

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

**Basic Financial Statements**  
**Fiscal Years Ended**  
**June 30, 2013 and 2012**

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VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
San Rafael Sanitation District

We have audited the accompanying financial statements of the San Rafael Sanitation District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Rafael Sanitation District as of June 30, 2013, and the 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, 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.

*Varrinek, Trine, Day & Co., LLP.*

Pleasanton, California  
October 4, 2013

**SAN RAFAEL SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

The Management's Discussion and Analysis provides an overview of the District's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it along with the District's financial statements, which begin on page 8.

**FINANCIAL HIGHLIGHTS**

The District's total net position as of June 30, 2013, was \$51,916,000 which is an increase of \$3,504,000 over the prior year's balance. This amount is comprised of \$33,341,000 in net investment in capital assets and \$18,575,000 of unrestricted net position.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements comprise two components: (1) government-wide financial statements and (2) notes to the financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances on the accrual basis of accounting, similar to a private-sector business.

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

The Statement of Cash Flows presents information about the District's cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. This statement shows the sources and uses of cash, as well as the change in the cash balances during the fiscal years.

**SAN RAFAEL SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

San Rafael Sanitation District is a single-purpose entity that has elected to account for its activity as a proprietary fund type under governmental accounting standards. Accordingly, the District presents only government-wide financial statements. The following table is a summary of the District's assets, liabilities, and net position.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 19,078,432	\$ 14,793,858	\$ 13,758,331
Noncurrent assets	33,340,892	34,110,291	33,328,111
Total assets	<u>52,419,324</u>	<u>48,904,149</u>	<u>47,086,442</u>
Current liabilities	503,248	491,763	2,097,536
Total liabilities	<u>503,248</u>	<u>491,763</u>	<u>2,097,536</u>
Net position			
Net investment in capital assets	33,340,892	34,110,291	32,845,291
Unrestricted	18,575,184	14,302,095	12,143,615
Total net position	<u>\$ 51,916,076</u>	<u>\$ 48,412,386</u>	<u>\$ 44,988,906</u>

The District's revenues tend to be stable and predictable from year to year as are operating and sewage treatment costs. Capital improvement projects often do not coincide with annual fiscal periods since they are subject to lengthy planning periods, weather considerations and long construction periods. As indicated above, current assets increased from 2011 to 2013. This was primarily because expenditures for capital improvement projects lagged behind revenues, causing cash to accumulate. The modest increase in noncurrent assets was the result of capital improvement projects undertaken each year, partly offset by annual depreciation amount. Liabilities decreased from 2011 to 2013 with the final payment of our certificates of participation in July 2011.

**SAN RAFAEL SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

Our results of operations are summarized as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 12,413,123	\$ 12,368,889	\$ 12,220,845
Nonoperating revenues	1,234,058	1,202,179	1,221,018
Interest income	17,885	24,964	59,265
Total income	<u>13,665,066</u>	<u>13,596,032</u>	<u>13,501,128</u>
Operating expenses	10,169,082	10,185,779	9,597,112
Interest expense	-	5,170	80,518
Total expenses	<u>10,169,082</u>	<u>10,190,949</u>	<u>9,677,630</u>
Income before capital contributions	3,495,984	3,405,083	3,823,498
Add: connection fees received	7,706	18,397	2,934
Increase in net position	<u>3,503,690</u>	<u>3,423,480</u>	<u>3,826,432</u>
Net position at beginning of the year	<u>48,412,386</u>	<u>44,988,906</u>	<u>41,162,474</u>
Net position at end of the year	<u>\$ 51,916,076</u>	<u>\$ 48,412,386</u>	<u>\$ 44,988,906</u>

The final of five annual rate increases was implemented in 2011. As expected, sewer service revenues during 2012 experienced only a slight increase over 2011 since rates were held constant. Overall operating expenses increased 6% in 2011 but remained virtually unchanged in 2012. The increase in 2012 was generally due to inflation related to contract personnel cost and to an addition charge for waste treatment. For 2013, the modest increases in personnel and other operating costs were offset by lower waste treatment costs from the higher amount reported in 2012.

Included in operating expenses are significant labor costs consisting of salary and benefits contracted through the City of San Rafael. These costs increased mainly due to retirement benefit and general cost increases. Sewage treatment operating costs include a proportionate share of revenue bonds issued by the Central Marin Sanitation Agency (CMSA).

At June 30, 2013, unrestricted net position was approximately \$18.6 million. Although there are no legal restrictions on this balance, a substantial portion of these funds are held to finance the District's ongoing capital improvement programs. Details of capital improvements are described in *Capital Assets and Debt Administration*.

**SAN RAFAEL SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital assets, net of accumulated depreciation, were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land & easements	\$ 115,329	\$ 115,329	\$ 115,329
Construction in progress	244,720	455,002	1,129,447
Subsurface lines	10,841,869	10,519,444	9,406,321
Sewage collection facilities	21,495,026	22,281,364	21,884,807
General plant & admin facilities	643,948	739,152	792,207
Net investment in capital assets	<u>\$ 33,340,892</u>	<u>\$ 34,110,291</u>	<u>\$ 33,328,111</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.

The first program, known as the *80-Year Life-Cycle Program*, is maintained to provide for systematic replacement of all of 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 \$4.3 million dollars per year. As of June 2013, the District finances these expenditures on a pay-as-you-go basis and has established a reserve of \$2.3 million in accordance with its policy to set aside one-half of the next year's planned program expenditures.

The District also has a program to make capital improvements related to its pump stations and force mains. Planned annual expenditures are funded on a pay-as-you-go basis and annual costs are estimated to range between \$1 million and \$2.5 million per year. In accordance with its policy to provide for one-half of the next year's planned program expenditures, the Board has established a reserve of \$1.35 million for this program.

During the years ended June 30, 2012 and 2013, the District expended \$1.94 million and \$523,000 for capital improvement projects.

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. As of June 30, 2013, management has reserved \$1,064,000 for equipment replacement.



**SAN RAFAEL SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

The District continues to expand, upgrade and improve the quality of its sewage pumping and collection systems to keep current with environmental regulations and the needs of its service area. The District has used debt to finance the significant costs of major upgrades. For each of the fiscal years 2012 and 2011, repayments were \$940,000 and \$440,000, respectively. The 2001 Certificates of Participation fully matured and were retired in August 2011. No new debt was issued during the periods included in the accompanying financial statements. See Note 4 for a summary of transactions regarding capital assets.

**THE FUTURE OF THE DISTRICT**

The District is not subject to 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. Accordingly, the District sets its rates to its users to provide for the costs of operation, maintenance, debt service and capital improvements. Sewer charges are an annual fees charged to all premises connected to the system, utilizing a user charge system comprised of rate classifications. In June 2013, the District adopted a new rate schedule with schedule increases for 2013-14 through 2017-18.

In recent years, the City of San Rafael employees' retirement and health benefits, capital improvement, and operations and maintenance costs have increased and are projected to continue to increase, which will be reflected in the billings to the District. The cost of sewage treatment will rise significantly due to rising cost of operation for our contact provider, Central Marin Sanitation Distract (CMSA) along with an increase in the percentage of CMSA operating costs that are allocated to the District. The new rate increases are expected to be adequate to operate and maintain our system.

**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 the address on our letterhead.

## **Basic Financial Statements**

**SAN RAFAEL SANITATION DISTRICT  
STATEMENTS OF NET POSITION  
JUNE 30, 2013 AND 2012**

<b>ASSETS</b>	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 18,916,657	\$ 14,585,504
Accounts receivable	18,053	12,960
Prepaid expenses	48,783	59,212
Due from related parties	94,939	136,182
Total current assets	<u>19,078,432</u>	<u>14,793,858</u>
Noncurrent assets		
Nondepreciable assets	360,049	570,331
Collection systems and facilities, net	32,980,843	33,539,960
Total noncurrent assets	<u>33,340,892</u>	<u>34,110,291</u>
Total assets	<u>52,419,324</u>	<u>48,904,149</u>
 <b>LIABILITIES</b>		
Current liabilities		
Accounts payable	429,984	443,070
Payable to related parties	73,264	48,693
Total current liabilities	<u>503,248</u>	<u>491,763</u>
 <b>NET POSITION</b>		
Net investment in capital assets	33,340,892	34,110,291
Unrestricted	18,575,184	14,302,095
Total net position	<u>\$ 51,916,076</u>	<u>\$ 48,412,386</u>

**SAN RAFAEL SANITATION DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Sewer charges	\$ 12,413,123	\$ 12,368,889
<b>OPERATING EXPENSES</b>		
Sewage collection	3,125,399	3,010,555
Sewage treatment	5,395,752	5,567,100
Depreciation and amortization	1,325,028	1,327,930
General and administrative	322,903	280,194
Total operating expense	<u>10,169,082</u>	<u>10,185,779</u>
Operating income (loss)	2,244,041	2,183,110
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Property taxes	1,177,469	1,192,566
Aid from governmental agencies	56,589	9,613
Interest income	17,885	24,964
Interest expense	-	(5,170)
Total nonoperating revenues (expenses)	<u>1,251,943</u>	<u>1,221,973</u>
Income before capital contributions	3,495,984	3,405,083
Add: connection fees received	7,706	18,397
<b>CHANGE IN NET POSITION</b>	<u>3,503,690</u>	<u>3,423,480</u>
Net position at beginning of the year	<u>48,412,386</u>	<u>44,988,906</u>
Net position at end of the year	<u>\$ 51,916,076</u>	<u>\$ 48,412,386</u>

**SAN RAFAEL SANITATION DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from sewer charges	\$ 12,408,030	\$ 12,368,889
Payments to City of San Rafael for contract personnel	(2,341,690)	(2,975,394)
Payments to joint venture for sewage treatment	(5,395,752)	(5,574,902)
Payments to vendors and suppliers	(991,685)	(964,695)
Net cash provided by operating activities	3,678,903	2,853,898
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Receipts from property taxes	1,177,469	1,192,566
Receipts of aid from governmental agencies	56,589	9,613
Net cash provided by non-capital financing activities	1,234,058	1,202,179
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Connection fees collected	7,706	18,397
Payments for capital acquisitions	(607,399)	(2,163,649)
Interest received from certificates of participation reserve investment	-	560
Principal payments for certificates of participation	-	(940,000)
Interest payments for certificates of participation	-	(20,680)
Net cash used for capital and related financing activities	(599,693)	(3,105,372)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received from Marin County pooled cash and investments account	17,885	24,964
Net increase (decrease) in cash and cash equivalents	4,331,153	975,669
Cash and cash equivalents at beginning of year	14,585,504	13,609,835
Cash and cash equivalents at end of year	\$ 18,916,657	\$ 14,585,504

**SAN RAFAEL SANITATION DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 and 2012**  
(continued)

**RECONCILIATION OF OPERATING INCOME  
(LOSS) TO NET CASH PROVIDED (USED) BY  
OPERATING ACTIVITIES**

	<u>2013</u>	<u>2012</u>
Operating income	\$ 2,244,041	\$ 2,183,110
Adjustments to reconcile operating income to net cash provided from operating activities:		
Depreciation and amortization	1,325,028	1,327,930
Changes in current assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and other current assets	46,579	(60,417)
Increase (decrease) in:		
Accounts payable and other current liabilities	<u>63,255</u>	<u>(596,725)</u>
Net cash provided from operating activities	<u>\$ 3,678,903</u>	<u>\$ 2,853,898</u>

**SAN RAFAEL SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

**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 is able to 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.

The San Rafael Sanitation District Financing Corporation was organized September 9, 1991 under the Non-Profit Public Benefit Corporation Law of the State of California solely for the purpose of providing financial assistance to the District by acquiring, constructing, improving and financing various facilities, land and equipment, and by leasing or selling certain facilities, land and equipment for the use, benefit and enjoyment of the public served by the District. The Corporation has no members and the Board of Directors of the Corporation consists of the same persons who serve as the Board of Directors of the District. Accordingly, the Financing Corporation is a blended component unit of the District. There are no separate financial statements prepared for the Corporation.

**SAN RAFAEL SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**INTRODUCTION**

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 (Statements and Interpretations).

The District has implemented Governmental Accounting Standards Board Statement No. 63, Reporting of *Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, for both years presented in these financial statements.

**BASIS OF ACCOUNTING**

The District's operations are accounted for as a governmental 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.

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 operating 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.



**SAN RAFAEL SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**FINANCIAL STATEMENT AMOUNTS**

**Cash and cash equivalents:**

For purposes of the statement of cash flows, the District has defined cash and cash equivalents to include cash on hand, demand deposits, and short term investments.

**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

**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 5.

**SAN RAFAEL SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 the purpose of financing capital improvements. Connection fees are recognized after non-operating revenues (expenses) in the statement of revenues, expenses and changes in fund 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, 2013 AND 2012**

**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.

**3. CASH AND CASH EQUIVALENTS**

The District maintains all of its cash in the County of Marin pooled investment fund for the purpose of increasing interest earnings through pooled investment activities. Interest 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 and 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, 2013 AND 2012**

**3. CASH AND CASH EQUIVALENTS (continued)**

The County's investment pool is not registered with the Securities and Exchange Commission as an investment company. Investments made by the Treasurer are regulated by the California Government Code and by the County's investment policy. 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.

**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, 2013 and 2012, the County's investment pool had a weighted average maturity of 178 and 243 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."

**SAN RAFAEL SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

**3. CASH AND CASH EQUIVALENTS (continued)**

**CONCENTRATION OF CREDIT RISK**

This is the risk of loss attributed to the concentration of the District's investment in a single issuer.

The following is a summary of the concentration of credit risk by investment type of the Marin County Investment Pool as a percentage of fair value at June 30, 2013:

<b>Investments in Investment Pool</b>	<b>Percent of Portfolio</b>
Federal agency - discount	81%
Federal agency - coupons	17%
Money market funds	2%
	<u>100%</u>

**CUSTODIAL CREDIT RISK**

For investments and deposits held with safekeeping agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year end, the County's investment pool had no securities exposed to custodial credit risk.

**SAN RAFAEL SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

**4. COLLECTION SYSTEMS AND FACILITIES**

A summary of the District's collection systems and facilities for the years ended June 30, 2013 and 2012 respectively, follows:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &amp; Adjustments</u>	<u>Balance at June 30, 2013</u>
Land and easements	\$ 115,329	-	-	-	\$ 115,329
Construction in progress	455,002	\$ 395,257	-	\$ (605,539)	244,720
Total nondepreciable	<u>\$ 570,331</u>	<u>\$ 395,257</u>	<u>\$ -</u>	<u>\$ (605,539)</u>	<u>\$ 360,049</u>
<b>Depreciable capital assets:</b>					
Subsurface lines	\$ 19,720,409	\$ 127,569		\$ 563,512	\$ 20,411,490
Sewage collection facilities	36,811,811	-	\$ (104,465)	42,027	36,749,373
General plant and administration	1,192,998	32,803	(32,050)	-	1,193,751
Total depreciable	<u>57,725,218</u>	<u>160,372</u>	<u>(136,515)</u>	<u>605,539</u>	<u>58,354,614</u>
Less: accumulated depreciation:					
Subsurface lines	9,200,965	368,656	-	-	9,569,621
Sewage collection facilities	14,530,447	828,365	(104,465)	-	15,254,347
General plant and administration	453,846	128,007	(32,050)	-	549,803
Total accumulated depreciation	<u>24,185,258</u>	<u>1,325,028</u>	<u>(136,515)</u>	<u>-</u>	<u>25,373,771</u>
Total collection systems & & facilities-net	<u>\$ 33,539,960</u>	<u>\$ (1,164,656)</u>	<u>\$ -</u>	<u>\$ 605,539</u>	<u>\$ 32,980,843</u>

**SAN RAFAEL SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

**4. COLLECTION SYSTEMS AND FACILITIES (continued)**

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &amp; Adjustments</u>	<u>Balance at June 30, 2012</u>
<b>Nondepreciable capital assets:</b>					
Land and easements	\$ 115,329	-	-	-	\$ 115,329
Construction in progress	1,129,447	\$ 1,941,755	-	\$ (2,616,200)	455,002
Total nondepreciable	<u>\$ 1,244,776</u>	<u>\$ 1,941,755</u>	<u>\$ -</u>	<u>\$ (2,616,200)</u>	<u>\$ 570,331</u>
<b>Depreciable capital assets:</b>					
Subsurface lines	\$ 18,266,110	\$ 58,939	-	\$ 1,395,360	\$ 19,720,409
Sewage collection facilities	35,590,971	-	-	1,220,840	36,811,811
General plant and administration	1,083,582	109,416	-	-	1,192,998
Total depreciable	<u>54,940,663</u>	<u>168,355</u>	<u>-</u>	<u>2,616,200</u>	<u>57,725,218</u>
Less: accumulated depreciation:					
Subsurface lines	8,859,789	341,176	-	-	9,200,965
Sewage collection facilities	13,706,164	824,283	-	-	14,530,447
General plant and administration	291,375	162,471	-	-	453,846
Total accumulated depreciation	<u>22,857,328</u>	<u>1,327,930</u>	<u>-</u>	<u>-</u>	<u>24,185,258</u>
Total collection systems & & facilities-net	<u>\$ 32,083,335</u>	<u>\$ (1,159,575)</u>	<u>\$ -</u>	<u>\$ 2,616,200</u>	<u>\$ 33,539,960</u>

**SAN RAFAEL SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

**5. JOINT VENTURES**

In October 1979, the District entered into a joint powers agreement with three neighboring sanitation agencies in central Marin County forming the Central Marin Sanitation Agency (CMSA). CMSA serves as a regional wastewater treatment plant for its four member agencies and San Quentin Prison (SQ) and is governed by a six-member Board of Commissioners, two appointed by the Board of Directors of the San Rafael Sanitation District (SRSD), two appointed by the governing board of Sanitary District No. 1 (SD 1), one appointed by the governing board of Sanitary District No. 2 (SD 2), and one appointed by the City Council of the City of Larkspur (Larkspur). Total project costs for the joint venture 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. Final individual local shares of total project costs were approximately \$7.6 million for SRSD, \$6.3 million for SD 1, \$1.6 million for SD 2, \$1 million for Larkspur, and \$1.4 million for SQ. CMSA derives its annual funding for its operations and capital programs almost exclusively from service charges to its member agencies, ongoing financial relationship, but is a legally separate entity. 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. Complete separate financial statements of the other member agencies and CMSA may be obtained by contacting their administrative offices directly.

**6. COMMITMENTS**

As of June 30, 2013, the Lincoln Ave – Mission to Ritter Sewer Improvement Project had commenced and the remaining obligation was \$1,106,748. The project is expected to be completed during the 2013-14 fiscal year.



**SAN RAFAEL SANITATION DISTRICT  
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**7. 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.

The District'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 CSRMA have not exceeded coverage in any of the past three fiscal years.

The following summarizes active insurance policies as of June 30, 2013 and 2012 together with coverage limits for each insured event:

Insurance Program	Limits	Coverage Description
CSRMA - American Alternative Ins.	\$ 3,000,000	Gen/Mgt liability - aggregate
CSRMA - American Alternative Ins.	\$ 1,000,000	Gen/Mgt liability - occurrence
CSRMA - American Alternative Ins.	\$ 1,000,000	Auto liability - accident
CSRMA - American Alternative Ins.	\$ 1,000,000	Auto liability - uninsured motorist
CSRMA - American Alternative Ins.	\$ 4,000,000	Excess liability
CSRMA - Public Entity Property Insurance Program (P.E.P.I.P)	\$ 11,163,263	Special form property

**SAN RAFAEL SANITATION DISTRICT  
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**7. RISK MANAGEMENT (continued)**

The financial statements of CSRMA are available at their office: 100 Pine Street, 11<sup>th</sup> Floor, San Francisco, CA 94111. Condensed financial information for CSRMA is presented below for the year ended June 30, 2012 (latest information available):

Assets	\$ 30,047,691
Liabilities	<u>17,709,465</u>
Net assets	<u><u>\$ 12,338,226</u></u>
Revenues	\$ 8,879,110
Expenses	<u>12,460,997</u>
Increase (decrease) in net assets	<u><u>\$ (3,581,887)</u></u>

**8. RELATED PARTY TRANSACTIONS**

The District engages the City of San Rafael to fund the payroll, benefits and related administration for the District's personnel. They also provide the District with various vehicle repairs and other minor services. The District incurred expenditures of \$2,522,007 and \$2,435,497 with the City of San Rafael for the years ended June 30, 2013 and 2012 respectively.

The District had an obligation to the City of San Rafael for the years ended June 30, 2013 and 2012 of \$73,264 and \$48,693, respectively. The District also has a receivable from the City of San Rafael for the years ended June 30, 2013 and 2012 of \$94,939 and \$136,182, respectively. These are the result of reimbursement for capital projects and overpayments of personnel expense within the year that will be credited to the first quarter of the following year.

**9. CONTINGENT LIABILITY**

The District is involved in contract disputes arising from the normal course of business. Management believes the disposition of disputes will not have a material adverse effect on the overall financial position of the District at June 30, 2013.