

Alto Sanitary District
Financial Statements
June 30, 2018

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Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

Board of Directors
Alto Sanitary District
Mill Valley, California

Report on the Financial Statements

I have audited the accompanying financial statements of the Alto Sanitary District, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with audited 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the District's internal control. Accordingly, I 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,

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alto Sanitary District as of June 30, 2018, and the changes in its 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 on pages 3 through 7 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.

I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report, dated December 20, 2018 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Alto Sanitary District's internal control over financial reporting and compliance.



Terry E. Krieg
Certified Public Accountant
Santa Rosa, California
December 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Alto Sanitary District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The net position of the District's business-type activities increased by \$404,673 in fiscal 2018 compared to an increase of about \$385,300 in fiscal year 2017. Total operating expenses in fiscal 2018 increased by about \$106,000 or 29 percent more than in fiscal 2017. Most of the fiscal 2018 cost increases relate to higher treatment costs and higher line cleaning and maintenance costs..
- In fiscal 2018, sewer service charge revenues from District customers increased by \$95,400 or 15 percent more than in fiscal 2017 as a result of the change in rates made to provide financing for future capital improvements and increases in treatment costs.
- The District expended about \$587,000 on line improvements in fiscal 2018.
- The District's cash and investment holdings decreased by about \$181,000 at the end of fiscal 2018 to about a total of \$522,800 resulting primarily from spending on line improvements. Of the \$522,800, about \$219,300 is on deposit in a special separate account to help fund future capital and other improvements.

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 Districts 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Districts *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 Districts 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 Districts 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 \$404,700 in fiscal year 2018. (See Table A-1).

TABLE A-1 NET POSITION OF THE DISTRICT (In Rounded Dollars)

	Business-Type Activities		Percentage Change
	2018	2017	2017-2018
Cash and investments	\$ 522,800	\$ 703,900	-26%
Other assets	4,800	3,600	33%
Capital assets, net	1,597,400	1,052,600	52%
Total assets	2,125,000	1,760,100	21%
Long-term debt	-	-	0.0%
Other liabilities	38,100	77,900	-51%
Total liabilities	38,100	77,900	-51%
Net position:			
Net investment in capital assets	1,597,400	1,052,600	52%
Unrestricted	489,500	629,600	-22%
Total net position	\$ 2,086,900	1,682,200	24%

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The primary reason for the large increase in net position was that in fiscal 2018 operating revenues were about \$294, 385 more than operating expenses including depreciation expense.

There was about a \$106,000 increase in total expenses in fiscal 2018. Most of the expense increase was for the higher treatment costs passed through to the District as the District does not own its own treatment plant. Costs were higher as well for line cleaning, mapping and dues costs.

Changes in net position.

The District's total revenues (exclusive of capital contributions) increased 16 percent in fiscal 2018 compared to fiscal 2017 revenues.

The Table below reports the fiscal 2018 revenues and expenses by category and their relative change compared to fiscal 2017.

TABLE A-2 District's Revenues, Expenses and Changes in Net Position (In Rounded Dollars)

	Years Ended June 30		Total Percentage Change
	2018	2017	2017-2018
Revenues			
Program revenues:			
Charges for sewer service	\$ 723,400	\$ 628,000	15%
Property taxes	74,300	71,000	5%
Franchise fees	14,000	14,200	-1%
Permits and fees	25,800	15,800	63%
Grants	5,000	-	100%
Investment income	6,300	2,400	163%
Total revenues	848,800	731,400	16%
Expenses			
Salaries and benefits	52,800	46,700	13%
Intergovernmental treatment costs	265,400	202,300	31%
Line inspections , cleaning , repairs	80,500	61,700	-3.1%
Insurance and claims	800	900	30%
Contracts and professional services	6,000	6,000	0.0%
Mapping and Other	21,100	10,700	97%
Depreciation	42,100	34,400	22%
Total expenses	468,700	362,700	29%
Income (Loss) before contributions	380,100	368,700	3%
Capital contributions	24,600	16,600	48%
Change in net assets	404,700	385,300	5%
Net position, beginning	1,682,200	1,296,900	-
Net position, ending	\$ 2,086,900	\$ 1,682,200	24%

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

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.

- ✓ There was in fiscal 2018 about a \$106,000 increase in total expenses compared to fiscal 2017 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.

On a cash flow basis, there was a net decrease of about \$181,199 in the District's cash and investment holdings at the end of fiscal 2018 compared to the end of fiscal 2017.

The District's cash and investment holdings at the end of 2018 were invested primarily in the Marin County Treasurer's investment pool.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2018, the District's investment in capital assets increased by about \$545,000 after the impact of reductions for depreciation charges. The District in fiscal 2018 completed its 2016-2017 and 2017-2018 capital improvement projects and closed out the construction improvement costs to line extensions and replacement capital costs. Depreciation expense increased by about 22 percent over 2017 as additional depreciation was taken in fiscal 2018 on completed projects.

**TABLE A-3 District Investment in Capital Assets, Net of Accumulated Depreciation
(In Rounded Dollars)**

	Business-Type Activities		Total Percentage Change
	2018	2017	2017-2018
Line replacements and extensions	\$ 1,632,000	\$ 936,500	74%
Other improvements	452,900	452,900	0%
Construction in progress	-	108,600	-100%
Less accumulated Depreciation	(487,500)	(445,400)	10%
Total	\$ 1,597,400	\$ 1,052,600	52%

MANAGEMENT'S DISCUSSION AND ANALYSIS

- . More information about capital assets can be found starting on page 15 of the notes to the financial statements.

Long-Term Debt

There was no new long-term debt issued by the District in fiscal 2018. The District has no Long-Term debt outstanding.

ECONOMIC FACTORS AND NEXT 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.

In addition to establishing a separate fund to set aside cash to help fund such pending improvements and future costs, the District has approved increases in the annual sewer service charges to be assessed on properties within the District with charge per EDU increasing 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, PO- Box 163, Mill Valley, California, 94942.

ALTO SANITARY DISTRICT
Statement of Net Position
June 30, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 303,382
Receivables:	
Franchise fees	3,490
Prepayments	<u>1,263</u>
Total current assets	<u>308,135</u>

Noncurrent assets:

Capital improvement fund:

Designated cash and cash equivalents	<u>219,374</u>
Total designated cash and cash equivalents	<u>219,374</u>

Capital assets being depreciated:

Collection system:

Line extensions and replacements	1,632,030
Other improvements	452,854
Less accumulated depreciation	<u>(487,478)</u>

Total capital assets being depreciated	<u>1,597,406</u>
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Total assets	<u><u>\$ 2,124,915</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	\$ 7,712
Accrued liabilities	26,494
Accrued payroll liabilities	<u>3,883</u>
Total current liabilities	<u>38,089</u>

NET POSITION

Net investment in capital assets	1,597,406
Unrestricted	<u>489,420</u>
Total net position	<u><u>\$ 2,086,826</u></u>

See accompanying notes to the basic financial statements

ALTO SANITARY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For The Fiscal Year Ended June 30, 2018

OPERATING REVENUES	
Sewer service fees	\$ 723,388
Franchise fees	13,986
Permits and fees	<u>25,773</u>
Total operating revenues	<u>763,147</u>
OPERATING EXPENSES	
Salaries and benefits	52,776
Intergovernmental treatment costs	265,398
Line cleaning, inspection and repairs	80,537
Insurance and claims	844
Contract and professional services	6,000
Other operating	21,116
Depreciation	<u>42,091</u>
Total operating expenses	<u>468,762</u>
Operating income (loss)	<u>294,385</u>
NON-OPERATING REVENUES(EXPENSES)	
Property taxes	74,281
Zero waste grant	5,000
Investment income	<u>6,383</u>
Net non-operating revenues (expenses)	<u>85,664</u>
Contributed capital:	
Connection fees	<u>24,624</u>
Change in net position	404,673
Total net position, beginning	<u>1,682,153</u>
Total net position, ending	<u><u>\$ 2,086,826</u></u>

See accompanying notes to the basic financial statements

ALTO SANITARY DISTRICT
Statement of Cash Flows
For The Fiscal Year Ending June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 723,388
Other operating receipts	39,823
Payments to suppliers for goods and services	(381,385)
Payments to employees for services and benefits	(52,891)
	<u>328,935</u>
Net cash used for operating activities	<u>328,935</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property tax collections	<u>74,281</u>
Net cash provided by noncapital noncapital financing activities	<u>74,281</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital connections	24,624
Payments on capital assets	(620,359)
Net cash used for capital financing activities	<u>(595,735)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Zero waste grant receipts	<u>5,000</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest receipts	<u>6,383</u>
Net cash provided by investing activities	<u>6,383</u>

Net increase (decrease) in cash and cash equivalents	(181,136)
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Balances-beginning of the year	<u>703,892</u>
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Balances-end of the year	<u><u>\$ 522,756</u></u>
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Reconciliation of operating income to net cash used for operating activities:

Operating income (loss)	\$ 294,385
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:	
Depreciation expense	42,091
Change in assets and liabilities:	
Decrease (increase) in franchise receivables	64
Decrease (increase) in prepayments	(1,263)
Increase (decrease) in accrued liabilities	(115)
Increase (decrease) in accounts payable	(6,227)
Net cash used for operating activities	<u><u>\$ 328,935</u></u>

Noncash capital financing activities: None

See accompanying notes to the basic financial statements

ALTO SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Alto Sanitary 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 in 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 accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. 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 and reporting for its proprietary operations, and the provisions of GASB Statement Number 62.

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.

ALTO SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

1. *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.

2. *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.

3. *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.

4. 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 are so 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.

ALTO SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

5. 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed net of construction period interest revenues earned during such periods.

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

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

6. 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 the Basic Financial Statements
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets

7. 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.

8. Net Position

In the financial statements, fund net assets are reported in two categories as follows:

- Net investment in Capital Assets - This category 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 assets represented all other assets net of related liabilities available for use by the District.

2. Detailed Notes

A. Cash Equivalents and Investments

Cash equivalents and Investments consisted of the following at June 30:

	6/30/2018
Marin County Treasurer's Investment Pool:	
District operating account	\$ 515,088
Payroll clearing account and cash on hand	7,668
	<hr/>
Total cash equivalents and investments	\$ 522,756

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 except for a payroll clearing account. The District had no custodial credit risk as to deposits because the \$7,668 bank balance was fully insured by 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 the Basic Financial Statements
June 30, 2018

2. Detailed Notes (Continued)

A. Cash Equivalents and Investments (Continued)

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 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, 2018, \$219,374 was held in this fund

B. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	108,646	586,856	695,502	-
Total	108,646	586,856	695,502	-
Capital assets, being depreciated:				
Line extensions and replacements	936,528	695,502	-	1,632,030
Other improvements	452,854	-	-	452,854
Total capital assets, being depreciated	1,389,382	695,502	-	2,084,884
Less accumulated depreciation for:				
Line extensions and replacements	(319,843)	(38,093)	-	(357,936)
Other improvements	(125,544)	(3,998)	-	(129,542)
Total accumulated depreciation	(445,387)	(42,091)	-	(487,478)
Net capital assets, being depreciated	943,995	653,411	-	1,597,406
Business-type activities capital assets, net	<u>\$ 1,052,641</u>	<u>\$ 1,240,267</u>	<u>\$ 695,502</u>	<u>\$ 1,597,406</u>

ALTO SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

3. Other Information

A. Jointly Governed Organizations

The Alto Sanitary 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. 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 installments are reported by the District as intergovernmental treatment costs in the statement of revenues, expenses and changes in net position.

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 Alto Sanitary District is deemed to have no equity interest in SASM.

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.

ALTO SANITARY DISTRICT
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B. Risk Management (Continued)

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, 2018 and 2017.

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.