

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

Basic Financial Statements
Fiscal Years Ended
June 30, 2014 and 2013

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
San Rafael Sanitation District

We have audited the accompanying financial statements of the San Rafael Sanitation District (the District), a component unit of the City of San Rafael, as of and for the years ended June 30, 2014 and 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of San Rafael Sanitation District as of June 30, 2014 and 2013, 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.

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
September 15, 2014

**SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The Management's Discussion and Analysis provides an overview of the District's financial activities for the fiscal years ended June 30, 2014 and 2013. 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, 2014, was \$55,789,000 which is an increase of \$3,873,000 over the prior year's balance. This amount is comprised of \$34,223,000 of net investment in capital assets and \$21,566,000 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 which include 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 as of the date of the underlying event that gives rise to the change, 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, 2014**

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>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 22,109,198	\$ 19,078,432	\$ 14,793,858
Noncurrent assets	<u>34,223,336</u>	<u>33,340,892</u>	<u>34,110,291</u>
Total assets	<u>56,332,534</u>	<u>52,419,324</u>	<u>48,904,149</u>
Current liabilities	<u>543,145</u>	<u>503,248</u>	<u>491,763</u>
Total liabilities	<u>543,145</u>	<u>503,248</u>	<u>491,763</u>
Net position			
Net investment in capital assets	34,223,336	33,340,892	34,110,291
Unrestricted	<u>21,566,053</u>	<u>18,575,184</u>	<u>14,302,095</u>
Total net position	<u>\$ 55,789,389</u>	<u>\$ 51,916,076</u>	<u>\$ 48,412,386</u>

As indicated above, current assets increased from 2012 to 2014. This was primarily because SRSD was accumulating resources for planned capital projects. The modest increase in noncurrent assets was the result of capital improvement projects undertaken each year, partly offset by annual depreciation amount. Expenditures for capital improvement projects often do not coincide with revenue for annual fiscal periods since they are subject to lengthy planning periods, weather considerations and long construction periods. Liabilities held fairly constant from 2012 to 2014 and consist primarily of trade payables.

**SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Results of operations are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 13,732,496	\$ 12,413,123	\$ 12,368,889
Nonoperating revenues	1,390,868	1,251,943	1,227,143
Total income	<u>15,123,364</u>	<u>13,665,066</u>	<u>13,596,032</u>
Operating expenses	11,378,055	10,169,082	10,185,779
Interest expense	-	-	5,170
Total expenses	<u>11,378,055</u>	<u>10,169,082</u>	<u>10,190,949</u>
Income before capital contributions	3,745,309	3,495,984	3,405,083
Add: connection fees received	128,004	7,706	18,397
Increase in net position	<u>3,873,313</u>	<u>3,503,690</u>	<u>3,423,480</u>
Net position at beginning of the year	<u>51,916,076</u>	<u>48,412,386</u>	<u>44,988,906</u>
Net position at end of the year	<u>\$ 55,789,389</u>	<u>\$ 51,916,076</u>	<u>\$ 48,412,386</u>

The first of five annual sewer service rate increases was implemented in fiscal year 2013-14. Overall operating expenses increased slightly from 2012 to 2013 but 2014 saw a nearly 12% increase over the prior year. The change in 2014 was generally due to increases in waste treatment costs incurred as a member of the Central Marin Sanitation Agency. Sewage treatment operating costs include a proportionate share of revenue bonds issued by the Central Marin Sanitation Agency (CMSA).

Rising costs related to contract personnel also factored into the increase in expenses. 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 benefits and general increases due to inflation.

At June 30, 2014, unrestricted net position was approximately \$21.6 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, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land & easements	\$ 115,329	\$ 115,329	\$ 115,329
Construction in progress	377,960	244,720	455,002
Subsurface lines	12,311,057	10,841,869	10,519,444
Sewage collection facilities	20,681,582	21,495,026	22,281,364
General plant & admin facilities	737,408	643,948	739,152
Net investment in capital assets	<u>\$ 34,223,336</u>	<u>\$ 33,340,892</u>	<u>\$ 34,110,291</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 2014, the District finances these expenditures on a pay-as-you-go basis and has established a reserve of \$1.8 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 \$1.4 million for this program.

During the years ended June 30, 2014 and 2013, the District expended \$2.0 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, 2014, management has reserved \$1.2 million for equipment replacement.

**SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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. In June 2013, the District adopted a new rate schedule with schedule increases for 2013-14 through 2017-18.

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 of Central Marin Sanitation District (CMSA) along with an increase in the allocation percentage of CMSA operating costs allocated to the District. The new user rate schedules 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, 2014 AND 2013**

ASSETS	2014	2013
Current assets		
Cash and cash equivalents	\$ 21,802,809	\$ 18,916,657
Accounts receivable	73,201	18,053
Prepaid expenses	53,410	48,783
Due from related parties	179,778	94,939
Total current assets	<u>22,109,198</u>	<u>19,078,432</u>
Noncurrent assets		
Nondepreciable assets	493,289	360,049
Collection systems and facilities, net	33,730,047	32,980,843
Total noncurrent assets	<u>34,223,336</u>	<u>33,340,892</u>
Total assets	<u>56,332,534</u>	<u>52,419,324</u>
 LIABILITIES		
Current liabilities		
Accounts payable	496,786	429,984
Payable to related parties	46,359	73,264
Total current liabilities	<u>543,145</u>	<u>503,248</u>
 NET POSITION		
Net investment in capital assets	34,223,336	33,340,892
Unrestricted	21,566,053	18,575,184
Total net position	<u>\$ 55,789,389</u>	<u>\$ 51,916,076</u>

**SAN RAFAEL SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
OPERATING REVENUES		
Sewer charges	\$ 13,732,496	\$ 12,413,123
OPERATING EXPENSES		
Sewage collection	3,460,912	3,125,399
Sewage treatment	6,234,948	5,395,752
Depreciation and amortization	1,355,364	1,325,028
General and administrative	326,831	322,903
Total operating expense	11,378,055	10,169,082
Operating income	2,354,441	2,244,041
NONOPERATING REVENUES		
Property taxes	1,345,018	1,177,469
Aid from governmental agencies	22,125	56,589
Interest income	23,725	17,885
Total nonoperating revenues	1,390,868	1,251,943
Income before capital contributions	3,745,309	3,495,984
Add: connection fees received	128,004	7,706
CHANGE IN NET POSITION	3,873,313	3,503,690
Net position at beginning of the year	51,916,076	48,412,386
Net position at end of the year	\$ 55,789,389	\$ 51,916,076

**SAN RAFAEL SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from sewer charges	\$ 13,677,348	\$ 12,408,030
Payments to City of San Rafael for contract personnel	(2,847,303)	(2,341,690)
Payments to joint venture for sewage treatment	(6,234,948)	(5,395,752)
Payments to vendors and suppliers	(1,079,208)	(991,685)
Net cash provided by operating activities	3,515,889	3,678,903
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from property taxes	1,345,018	1,177,469
Receipts of aid from governmental agencies	22,125	56,589
Net cash provided by non-capital financing activities	1,367,143	1,234,058
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection fees collected	128,004	7,706
Payments for capital acquisitions	(2,148,609)	(607,399)
Net cash used for capital and related financing activities	(2,020,605)	(599,693)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from Marin County pooled cash and investments account	23,725	17,885
Net increase in cash and cash equivalents	2,886,152	4,331,153
Cash and cash equivalents at beginning of year	18,916,657	14,585,504
Cash and cash equivalents at end of year	\$ 21,802,809	\$ 18,916,657

**SAN RAFAEL SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 and 2013
(continued)**

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

	<u>2014</u>	<u>2013</u>
Operating income	\$ 2,354,441	\$ 2,244,041
Adjustments to reconcile operating income to net cash provided from operating activities:		
Depreciation and amortization	1,355,364	1,325,028
Changes in current assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and other current assets	(144,614)	46,579
Increase (decrease) in:		
Accounts payable and other current liabilities	<u>(49,302)</u>	<u>63,255</u>
Net cash provided from operating activities	<u>\$ 3,515,889</u>	<u>\$ 3,678,903</u>

See accompanying notes to the financial statements.

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

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.

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

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).

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, 2014 AND 2013**

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 maturing within 90 days.

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, 2014 AND 2013**

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, 2014 AND 2013**

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, 2014 AND 2013**

3. CASH AND CASH EQUIVALENTS (continued)

The County's investment pool is not registered with the Securities and Exchange Commission as an investment company. The pool has a credit rating of "AAA/V1." 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, 2014 and 2013, the County's investment pool had a weighted average maturity of 264 and 178 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, 2014 AND 2013**

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, 2014:

Investments in Investment Pool	Percent of Portfolio
Federal agency - discount	73%
Federal agency - coupons	24%
Money market funds	3%
	100%

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, 2014 AND 2013**

4. COLLECTION SYSTEMS AND FACILITIES

A summary of the District's collection systems and facilities for the years ended June 30, 2014 and 2013 respectively, follows:

	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers & Adjustments</u>	<u>Balance at June 30, 2014</u>
Land and easements	\$ 115,329	-	-	-	\$ 115,329
Construction in progress	244,720	\$ 1,712,119	-	\$ (1,578,879)	377,960
Total nondepreciable	<u>\$ 360,049</u>	<u>\$ 1,712,119</u>	<u>\$ -</u>	<u>\$ (1,578,879)</u>	<u>\$ 493,289</u>
Depreciable capital assets:					
Subsurface lines	\$ 20,411,490	\$ 283,960		\$ 1,564,822	\$ 22,260,272
Sewage collection facilities	36,749,373	-	\$ (119,102)	14,057	36,644,328
General plant and administration	1,193,751	241,729	-	-	1,435,480
Total depreciable	<u>58,354,614</u>	<u>525,689</u>	<u>(119,102)</u>	<u>1,578,879</u>	<u>60,340,080</u>
Less: accumulated depreciation:					
Subsurface lines	9,569,621	379,594	-	-	9,949,215
Sewage collection facilities	15,254,347	827,501	(119,102)	-	15,962,746
General plant and administration	549,803	148,269	-	-	698,072
Total accumulated depreciation	<u>25,373,771</u>	<u>1,355,364</u>	<u>(119,102)</u>	<u>-</u>	<u>26,610,033</u>
Total collection systems & & facilities-net	<u>\$ 32,980,843</u>	<u>\$ (829,675)</u>	<u>\$ -</u>	<u>\$ 1,578,879</u>	<u>\$ 33,730,047</u>

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

4. COLLECTION SYSTEMS AND FACILITIES (continued)

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers & Adjustments</u>	<u>Balance at June 30, 2013</u>
Nondepreciable capital assets:					
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>
Depreciable capital assets:					
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, 2014 AND 2013**

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. 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. Condensed financial information for the Agency is presented below for June 30, 2013 and 2012, the most recent information available.

	<u>2013</u>	<u>2012</u>
Total assets	\$ 115,504,286	\$ 116,873,125
Total liabilities	63,573,736	65,206,207
Net position	<u>\$ 51,930,550</u>	<u>\$ 51,666,918</u>
Total revenues and contributions	\$ 15,760,043	\$ 15,260,230
Total expenses	16,292,627	15,780,286
Total contributions and adjustment:	<u>796,213</u>	<u>1,248,612</u>
Change in net position	<u>\$ 263,629</u>	<u>\$ 728,556</u>

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

6. COMMITMENTS

As of June 30, 2014, SRSD had several contracts for sewer improvement projects with remaining obligations of approximately \$1,860,000 that continue to June 2015.

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, 2014 and 2013 together with coverage limits for each insured event:

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

7. RISK MANAGEMENT (continued)

Insurance Program	Limits	Coverage Description
CSRMA - Allied World Ins.	\$ 3,000,000	Gen/Mgt liability - aggregate
CSRMA - Allied World Ins.	\$ 1,000,000	Gen/Mgt liability - occurrence
CSRMA - Allied World Ins.	\$ 1,000,000	Auto liability - accident
CSRMA - Allied World Ins.	\$ 1,000,000	Auto liability - uninsured motorist
CSRMA - Allied World Ins.	\$ 4,000,000	Excess liability
CSRMA - Public Entity Property Insurance Program (P.E.P.I.P)	\$ 11,681,478	Special form property
CSRMA - Illinois Union Ins.	\$ 25,000,000	Pollution liability - tier 1
CSRMA - Illinois Union Ins.	\$ 1,000,000	Pollution liability - tier 2
CSRMA - Lloyds of London	\$ 20,000,000	Cyber liability - third party
CSRMA - Lloyds of London	\$ 2,000,000	Cyber liability - first party
CSRMA - Travelers Ins.	\$ 25,000	Identity theft

The financial statements of CSRMA are available at their office: 100 Pine Street, 11th Floor, San Francisco, CA 94111. Condensed financial information for CSRMA is presented below for the year ended June 30, 2013 (latest information available):

Assets	\$ 28,340,390
Liabilities	<u>16,300,058</u>
Net assets	<u><u>\$ 12,040,332</u></u>
Revenues	\$ 9,652,254
Expenses	<u>9,950,148</u>
Increase (decrease) in net assets	<u><u>\$ (297,894)</u></u>

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

8. 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 and other minor services. The District incurred expenses of \$2,824,994 and \$2,522,007 with the City of San Rafael for the years ended June 30, 2014 and 2013, respectively.

The District had an obligation to the City of San Rafael for the years ended June 30, 2014 and 2013 of \$46,359 and \$73,264, respectively. These are the result of various operating expenses and capital projects. The District also has a receivable from the City of San Rafael for the years ended June 30, 2014 and 2013 of \$179,788 and \$94,939, respectively. These are the result of reimbursement for overpayments of personnel expense within the year that will be credited to the first quarter of the following year.

9. CONTINGENCIES

The District is party to a legal claim regarding a contract dispute which may ultimately result in a settlement or decision against the District. Management and legal counsel have determined that it is "reasonably possible" that this action will result in a loss to the District in the range of \$0 to \$3,000,000. The District intends to vigorously protest the claim.