	2,524
Contract and professional services	10,400
Other operating expenses	23,963
Depreciation	<u>106,160</u>
Total operating expenses	<u>612,125</u>
Operating income (loss)	<u>292,097</u>
Non-operating revenues (expenses):	
Property taxes	107,404
Investment income	<u>46,272</u>
Total non-operating revenues (expenses)	<u>153,676</u>
Change in net position	445,773
Net position, beginning of period	<u>4,448,376</u>
Net position, end of period	<u>\$ 4,894,149</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, 2024

Cash flows from operating activities:	
Receipts from customers	\$ 876,359
Other operating receipts	22,933
Payments to suppliers for goods and services	(430,854)
Payments to employees for services and benefits	<u>(70,292)</u>
Net cash provided (used) by operating activities	<u>398,146</u>
Cash flows from non-capital financing activities:	
Property tax collections	<u>107,404</u>
Net cash provided (used) by non-capital financing activities	<u>107,404</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(295,162)
Capital connections	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(295,162)</u>
Cash flows from investing activities:	
Interest earned	<u>46,272</u>
Net cash provided by investing activities	<u>46,272</u>
Net increase (decrease) in cash and cash equivalents	256,660
Cash and cash equivalents - beginning of period	<u>1,036,832</u>
Cash and cash equivalents - end of period	<u><u>\$ 1,293,492</u></u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	\$ 292,097
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	106,160
Changes in certain assets and liabilities:	
Accounts receivable	(4,930)
Accounts payable	<u>4,819</u>
Net cash provided (used) by operating activities	<u>\$ 398,146</u>
Cash and investments	\$ 729,318
Designated cash and investments	<u>564,174</u>
Total cash and investments	<u><u>\$ 1,293,492</u></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, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Alto Sanitary District (the District) have been prepared in conformity with U.S. generally accepted accounting principles. (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A. These standards require that the financial statements described below be presented.

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 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.

Proprietary enterprise funds distinguish *operating* revenues and expenses from *non-operating* 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 non-operating revenues and expenses.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position

Deposits and Investments

The District's cash and cash equivalents are 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.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of acquisition date.

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 is limited generally to one percent of market value, levied by only the County, and shared by applicable jurisdictions. The County of Marin collects the taxes and distributes them to tax jurisdictions based on 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 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.

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 more than 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 assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Depreciation expense was \$86,006 for fiscal year ending June 30, 2024.

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 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.

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.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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

Net Position Flow Assumption

The District may fund operations with a combination of cost-reimbursement grants and capital grants. Thus, both restricted and unrestricted net position may be available to finance expenditure. The District's policy is to first apply restricted resources, followed by unrestricted resources if necessary.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - DETAILED NOTES

A. Cash Equivalents and Investments

Cash equivalents and investments at June 30, 2024, consisted of the following:

Marin County Treasurer's Investment Pool:	
District operating account	\$ 721,085
District capital improvement account	564,174
Payroll clearing account and cash on hand	8,233
Total cash equivalents and investments	<u>\$ 1,293,492</u>

Custodial Credit Risk - Deposits

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 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.

Custodial Credit Risk - The custodial credit risk for deposits and 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 requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits.

The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state-chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors.

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 monies were invested in specific securities. All the District's monies deposited in the Marin County Treasurer's Cash Pool are not evidenced by specific securities; and therefore, are not subject to custodial credit risk.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 2 - DETAILED NOTES (concluded)

A. Cash Equivalents and Investments (concluded)

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.

Fair Value Hierarchy

GASB Statement No. 72, *Fair Value Measurements and Application*, establishes a fair value hierarchy consisting of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs consist of inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly, that can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs, and Level 3 inputs have the lowest priority and consist of unobservable inputs for an asset or liability. The District's holdings in the Marin County Treasurers Investment Pool, LAIF, and cash in banks were not subject to the fair value hierarchy.

Designated Cash and Cash Equivalents

The District, by resolution of its Board of Directors, approved in fiscal year 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, 2024, \$564,174 was held in this fund.

B. Capital Assets

Capital asset activity for the year ended June 30, 2024, was as follows:

	Balance at 07/01/23	Additions	Deletions	Balance at 6/30/24
<u>Business-type Activities</u>				
Capital assets, being depreciated:				
Line extensions and replacements	\$ 3,809,530	\$ 295,162	\$ -	\$ 4,104,692
Other improvements	452,855	-	-	452,855
Total capital assets, being depreciated	4,262,385	295,162	-	4,557,547
Less accumulated depreciation for:				
Line extensions and replacements	(636,064)	(94,838)	-	(730,902)
Other improvements	(214,095)	(11,322)	-	(225,417)
Total accumulated depreciation	(850,159)	(106,160)	-	(956,319)
Net capital assets being depreciated	3,412,226	189,002	-	3,601,228
Business-type activities capital assets - net	\$ 3,412,226	\$ 189,002	\$ -	\$ 3,601,228

NOTE 3 - OTHER INFORMATION

A. Jointly Governed Organizations

The District is a member of the Sewerage Agency of Southern Marin (SASM). 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. 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 own wastewater treatment plant and related lines and facilities.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

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 \$381,817 in fiscal 2024.

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 coverage. The Authority provides insurance coverage for the buildings and plants 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, 2024 and 2023.

Alto Sanitary District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

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.

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