

San Rafael Sanitation District
A Component Unit of the City of San Rafael

Annual Financial Report
Years Ended
June 30, 2023 and 2022

With
Independent Auditor's Report

**SAN RAFAEL SANITATION DISTRICT
YEARS ENDED JUNE 30, 2023 AND 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board
of the San Rafael Sanitation District
San Rafael, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the San Rafael Sanitation District (District), a component unit of the City of San Rafael, California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the 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 District as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirement 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 these 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maze & Associates

Pleasant Hill, California
September 26, 2023

SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022

The Management's Discussion and Analysis provides an overview of the District's financial activities for the fiscal years ended June 30, 2023 and 2022. The information here should be read in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

The District's total net position as of June 30, 2023, was approximately \$106,368,000 which is an increase of approximately \$6,747,000 over the prior year's balance. Net position is comprised of approximately \$59,178,000 invested in capital assets and approximately \$47,190,000 in unrestricted net position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis section is intended to serve as an introduction to the District's financial statements which include two components: (1) basic financial statements and (2) notes to the basic financial statements.

The District is a single purpose entity that reports as an enterprise fund under governmental accounting standards. The financial statements are designed to provide readers with a broad overview of the District's finances, similar to a private-sector business.

The Statements of Net Position present information on all the District's assets and liabilities, with the difference between assets and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how the District's net position changed during the fiscal year. All changes in net position are recognized as of the date of the underlying event that gives rise to the change, regardless of the timing of the related cash flows.

The Statements of Cash Flows present information about the District's cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. These statements show the sources and uses of cash, as well as the change in the cash balances during the fiscal years.

Notes to the Basic Financial Statements provide additional details and information related to the basic financial statements.

SAN RAFAEL SANITATION DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022

The following table is a summary of the District’s assets, liabilities, and net position for the years ended June 30:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 49,594,474	\$ 48,547,353	\$ 44,345,582
Noncurrent assets	60,089,990	55,567,449	54,715,226
Total assets	<u>109,684,464</u>	<u>104,114,802</u>	<u>99,060,808</u>
Current liabilities	1,941,903	1,824,236	956,933
Noncurrent liabilities	1,374,944	2,669,803	4,252,005
Total liabilities	<u>3,316,847</u>	<u>4,494,039</u>	<u>5,208,938</u>
Net position			
Investment in capital assets	59,178,014	55,192,111	54,715,226
Unrestricted	47,189,603	44,428,652	39,136,644
Total net position	<u>\$ 106,367,617</u>	<u>\$ 99,620,763</u>	<u>\$ 93,851,870</u>

As indicated in the table above, current assets increased each year from 2021 to 2023. This was primarily because the District was accumulating resources for planned capital projects. The increase in noncurrent assets was the result of capital improvement projects undertaken each year, partly offset by annual depreciation. Expenditures for capital improvement projects often do not coincide with revenue for annual fiscal periods since projects are subject to lengthy planning periods, weather considerations and long construction periods. Current liabilities consist primarily of trade and construction payables and the current portion of a liability to the City of San Rafael for pension and other post-employment benefits. The change in current liabilities each year was the normal result of fluctuations in the timing of District’s disbursement cycle. Noncurrent liabilities decreased from 2021 to 2023 as a result of a revaluation of a liability to the City of San Rafael for pension and other post-employment benefits.

Details of capital improvements are described in *Capital Assets and Debt Administration*.

SAN RAFAEL SANITATION DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022

The following table is a summary of the District’s results of operations for the years ended June 30:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 16,638,611	\$ 16,458,113	\$ 16,945,721
Nonoperating revenues	3,474,689	1,685,715	1,942,420
Total revenues	<u>20,113,300</u>	<u>18,143,828</u>	<u>18,888,141</u>
Operating expenses	<u>13,541,927</u>	<u>12,892,687</u>	<u>13,790,905</u>
Income before capital contributions	6,571,373	5,251,141	5,097,236
Capital contributions	175,481	517,752	277,752
Changes in net position	<u>6,746,854</u>	<u>5,768,893</u>	<u>5,374,988</u>
Net position at beginning of the year	<u>99,620,763</u>	<u>93,851,870</u>	<u>88,476,882</u>
Net position at end of the year	<u>\$ 106,367,617</u>	<u>\$ 99,620,763</u>	<u>\$ 93,851,870</u>

Operating revenues are primarily from sewer service charges. There have been no rate changes since 2018. Revenue from sewer fees from 2022 to 2023 increased by approximately 1%. Nonoperating revenues decreased by approximately \$257,000 from 2021 to 2022 and increased by approximately \$1,789,000 from 2022 to 2023. The major components of nonoperating revenue are property taxes and investment income. Revenue from property taxes increased modestly each year. Investment returns from the Marin County Investment Pool experienced a decrease from 2020 to 2021 and then an increase from 2022 to 2023 due to fluctuating market returns. Operating expenses decreased from 2021 to 2022 and increased from 2022 to 2023. Included in operating expenses are waste treatment costs incurred as a member of the Central Marin Sanitation Agency which increased by \$113,000 from 2022 to 2023. These sewage treatment operating costs include a proportionate share of servicing the revenue bonds issued by the Central Marin Sanitation Agency (CMSA). The main driver of the overall changes in operating expenses from 2021 to 2022, and 2022 to 2023 were adjustments to liabilities for post-employment benefits for contract staff.

SAN RAFAEL SANITATION DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets, net of accumulated depreciation, were as follows for the years ended June 30:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Land & easements	\$ 115,329	\$ 115,329	\$ 115,329
Construction in progress	7,653,777	822,409	4,037,237
Subsurface lines	30,817,695	31,345,226	28,371,385
Sewage collection facilities	20,962,469	22,617,024	21,389,353
General plant & admin facilities	540,720	667,461	801,922
Net investment in capital assets	<u>\$ 60,089,990</u>	<u>\$ 55,567,449</u>	<u>\$ 54,715,226</u>

In addition to operations and maintenance (O&M) programs, the District also maintains ongoing capital improvement programs. These programs largely influence how the District budgets and sets its rates. In June 2017, the Board of Directors designated amounts to be provided as reserves for capital improvement projects and adopted a policy requiring transfers to separate reserve accounts to provide funding required to pay for planned capital improvement projects. Transfers are based on average annual expenditures projected for the subsequent ten years.

The first program, known as the *80-Year Life-Cycle Program*, is maintained to provide for systematic replacement of all the District’s gravity sewer lines over a rolling, 80-year cycle. Management plans to replace an average of 1.6 miles of sewer lines per year at an estimated cost of \$4.9 million per year. Approximately \$6.9 million was expended on these projects during the year ended June 30, 2023, leaving a reserve balance of \$20.6 million for this program.

The District also has a *Pump Station and Force Main Capital Improvement Program* to make capital improvements related to its pump stations and force mains. Planned annual expenditures are funded each year based on expenditures anticipated in the succeeding two years. Annual costs are estimated to range between \$2 million and \$6 million per year. Approximately \$100 thousand was expended on these projects during the year ended June 30, 2023, leaving a reserve balance of \$10.1million for this program.

The District maintains a program to provide for replacement of vehicles and other equipment, setting aside a portion of the expected replacement cost of each significant equipment item. No expenditures for equipment occurred during the year ended June 30, 2023, leaving a reserve balance of \$2.2 million for this program.

SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022

THE FUTURE OF THE DISTRICT

The District is insulated from general economic conditions, such as increases or declines in property tax values, or other types of revenues that vary with economic conditions, such as sales taxes. Most of the District's revenues are from user fees that are based on rates set by the District at levels sufficient to provide for planned costs of operation, maintenance, debt service and capital improvements. Sewer charges are annual fees charged to all premises connected to the system. The rates in effect during 2022-23 are expected to be sufficient to fund operations and planned capital improvement projects for the near term.

Personnel costs, including retirement and health benefits, capital improvement, and operations and maintenance costs are projected to increase. In addition, the cost of sewage treatment will rise significantly due to the rising costs of operation and capital improvement expenditures of Central Marin Sanitation District (CMSA).

REQUESTS FOR INFORMATION

This financial report is designed to provide our residents, taxpayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to 111 Morphew Street, San Rafael, CA 94901.

Basic Financial Statements

SAN RAFAEL SANITATION DISTRICT

STATEMENTS OF NET POSITION

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash equivalents	\$ 47,632,637	\$ 46,864,314
Accounts receivable and accrued revenue	1,343,881	1,344,741
Prepaid expenses	77,441	75,194
Due from related parties	540,515	263,104
Total current assets	<u>49,594,474</u>	<u>48,547,353</u>
Noncurrent assets		
Nondepreciable assets	7,769,106	937,738
Collection systems and facilities, net	52,320,884	54,629,711
Total noncurrent assets	<u>60,089,990</u>	<u>55,567,449</u>
Total assets	<u>109,684,464</u>	<u>104,114,802</u>
LIABILITIES		
Current liabilities		
Accounts payable	1,279,334	491,395
Other liabilities	11,646	656,700
Payable to related parties	22,923	21,883
Obligation to the City of San Rafael	628,000	654,258
Total current liabilities	<u>1,941,903</u>	<u>1,824,236</u>
Noncurrent liabilities		
Obligation to the City of San Rafael	1,374,944	2,669,803
Total liabilities	<u>3,316,847</u>	<u>4,494,039</u>
NET POSITION		
Investment in capital assets	59,178,014	55,192,111
Unrestricted	47,189,603	44,428,652
Total net position	<u>\$ 106,367,617</u>	<u>\$ 99,620,763</u>

SAN RAFAEL SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Sewer charges	\$ 16,638,611	\$ 16,458,113
OPERATING EXPENSES		
Sewage collection	2,850,158	2,458,749
Sewage treatment	7,770,615	7,657,698
Depreciation and amortization	2,443,272	2,360,343
General and administration	477,882	415,897
Total operating expenses	<u>13,541,927</u>	<u>12,892,687</u>
Operating income	<u>3,096,684</u>	<u>3,565,426</u>
NONOPERATING REVENUES		
Property taxes	2,129,197	2,086,682
Aid from governmental agencies	5,531	5,568
Investment income (loss)	1,328,202	(406,535)
Miscellaneous income	11,759	-
Total nonoperating revenues	<u>3,474,689</u>	<u>1,685,715</u>
Income before capital contributions	<u>6,571,373</u>	<u>5,251,141</u>
CAPITAL CONTRIBUTIONS		
Connection fees	<u>175,481</u>	<u>517,752</u>
CHANGES IN NET POSITION	6,746,854	5,768,893
Net position at beginning of the year	<u>99,620,763</u>	<u>93,851,870</u>
Net position at end of the year	<u>\$ 106,367,617</u>	<u>\$ 99,620,763</u>

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

SAN RAFAEL SANITATION DISTRICT

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for sewer service charges	\$ 16,639,471	\$ 16,457,253
Payments to City of San Rafael for contract personnel	(2,523,539)	(2,629,113)
Payments to joint venture for sewage treatment	(7,770,615)	(7,657,698)
Payments to vendors and suppliers	(1,491,491)	(1,247,973)
Payments to City of San Rafael regarding post-employment benefits for contract personnel	(661,444)	(747,284)
Net cash equivalents provided by operating activities	4,192,382	4,175,185
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from property taxes	2,129,197	2,086,682
Receipts of aid from governmental agencies	5,531	5,568
Receipts from miscellaneous income	11,759	-
Net cash equivalents provided by non-capital financing activities	2,146,487	2,092,250
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection fees collected	175,481	555,050
Connection fees collected for other agency	370,231	945,912
Connection fees remitted to other agency	(1,015,285)	(361,531)
Payments for capital acquisitions	(6,429,175)	(2,951,681)
Net cash equivalents used for capital and related financing activities	(6,898,748)	(1,812,250)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,328,202	(406,535)
Net change in cash equivalents	768,323	4,048,650
Cash equivalents at beginning of year	46,864,314	42,815,664
Cash equivalents at end of year	\$ 47,632,637	\$ 46,864,314

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

SAN RAFAEL SANITATION DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

**RECONCILIATION OF OPERATING INCOME
TO NET CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES**

	2023	2022
Operating income	\$ 3,096,684	\$ 3,565,426
Adjustments to reconcile operating income to net cash equivalents provided (used) by operating activities:		
Depreciation and amortization	2,443,272	2,360,343
(Increase) decrease in accounts receivable and other current assets	(278,798)	(190,419)
Increase (decrease) in accounts payable and other current liabilities	252,341	40,144
Increase (decrease) in obligation to the City of San Rafael	(1,321,117)	(1,600,309)
Net cash equivalents provided by operating activities	\$ 4,192,382	\$ 4,175,185

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

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

1. NATURE OF THE ORGANIZATION

San Rafael Sanitation District is a *Sanitation District* in the County of Marin formed in 1947 under Section 4700 of the California Health & Safety Code. It serves the southern two-thirds of the City of San Rafael and adjacent unincorporated areas. The District provides wastewater transmission over its entire service area and performs collection system maintenance in the unincorporated areas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a component unit, may serve as the nucleus for its financial reporting entity when the component unit provides separately issued financial statements. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and can impose its will on that organization. The San Rafael Sanitation District is a component unit of the City of San Rafael. The District is governed by a three-member Board of Directors serving four-year terms. The City Council of the City of San Rafael appoints two out of the three board members and has the ability to remove the two board members at will. The third member is a representative of the County of Marin.

BASIS OF ACCOUNTING

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

The District's operations are accounted for as an enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred.

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING (continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

The District distinguishes between revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. These revenues are primarily charges to customers for services. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CASH EQUIVALENTS

For purposes of the statement of cash flows, the District has defined cash equivalents to include cash on hand and short-term investments maturing within 90 days, including investments held in the Marin County Investment Pool which are available on demand and are considered highly liquid.

COLLECTION SYSTEMS AND FACILITIES

Collection systems and facilities purchased or constructed are stated at cost. Assets contributed have been recorded at the fair market value at the date received. Interest is capitalized for assets constructed when applicable. The costs of normal repairs and maintenance that do not add to the value of an asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Applicable capital assets must be capitalized for amounts \$1,000 or above and may be capitalized for amounts from \$500 to \$1,000 if determined to be sensitive. Depreciation is provided by the straight-line method over the estimated useful lives of capital assets as follows:

Subsurface lines	50-80 years
Sewer collection facilities	5-50 years
General plant & administrative facilities	3-15 years

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

JOINT VENTURES

The District participates in a joint-powers agreement with the Central Marin Sanitation Agency, a regional sewage treatment facility, as further explained in Note 6.

SEWER CHARGES

Sewer charges are billed and collected on behalf of the District by the County of Marin as a special assessment on annual property tax billings. Property taxes are levied on January 1 and are due in two equal installments on November 1 and February 1. In accordance with the Teeter Plan, the County remits to the District all charges which are assessed, and the County retains responsibility for collecting past due amounts.

The Teeter Plan provides that the County advance the District its share of the annual gross levy of secured property taxes and special assessments. In consideration, the District gives the County of Marin its rights to penalties and interest on delinquent secured property tax receivables and actual proceeds collected.

PROPERTY TAXES

The County of Marin levies taxes and places liens on real property as of January 1 on behalf of the District. Property taxes are due the following November 1 and February 1 and become delinquent December 10 and April 10, for the first and second installments, respectively. Unsecured property taxes are levied throughout the year.

CONNECTION FEES

Connection fees represent a one-time contribution of resources to the District imposed on contractors and developers for financing capital improvements. Connection fees are recognized after non-operating revenues (expenses) in the statement of revenues, expenses and changes in net position. The District utilizes connection fees received on a first-in-first-out basis to finance current year capital projects. Accordingly, if there is a balance of connection fees available at year-end, it is classified as restricted net position.

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STAFF SALARIES AND BENEFITS AND WORKERS' COMPENSATION

The District has no regular full-time employees. The City of San Rafael provides staff to the District under contract and provides all benefits including workers' compensation insurance.

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. The most sensitive estimates affecting the District include estimated fair value of investments, estimate of depreciation, and estimates related to the obligation to the City of San Rafael for unfunded pension and post-employment health benefit obligations.

INCOME TAXES

SRSD is a joint powers authority under the provision of the California Government Code and is not subject to federal or state income or franchise taxes.

RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements. These reclassifications did not result in any change in previously reported net position or change in net position.

3. CASH EQUIVALENTS

The District maintains all its cash equivalents in the Marin County Investment Pool to increase investment earnings through pooled investment activities. Revenue earned on the investment pool is allocated quarterly to the participating funds using the daily cash balance of each fund. This pool, which is available for use by all funds, is displayed in the financial statements as "Cash equivalents." The County Pool includes both voluntary and involuntary participation from external entities. The District is a voluntary participant. The State of California statutes require certain special districts and other governmental entities to maintain their cash surplus with the County Treasurer. The District has approved by resolution, the investment policy of the County of Marin which complies with the California Government Code.

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

3. CASH EQUIVALENTS (continued)

The Marin County Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The objectives of the policy are in order of priority, safety, liquidity, yield, and public trust.

The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the types of investments in the pool, maturity dates, par value, actual costs and fair value.

FAIR VALUE MEASUREMENT

The District categorized its fair value measurements within the fair value hierarchy established by general 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 prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2023, The District held no individual investments. All funds are invested in the Marin County Investment Pool.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The Districts' proportionate share of investments in the County Pool at fair value on June 30, 2023 and 2022 was \$47,633,000 and \$46,864,000, respectively, and are not required to be categorized under the fair value hierarchy.

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

3. CASH EQUIVALENTS (continued)

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater is its price sensitivity to changes in interest rates. The District has not adopted a policy to manage interest rate risk.

In accordance with its investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment pool to 540 days, or 1.5 years. At June 30, 2023 and 2022, the County's investment pool had a weighted average maturity of 196 and 236 days, respectively.

For purposes of computing weighted average maturity, the maturity date of variable rate notes is the length of time until the next reset date rather than the stated maturity date.

CREDIT RISK

State law and the County's Investment Policy limits investments in commercial paper, corporate bonds, and medium-term notes to the rating of "A" or higher as provided by Moody's Investors Service or Standard & Poor's Corporation. The County's Investment Policy limits investments purchased by Financial Institution Investment Accounts, a type of mutual fund, to United States Treasury and Agency obligations with a credit quality rating of "AAA/V1."

Investments made by the Marin County Treasurer are regulated by the California Government Code and by the County's investment policy. The Marin County Investment Pool invests substantially all its funds in U.S. government obligations and registered money market funds rated 'AAAmmf' by Fitch Ratings or an equivalent rating agency. Fitch has assigned the Marin County Investment Pool a credit rating of "AAA/V1."

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

4. COLLECTION SYSTEMS AND FACILITIES

A summary of the District's collection systems and facilities for the years ended June 30, 2023 and 2022 respectively, follows:

	Balance at June 30, 2022	Additions	Retirements	Transfers & Adjustments	Balance at June 30, 2023
Nondepreciable capital assets:					
Land and easements	\$ 115,329	\$ -	\$ -	\$ -	\$ 115,329
Construction in progress	822,409	6,831,368	-	-	7,653,777
Total nondepreciable	<u>\$ 937,738</u>	<u>\$ 6,831,368</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,769,106</u>
Depreciable capital assets:					
Subsurface lines	\$ 45,494,507	\$ 67,028	\$ -	\$ -	\$ 45,561,535
Sewage collection facilities	47,915,613	67,417	-	-	47,983,030
General plant and administration	2,366,681	-	-	-	2,366,681
Total depreciable	<u>95,776,801</u>	<u>134,445</u>	<u>-</u>	<u>-</u>	<u>95,911,246</u>
Less: accumulated depreciation:					
Subsurface lines	14,149,281	594,559	-	-	14,743,840
Sewage collection facilities	25,298,589	1,721,972	-	-	27,020,561
General plant and administration	1,699,220	126,741	-	-	1,825,961
Total accumulated depreciation	<u>41,147,090</u>	<u>2,443,272</u>	<u>-</u>	<u>-</u>	<u>43,590,362</u>
Total collection systems & facilities-net	<u>\$ 54,629,711</u>	<u>\$ (2,308,827)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,320,884</u>

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

4. COLLECTION SYSTEMS AND FACILITIES (continued)

	<u>Balance at</u> <u>June 30, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &</u> <u>Adjustments</u>	<u>Balance at</u> <u>June 30, 2022</u>
Nondepreciable capital assets:					
Land and easements	\$ 115,329	\$ -	\$ -	\$ -	\$ 115,329
Construction in progress	4,037,237	2,546,214	-	(5,761,042)	822,409
Total nondepreciable	<u>\$ 4,152,566</u>	<u>\$ 2,546,214</u>	<u>\$ -</u>	<u>\$ (5,761,042)</u>	<u>\$ 937,738</u>
Depreciable capital assets:					
Subsurface lines	\$ 41,910,303	\$ 510,563	\$ -	\$ 3,073,641	\$ 45,494,507
Sewage collection facilities	45,073,165	155,048	-	2,687,400	47,915,613
General plant and administration	2,365,939	742	-	-	2,366,681
Total depreciable	<u>89,349,407</u>	<u>666,353</u>	<u>-</u>	<u>5,761,041</u>	<u>95,776,801</u>
Less: accumulated depreciation:					
Subsurface lines	13,538,918	610,363	-	-	14,149,281
Sewage collection facilities	23,683,812	1,614,777	-	-	25,298,589
General plant and administration	1,564,017	135,203	-	-	1,699,220
Total accumulated depreciation	<u>38,786,747</u>	<u>2,360,343</u>	<u>-</u>	<u>-</u>	<u>41,147,090</u>
Total collection systems & facilities-net	<u>\$ 50,562,660</u>	<u>\$ (1,693,990)</u>	<u>\$ -</u>	<u>\$ 5,761,041</u>	<u>\$ 54,629,711</u>

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

5. OBLIGATION TO CITY OF SAN RAFAEL

The District’s staff is provided by the City of San Rafael under a contractual arrangement originated in 1987 that requires the District to pay all related employee costs incurred by the City on its behalf. Quarterly payments are made by the District to the City and include amounts sufficient to cover the City’s currently required contributions to employee benefit plans, including a portion for past service costs. During fiscal year 2014-15, the parties agreed that SRSD was also responsible for unfunded obligations related to past service. These financial statements include an estimate of the District’s obligation to reimburse the City for future funding for benefits incurred through June 30, 2023. Under the agreement, this obligation will be funded over approximately fifteen years and will correspond to the City’s required payments to fund its pension and post-employment health benefits.

The following table represents the District’s portion of the unfunded obligations:

Balance at June 30, 2022	\$ 3,324,061
Actuarial adjustment	(659,673)
Payments	<u>(661,444)</u>
Balance at June 30, 2023	2,002,944
Less current portion	<u>(628,000)</u>
Balance due after one year	<u><u>\$ 1,374,944</u></u>

6. JOINT VENTURES

In October 1979, the District entered into a joint powers agreement with three neighboring sanitation agencies in central Marin County forming CMSA. CMSA serves as a regional wastewater treatment plant for its four member agencies and San Quentin Prison (SQ) and is governed by a five-member Board of Commissioners, two appointed by the Board of Directors of the San Rafael Sanitation District, two appointed by the governing board of the Ross Valley Sanitary District, and one appointed by the governing board of Sanitary District No. 2 (SD 2).

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

6. JOINT VENTURES (continued)

Total project costs to construct the CMSA facilities were funded from federal (75%) and state (12.5%) clean water grants and from local shares (12.5% total) allocated among the member agencies and SQ based upon the weighted average of the strength and volume of sewage flows per member at inception of the project. CMSA derives its annual funding for its operations and capital programs almost exclusively from service charges to its member agencies. The joint powers agreement does not provide an explicit measurable right as required to establish an equity interest for any of the joint venture participants, and in addition to, stipulates that all excess capital funds, if any, and all excess administration, operations and maintenance funds from whatever source, if any, are the property of CMSA.

The financial statements of the Agency are available at the CMSA office at 1301 Anderson Drive, San Rafael, CA 94901 and online at www.cmsa.us. Condensed financial information for the Agency is presented below for June 30, 2022 and 2021, the most recent information available.

	<u>2022</u>	<u>2021</u>
Total assets	\$ 107,121,203	\$ 108,746,183
Deferred outflows of resources	13,581,357	5,220,529
Total liabilities	(65,583,801)	(66,101,718)
Deferred inflows of resources	<u>(5,825,343)</u>	<u>(1,121,145)</u>
Net position	<u>\$ 49,293,416</u>	<u>\$ 46,743,849</u>
Total revenues	\$ 20,869,505	\$ 20,059,358
Total expenses	(19,491,068)	(19,049,635)
Total contributions	<u>1,171,130</u>	<u>1,592,633</u>
Change in net position	<u>\$ 2,549,567</u>	<u>\$ 2,602,356</u>

7. COMMITMENTS

As of June 30, 2023, SRSD had several contracts for sewer improvement projects with remaining obligations of approximately \$7,800,000.

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. The District participates in a joint powers agreement with other entities forming the California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program for 60 member entities. CSRMA is governed by a Board of Directors composed of one representative from each member agency and meets three times per year in conjunction with conferences of the California Association of Sanitation Agencies. The Board controls the operations of CSRMA including selection of management and approval of operating budgets, independent of any influence by member entities.

The District pays annual premiums to CSRMA for its primary insurance and property insurance programs. Primary and property insurance programs are fully insured wherein CSRMA purchases insurance as a group thereby reducing its costs. CSRMA provides both fully insured and pooled insurance programs for its participating member entities. Because all employees of the District are contracted employees from the City of San Rafael, workers' compensation insurance is not carried by the District but is provided through the City.

CSRMA's primary and property insurance programs transfer risk to commercial insurance policies for claims above deductibles, while the District retains risk for claims to the extent of deductibles. Settled claims for the District have not exceeded coverage provided by CSRMA in any of the past three fiscal years.

The following summarizes active insurance policies as of June 30, 2023, together with coverage limits for each insured event:

Insurance Program	Limits	Coverage Description
CSRMA - Homesite	\$ 3,000,000	Gen/Mgt liability - aggregate
CSRMA - Homesite	\$ 1,000,000	Gen/Mgt liability - occurrence
CSRMA - Homesite	\$ 1,000,000	Auto liability - accident
CSRMA - Homesite	\$ 4,000,000	Excess liability
CSRMA - Alliant Property Insurance Program (A.P.I.P)	\$ 24,978,734	Special form property
CSRMA - Interstate	\$ 25,000,000	Pollution liability - tier 1
CSRMA - Interstate	\$ 2,000,000	Pollution liability - tier 2
CSRMA - Lloyds of London	\$ 2,000,000	Cyber liability - third party
CSRMA - Lloyds of London	\$ 2,000,000	Cyber liability - first party
CSRMA - Travelers Ins.	\$ 25,000	Identity theft
CSRMA - Lloyds of London	\$ 2,500,000	Deadly weapons - aggregate

SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

8. RISK MANAGEMENT (continued)

The financial statements of CSRMA are available at their office: 100 Pine Street, 11th Floor, San Francisco, CA 94111 and online at www.csrma.org.

9. RELATED PARTY TRANSACTIONS

The District engages the City of San Rafael to provide the payroll, benefits and related administration for the District's personnel. They also provide the District with various vehicle repairs, work related to capital improvements and other minor services. The City invoiced the District for approximately \$5,519,000 and \$3,485,000 for the years ended June 30, 2023 and 2022, respectively. These amounts included required payments to reduce unfunded post-employment benefits for contract staff. See Note 5, Obligation to City of San Rafael, for a discussion regarding the contractual obligation between the District and the City of San Rafael.

The District had an obligation to the City of San Rafael as of June 30, 2023 and 2022 of approximately \$23,000 and \$22,000, respectively, resulting from services provided by the City. The District also has a receivable from the City of San Rafael as of June 30, 2023 and 2022 of approximately \$541,000 and \$263,000, respectively, which represents adjustments from payments of estimated amounts made during the year to actual costs as determined at year end.