

**CAYUCOS SANITARY DISTRICT**

**FINANCIAL STATEMENTS**

June 30, 2011



**CAYUCOS SANITARY DISTRICT**  
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June 30, 2011

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Cayucos Sanitary District  
Cayucos, California

We have audited the accompanying basic financial statements of the Cayucos Sanitary District, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior fiscal year comparative information has been derived from the District's 2010 financial statements and, in our report dated October 1, 2010, we expressed an unqualified opinion on the basic financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain audited financial statements supporting the activities of the wastewater treatment plant. Those financial activities include the cost of the plant representing 13.6% of the District's assets and related depreciation, and operating costs representing 33.3% of the District's operating expenses.

As discussed in note 1 to basic financial statements effective July 1, 2010, the Cayucos Sanitary District adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Statements Omnibus*.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the financial statements of the wastewater treatment plant, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Cayucos Sanitary District as of June 30, 2011, and the results of its operations and its cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 8, 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.

MOSS, LEVY & HARTZHEIM LLP

September 15, 2011

## Cayucos Sanitary District Management's Discussion and Analysis

This section of the financial statements is a highlight of the financial condition and activities for the 2010-2011 fiscal year (FY). The discussion and analysis of the Cayucos Sanitary District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should review the discussion and analysis in conjunction with the basic financial statements as well as the notes to the basic financial statements to enhance their understanding of the District's financial performance.

The District accounting system is an Enterprise Fund. This is similar to the private sector accounting system. The revenue is primarily generated by service charges with the exception of property tax revenue, investment revenue and other income. Expenses are stated as operating expenses, and capital expenses are capitalized and depreciated over the lives of the fixed assets.

### FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year (FY) 2010-2011 are as follows:

- The District adopted a Revenue Rate Program in conjunction with upgrade of the Morro Bay-Cayucos Sanitary District Wastewater Treatment Plant calling for scheduled rate increases commencing October 1, 2007, and then increasing July 1 of every fiscal year thereafter, through the end of FY 2011-2012. For FY 2010-2011, effective July 1, 2010, the sewer service fee was increased from \$84.00 bi-monthly to \$94.00 bi-monthly. The District's goal was to ensure that the necessary steps were taken to devise and implement a revenue rate plan sufficient to generate the revenues necessary to pay anticipated debt service for funding of the District's portion of the Morro Bay-Cayucos Wastewater Treatment Plant Upgrade and its own collection and conveyance capital improvement projects.
- There was a change (increase) in net assets of \$354,999, in part due to a \$62,330 increase in sewer fee revenue and a reduction in operating expenses of \$78,341. The remaining balance of \$214,328 represents the excess revenues versus total expenses.

Gross wages, payroll taxes and fringe benefits increased \$10,351 or 2% in FY 2010-2011 because of the following:

- Annual performance merit increases awarded to staff of between 3.5% and 5% in FY 2010-2011.
- Replacement of vacant positions with entry level resulting in salary savings.

## SOURCES OF REVENUES

The District's total revenue for the fiscal year was \$2,178,694 inclusive of the following:

### Sewer Service (User) Charge

The major source of revenue for the District is the sewer service charge assessed to all customers who are users of the District's sewerage facilities. Sewer service charges generated \$1,395,260 in annual revenue to the District, equal to 64% of total revenues.

### Sewer Standby (Service Availability) Fee

The District charges its customers who are owners of vacant lots \$15.00 bi-monthly per each vacant, buildable parcel (lot) for the expense of maintaining a sewer system available to vacant properties. Sewer standby (service availability) fees generated \$20,800 in annual revenue to the District, 1% of total revenues.

### Property Tax

The District receives a pro rata share of property tax (ad valorem) revenues collected by the County of San Luis Obispo for properties located within the District's service boundaries. This portion of revenue includes secured, unsecured, unitary and supplemental property taxes. The secured property tax increases 2% per year. The District's property tax revenue this year was \$616,299 representing 28% of total revenues.

### Sewer Connection and Permit Fees

The District currently charges a sewer connection fee of \$7,960 for the privilege of connecting to the District's sewerage facilities for each single residential dwelling unit or equivalent dwelling unit (EDU), in the case of non-residential use. Of the \$7,960, \$100 represents the charge for the sewer connection inspection fee. The combined sewer connection fee and sewer permit fees generated \$20,905 in FY 2010-2011 revenues to the District representing 1% of total revenues. Other permit fees include charges for processing and issuance of Sewer Will-Serve Letters for new construction and remodel projects and inspections of sewer tie-ins occurring within the District's boundaries.

### Interest Income

The District invests surplus monies not required for immediate necessity of the District in accordance with the provisions of California Government Code Sections 5921 and 53601 et. seq. For this purpose, the District maintains an investment account with Shanley Associates, Inc., working through Girard Securities, Inc. The District's investments are primarily in U.S. Treasury Securities, Certificates of Deposit, and Mortgage-Backed Securities such as GNMA's and FNMA's. In addition, the District maintains an account with the Local Agency Investment Fund (LAIF).

The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Interest from investment holdings generated \$46,782 in interest which is 2% of total revenues.

### Rental Income

The District derives rental income from long term leases it jointly holds with the City of Morro Bay on parcels of real property adjacent to the Morro Bay-Cayucos Wastewater Treatment Plant that are not needed for current operations nor immediate and future plant expansion purposes. The rental income generated was \$33,225 in annual revenue to the District and was little more than 1% of total revenues.

### Solid Waste Franchise Fee

The District derives a 10% franchise fee based on gross solid waste and recycling receipts of the franchisee, Mission Country Disposal (a subsidiary of Waste Connections, Inc.) which brought in revenues of \$37,876. In addition, the District received \$5,000 representing annual revenue from Mission Country Disposal for a recycling development program. The combined revenue generated \$42,876 or approximately 2% of total revenues.

### SOURCES OF EXPENSES

The total expenses of the District in FY 2010-2011 were \$1,823,695. There was an overall decrease of \$82,378 equal to 4% decrease from prior FY 2009-2010 as shown below.

	<b>FY 2010</b>	<b>FY 2011</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Gross Wages	\$418,986	\$417,372	-\$1,614	-0.38%
Payroll taxes and Benefits	\$115,696	\$127,661	\$11,965	10.34%
Directors' Fees	\$10,605	\$10,750	\$145	1.36%
Office Expense	\$24,095	\$27,184	\$3,089	12.82%
Dues and Subscriptions	\$3,653	\$3,858	\$205	5.61%
Business Expense	\$500	\$753	\$253	50.60%
Permits and Licenses	\$3,399	\$5,156	\$1,757	51.69%
Professional Services	\$16,807	\$28,326	\$11,519	68.53%
Insurance	\$100,666	\$109,277	\$8,611	8.55%
Taxes & Assessments	\$7,838	\$8,181	\$343	4.38%
Utilities	\$40,035	\$42,993	\$2,958	7.39%
Telephone	\$7,929	\$7,909	-\$20	0.25%
Rent (Storage and meeting rooms)	\$1,345	\$1,410	\$65	4.8%



Professional Development	\$10,938	\$7,859	-\$3,079	-28.15%
Vehicle Expense	\$11,302	\$10,676	-\$626	-5.53%
Maintenance and Operations	\$123,822	\$74,350	-\$49,472	-39.95%
Wastewater Treatment Plant	\$455,398	\$465,779	\$10,381	2.28%
Depreciation	\$506,131	\$431,310	-\$74,821	14.78%
<b>Total Operating Expenses</b>	<b>\$1,859,145</b>	<b>\$1,780,804</b>	<b>-\$78,341</b>	<b>-4.2%</b>
Bond Interest Expense	\$46,928	\$42,891	-\$4,037	-8.60%
<b>Total Non-Operating Expenses</b>	<b>\$46,928</b>	<b>\$42,891</b>	<b>-\$4,037</b>	<b>-8.60%</b>
<b>Total Expenses</b>	<b>\$1,906,073</b>	<b>\$1,823,695</b>	<b>-\$82,378</b>	<b>-4.32%</b>

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2010-2011, the District held \$6,909,147 in capitals assets primarily for sewer related infrastructure. This amount represents a net increase (including additions, deletions and accumulated depreciation) of \$494,456

	FY 2010	FY 2011	% CHANGE
Land	\$157,132	\$157,132	0.00%
Construction in Progress	\$194,724	\$761,957	291.30%
Construction in Progress-WWTP	\$336,750	\$584,333	73.52%
<b>Total Non Depreciable</b>	<b>\$688,606</b>	<b>\$1,503,422</b>	<b>118.33%</b>
Facility - Office	\$350,427	\$350,427	0.00%
Conveyance System	\$4,177,550	\$4,177,550	0.00%
Subsurface Lines	\$1,885,695	\$1,934,605	2.59%
Sewage Collection Facilities	\$1,760,943	\$1,760,943	0.00%
Sewage Treatment Facilities	\$5,542,407	\$5,542,407	0.00%

Trucks	\$79,455	\$104,896	32.02%
Office Equipment	\$76,277	\$76,277	0.00%
Collection Equipment	\$405,005	\$405,005	0.00%
<b>Total Depreciable</b>	<b>\$14,277,759</b>	<b>\$14,352,110</b>	<b>0.52%</b>
<b>TOTAL CAPITAL ASSETS</b>			
	<b>\$14,966,365</b>	<b>\$15,855,532</b>	<b>5.94%</b>
Less: Accumulated Depreciation	(\$8,551,674)	(\$8,946,385)	4.62%
<b>NET CAPITAL ASSETS</b>	<b>\$6,414,691</b>	<b>\$6,909,147</b>	<b>7.71%</b>

This fiscal year major capital projects, equipment purchases and asset acquisitions included are explained below:

CONSTRUCTION IN PROGRESS (CIP):

CIP Additions Representing \$567,233:

CIP Addition of \$567,233 in construction costs in connection with the Operations and Maintenance Garage/Shop (Phase 1).

CIP-WWTP Additions Representing \$247,583

City of Morro Bay charges of \$180,088 for the WWTP upgrade representing Cayucos Sanitary District 28 percent portion of design, facility master plan and environmental impact report.

Cayucos Sanitary District also expended \$46,431 in legal review services and \$21,064 in engineering review services performed by CSD consultants in connection with the Morro Bay-Cayucos Wastewater Treatment Plant.

Long Term Debt

Funding for the above capital improvement projects (CIP) and equipment acquisition were from existing capital reserves.

## CURRENT FINANCIAL ISSUES AND CONCERNS

The District is financially stable to meet increasing operating costs, capital replacement projects, and the building of a new Waste Water Treatment Plant.

### Morro Bay-Cayucos Sanitary District Wastewater Treatment Plant (WWTP) Project:

Back in 2005, the Morro Bay City Council and Cayucos Sanitary District Board (MBCSD) adopted an 8.0 year full secondary compliance schedule for upgrading the treatment process at their jointly-owned wastewater treatment plant to comply with full secondary treatment standards by no later than March 31, 2014. Carollo Engineers completed The Facility Master Plan for the WWTP Upgrade in final draft form.

On May 28, 2008, a contract was let for environmental review to Environmental Science Associates (ESA) for a not to exceed amount of \$288,770. Their work was progressing at fiscal year-end. A flood analysis was performed by Wallace Group Engineers as a component of the environmental review. As a result of the flood analysis, it was determined that the flood mitigation costs to complete the upgrade of the current WWTP were prohibitive and the upgrade would need to take place adjacent to the existing plant. The City and District were granted a final 5 year 301(h) modified NPDES permit from the State Water Resources Control Board for continued discharge from the WWTP to the ocean outfall on December 4, 2008. This permit should cover the majority if not all of the WWTP Project when full secondary treatment standards can be achieved.

On January 11, 2011, the Morro Bay City Council conditionally approved a coastal development permit for MBCSD's request to upgrade the existing WWTP and certified the environmental impact report (EIR) for the proposed project. The City's approval of the coastal development permit was appealed to the California Coastal Commission (CCC). As a result of the appeal, the CCC asserted jurisdiction over the project's coastal development permit, which is now subject to de novo hearing requirements. MBCSD is currently in the process of meeting the de novo requirements by conducting a robust WWTP Alternatives Analysis to evaluate whether there is a more appropriate site to locate the WWTP. This analysis should be completed to meet a March or April 2012 de novo hearing date with the CCC.

### Cayucos Sanitary District Facility Expansion:

The District vacated its maintenance shop located at 1671 Cabrillo Road due to the County of San Luis Obispo terminating the leased area for intended use by its Water Department Division. As a result, the District undertook preliminary review, planning and design efforts to determine the feasibility of building an Operations and Maintenance Garage/Shop on vacant land owned by the District adjacent to the District's existing Administration Office. As of June 30, 2011, the majority of the construction of the Garage/Shop had been completed. The Garage/Shop should be completed in the first quarter of fiscal year 2011-12.

District's Investment Portfolio and Financial Management Strategy:

The District Board was advised by its Financial Advisor, Karen Shanley, for conservative capital preservation to transfer most of its money market holdings to an all US Treasury Money Market for safety and liquidity in an effort to protect the District's cash holdings from the economic downturn plagued by bank and financial institution-related problems, the credit crunch, housing slump, steep sell offs in capital markets, and deep slides with both S&P 500 Index and Dow Jones.

Contacting the District's Financial Management:

This report is a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Lewis Brookins, Administrative Services Officer, at (805) 995-3290 or address: P.O. Box 333, 200 Ash Avenue, Cayucos, CA, 93430.

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF NET ASSETS - ENTERPRISE FUND**  
June 30, 2011  
With Comparative Totals for June 30, 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current Assets:		
Cash and investments - cash equivalents	\$ 3,752,981	\$ 3,166,929
Restricted cash and investments - cash equivalents	<u>141,185</u>	<u>276,621</u>
Total cash and cash equivalents	3,894,166	3,443,550
Cash and investments - non cash equivalents	2,177,058	2,478,201
Restricted cash and investments - non cash equivalents		252,477
Accounts receivable	15,920	95,506
Interest receivable	5,887	5,898
Taxes receivable	32,305	29,053
Other receivables	17,579	5,954
Prepaid expenses	<u>2,800</u>	<u>100</u>
Total current assets	<u>6,145,715</u>	<u>6,310,739</u>
Capital Assets:		
Non depreciable		
Land	157,132	157,132
Construction in progress	761,957	194,724
Construction in progress - WWTP	584,333	336,750
Depreciable		
Subsurface lines	1,934,605	1,885,695
Sewage collection facilities	1,760,943	1,760,943
Conveyance system	4,177,550	4,177,550
Sewage treatment facilities	5,542,407	5,542,407
Trucks	104,896	79,455
Office equipment	76,277	76,277
Collection equipment	405,005	405,005
Office building	<u>350,427</u>	<u>350,427</u>
	15,855,532	14,966,365
Accumulated depreciation	<u>(8,946,385)</u>	<u>(8,551,674)</u>
Net capital assets	<u>6,909,147</u>	<u>6,414,691</u>
Total assets	<u>\$ 13,054,862</u>	<u>\$ 12,725,430</u>

The notes to basic financial statements are an integral part of this statement.

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF NET ASSETS - ENTERPRISE FUND**  
**June 30, 2011**  
**With Comparative Totals for June 30, 2010**

	<u>2011</u>	<u>2010</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 127,890	\$ 32,807
Payable to the City of Morro Bay - New WWTP	114,437	56,979
Payable to the City of Morro Bay	131,988	158,086
Accrued payroll	17,753	16,160
Accrued interest	6,857	7,558
Customer deposits	4,300	7,400
Security deposit	25,009	25,009
Deferred revenue		59,034
Compensated absences	42,136	38,835
Loan payable, current portion	<u>98,254</u>	<u>94,069</u>
Total current liabilities	568,624	495,937
Long-Term Liabilities:		
Loan payable, less current portion	<u>821,671</u>	<u>919,925</u>
Total liabilities	<u>1,390,295</u>	<u>1,415,862</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	5,989,222	5,400,697
Restricted for construction	141,185	529,098
Unrestricted	<u>5,534,160</u>	<u>5,379,773</u>
Total net assets	<u>\$ 11,664,567</u>	<u>\$ 11,309,568</u>

The notes to basic financial statements are an integral part of this statement.

**CAYUCOS SANITARY DISTRICT****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -  
ENTERPRISE FUND**

For the Fiscal Year Ended June 30, 2011

With Comparative Totals for the Fiscal Year Ended June 30, 2010

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues:</b>		
Sewer services fees	\$ 1,390,075	\$ 1,327,745
Permit fees	5,185	4,527
Total operating revenues	<u>1,395,260</u>	<u>1,332,272</u>
<b>Operating Expenses:</b>		
Gross wages	417,372	418,986
Payroll taxes and benefits	127,661	115,696
Directors' fees	10,750	10,605
Office expense	27,184	24,095
Dues and subscriptions	3,858	3,653
Business expense	753	500
Permits and licenses	5,156	3,399
Professional services	28,326	16,807
Insurance	109,277	100,666
Taxes and assessments	8,181	7,838
Utilities	42,993	40,035
Telephone	7,909	7,929
Rent	1,410	1,345
Professional development	7,859	10,938
Vehicle expense	10,676	11,302
Maintenance and operations	74,350	123,822
Treatment plant	465,779	455,398
Depreciation	431,310	506,131
Total operating expenses	<u>1,780,804</u>	<u>1,859,145</u>
Net operating loss	<u>(385,544)</u>	<u>(526,873)</u>
<b>Non-Operating Revenues (Expenses):</b>		
Rent income	33,225	33,044
Taxes and assessments	616,299	607,265
Investment income	46,782	105,576
Franchise fees	42,876	36,424
Interest expense	(42,891)	(46,928)
Other revenue	7,732	67,797
OES funds		219,635
Stand by fees	20,800	22,026
Total non-operating revenues (expenses)	<u>724,823</u>	<u>1,044,839</u>
Capital contributions - connection fees	<u>15,720</u>	<u>27,510</u>
Change in net assets	354,999	545,476
<b>Net assets:</b>		
Net assets, beginning of fiscal year	<u>11,309,568</u>	<u>10,764,092</u>
Net assets, end of fiscal year	<u>\$ 11,664,567</u>	<u>\$ 11,309,568</u>

The notes to basic financial statements are an integral part of this statement.

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUND**  
For the Fiscal Year Ended June 30, 2011  
With Comparative Totals for the Fiscal Year Ended June 30, 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,412,712	\$ 1,335,370
Payments to vendors	(749,801)	(753,393)
Payments to employees	(540,139)	(527,239)
	<u>122,772</u>	<u>54,738</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes	613,047	609,758
Franchise fees	42,876	36,424
Stand by fees	20,800	22,026
Other revenue	7,732	287,432
	<u>684,455</u>	<u>955,640</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(868,308)	(192,876)
Principal paid on long-term debt	(94,069)	(90,063)
Interest paid on long-term debt	(43,592)	(46,257)
Connection fees	15,720	27,510
	<u>(990,249)</u>	<u>(301,686)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	46,793	99,790
Rent	33,225	33,044
Sale/purchase of investments	553,620	605,173
	<u>633,638</u>	<u>738,007</u>
Net increase in cash and cash equivalents	450,616	1,446,699
Cash and cash equivalents, July 1	<u>3,443,550</u>	<u>1,996,851</u>
Cash and cash equivalents, June 30	<u>\$ 3,894,166</u>	<u>\$ 3,443,550</u>
Reconciliation to Statement of Net Assets:		
Cash and investments - cash equivalents	\$ 3,752,981	\$ 3,166,929
Restricted cash and investments - cash equivalents	<u>141,185</u>	<u>276,621</u>
	<u>\$ 3,894,166</u>	<u>\$ 3,443,550</u>

The notes to basic financial statements are an integral part of this statement.



**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUND**  
For the Fiscal Year Ended June 30, 2011  
With Comparative Totals for the Fiscal Year Ended June 30, 2010

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of operating loss to net cash provided (used)</b>		
<b>by operating activities:</b>		
Operating loss	\$ (385,544)	\$ (526,873)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		
Change in net assets and liabilities:	431,310	506,131
Accounts receivable	79,586	(9,256)
Prepays	(2,700)	980
Other receivables	(11,625)	5,550
Payable to the City of Morro Bay	(26,098)	40,802
Accounts payables	95,083	12,552
Accrued expenses	1,593	3,271
Compensated absences	3,301	14,777
Customer deposits	(3,100)	(400)
Security deposit		(12)
Deferred revenue	(59,034)	7,216
	<u>          </u>	<u>          </u>
Net cash provided (used) by operating activities	<u>\$ 122,772</u>	<u>\$ 54,738</u>

The notes to basic financial statements are an integral part of this statement.

## NOTE 1 - REPORTING ENTITY

The reporting entity is the Cayucos Sanitary District, which began operations in 1942, under the authorization of Section 6400 et. seq. of the Health and Safety Code of the State of California. The District operates under the direction of a board of directors who are elected by the residents of Cayucos. The District provides wastewater disposal services.

The District is a Sanitary District as defined under State Code Section: 61000. A Sanitary District is a public agency (State Code Section: 12463.1) which is a State instrumentality (State Code Section: 23706). State instrumentalities are exempt from federal and state income taxes.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.

- C. Fund Financial Statements - The fund financial statements provide information about the District's proprietary fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

GASB Statement No. 34, defines major funds and requires that the District's major business-type fund be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. The District maintains one proprietary fund.

### Proprietary Fund Type

#### **Enterprise Fund**

Enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District reported its enterprise fund as a major fund in the accompanying basic financial statements.

Sewer Utility Fund is to account for the provision of sewer services to residents of Cayucos.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- D. Cash and Cash Equivalents - For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- E. Property, Plant, and Equipment - Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- F. Depreciation - Capital assets owned by the District are depreciated over their estimated useful lives (ranging from 5-40 years) under the straight-line method of depreciation.
- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.
- H. Deferred Revenue - The District bills customers in advance, thus amounts received prior to services being rendered by the District are recorded as deferred revenue.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Compensated Absences - Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The amounts are included in current liabilities.
- K. Property Taxes  
Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations - are established by the Assessor of the County of San Luis Obispo for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Collections - are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

Tax Levy Apportionments - Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies - are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

L. Restricted Assets – Restricted assets are financial resources segregated for a special purpose such as construction of improvements and financing of debt obligations. These assets are for the benefit of a distinct group and as such are legally or contractually restricted.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

N. Net Assets

GASB Statement No. 34, requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets.

O. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Implementation of the GASB Statement No. 54, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2011.

Governmental Accounting Standards Board Statement No. 59

For the fiscal year ended June 30, 2011, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 59, "Financial Instruments Omnibus." The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of the GASB Statement No. 59, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2011.

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 3 - CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2011 and June 30, 2010, the District had the following cash and investments on hand:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 175	\$ 175
Cash in banks	164,664	137,946
Investments	<u>5,906,385</u>	<u>6,036,107</u>
Total cash and investments	<u>\$ 6,071,224</u>	<u>\$ 6,174,228</u>

Cash and investments listed above are presented on the accompanying basic financial statements, as follows:

	<u>2011</u>	<u>2010</u>
Cash and investments – cash equivalents	\$ 3,752,981	\$ 3,166,929
Restricted cash and investments	141,185	276,621
Cash and investments – non cash equivalents	2,177,058	2,478,201
Restricted cash and investments – non cash equivalents	<u>                    </u>	<u>252,477</u>
Total	<u>\$ 6,071,224</u>	<u>\$ 6,174,228</u>

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	5 years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
State Registered Warrants, Notes, or Bonds	5 years	None	None
Notes and Bonds of other Local California Agencies	5 years	None	None

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Carrying Amount	2011			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Mortgage pass-through securities	\$ 402,836	\$ -	\$ -	\$ -	\$ 402,836
Federal agency securities	507,000			507,000	
Negotiable certificates of deposit	1,267,222	1,267,222			
State investment pool (LAIF)	7,743	7,743			
Money market funds	3,652,984	3,652,984			
County investment pool	68,600	68,600			
	<u>\$ 5,906,385</u>	<u>\$ 4,996,549</u>	<u>\$ -</u>	<u>\$ 507,000</u>	<u>\$ 402,836</u>

Investment Type	Carrying Amount	2010			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Federal agency securities	\$ 1,010,639	\$ -	\$ -	\$ -	\$ 1,010,639
Negotiable certificates of deposit	1,266,142	1,266,142			
State investment pool (LAIF)	7,704	7,704			
Money market funds	3,751,622	3,751,622			
	<u>\$ 6,036,107</u>	<u>\$ 5,025,468</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,010,639</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

CAYUCOS SANITARY DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2011

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Investment Type	Carrying Amount	2011 Minimum Legal Rating	Rating as of Fiscal Year End			
			AAA	At	Baa	Not Rated
Mortgage pass-through securities	\$ 402,836	N/A	\$ 402,836	\$ -	\$ -	\$ -
Federal agency securities	507,000	N/A	507,000			
Negotiable certificates of deposit	1,267,222	N/A				1,267,222
State investment pool (LAIF)	7,743	N/A				7,743
Money market funds	3,652,984	N/A				3,652,984
County investment pool	68,600	N/A				68,600
	<u>\$ 5,906,385</u>		<u>\$ 909,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,996,549</u>

Investment Type	Carrying Amount	2010 Minimum Legal Rating	Rating as of Fiscal Year End			
			AAA	At	Baa	Not Rated
Federal agency securities	\$ 1,010,639	N/A	\$ 509,610	\$ -	\$ -	\$ 501,029
Negotiable certificates of deposit	1,266,142	N/A				1,266,142
State investment pool (LAIF)	7,704	N/A				7,704
Money market funds	3,751,622	N/A				3,751,622
	<u>\$ 6,036,107</u>		<u>\$ 509,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,526,497</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments is as follows:

Issuer	Investment Type	Reported Amount	
		2011	2010
Federal Home Loan			
Mortgage	Federal agency securities	\$ -	\$ 615,128
FNMA	Federal agency securities	\$ 507,000	\$ 395,511
FNMA	Mortgage pass-through securities	\$ 303,788	\$ -

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk (Continued)

As of June 30, 2011, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2011, the District's investments in the following types were held by the same broker-dealer (counterparty) that was used by the District to buy securities:

<u>Investment Type</u>	<u>Amount</u>	
	<u>2011</u>	<u>2010</u>
Federal agency securities	\$ 507,000	\$ 1,010,639
Money market funds	\$ 3,652,984	\$ 3,751,622
Mortgage pass-through securities	\$ 402,836	\$ -

Investment in State Pool (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**NOTE 4 - SCHEDULE OF CAPITAL ASSETS**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2011, is shown below:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Land	\$ 157,132	\$ -	\$ -	\$ 157,132
Building	350,427			350,427
Subsurface lines	1,885,695	48,910		1,934,605
Sewage collection facilities	1,760,943			1,760,943
Conveyance system	4,177,550			4,177,550
Sewage treatment facilities	5,542,407			5,542,407
Collection equipment	405,005			405,005
Office equipment	76,277			76,277
Trucks	79,455	62,040	36,599	104,896
Construction in progress	194,724	567,233		761,957
Construction in progress - WWTP	336,750	247,583		584,333
	<u>14,966,365</u>	<u>925,766</u>	<u>36,599</u>	<u>15,855,532</u>
Less accumulated depreciation	<u>8,551,674</u>	<u>431,310</u>	<u>36,599</u>	<u>8,946,385</u>
Net capital assets	<u>\$ 6,414,691</u>	<u>\$ 494,456</u>	<u>\$ -</u>	<u>\$ 6,909,147</u>



**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE 4 - SCHEDULE OF CAPITAL ASSETS (Continued)**

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2010, is shown below:

	Balance July 1, 2009	Additions	Deletions	Reclassification	Balance June 30, 2010
Land	\$ 157,132	\$ -	\$ -	\$ -	\$ 157,132
Building	350,427				350,427
Subsurface lines	1,885,695				1,885,695
Sewage collection facilities	1,760,943				1,760,943
Conveyance system	4,177,550				4,177,550
Sewage treatment facilities	5,542,407				5,542,407
Collection equipment	332,524	84,134		(11,653)	405,005
Office equipment	76,277				76,277
Trucks	86,455		18,653	11,653	79,455
Construction in progress	156,605	38,119			194,724
Construction in progress-WWTP	209,148	127,602			336,750
	<u>14,735,163</u>	<u>249,855</u>	<u>18,653</u>		<u>14,966,365</u>
Less accumulated depreciation	<u>8,064,196</u>	<u>506,131</u>	<u>18,653</u>		<u>8,551,674</u>
	<u>\$ 6,670,967</u>	<u>\$ (256,276)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,414,691</u>

**NOTE 5 – LOAN PAYABLE**

On April 21, 2004, the District received a loan from Municipal Finance Corporation in the amount of \$1,500,000. The purpose of the loan was to refinance the 1982 Sewer Bonds in the amount of \$174,000, and to finance the reconstruction of pump station #2. The District will make semi-annual payments under the loan agreement of \$68,831 through April 29, 2019. The interest rate for the loan is 4.4%. Future debt service payments are as follows:

Fiscal Year Ending	Principal	Interest	Total
2012	\$ 98,254	\$ 39,407	\$ 137,661
2013	102,624	35,037	137,661
2014	107,190	30,472	137,662
2015	111,958	25,704	137,662
2016	116,938	20,724	137,662
2017-2019	<u>382,961</u>	<u>30,019</u>	<u>412,980</u>
	<u>\$ 919,925</u>	<u>\$ 181,363</u>	<u>\$ 1,101,288</u>

**NOTE 6 – LONG-TERM DEBT**

The changes in long-term debt at June 30, 2011, is as follows:

	July 1, 2010	Additions	Retirements	Total	Balance June 30, 2011	
					Current	Long-Term
Loan payable	<u>\$ 1,013,994</u>	<u>\$ -</u>	<u>\$ 94,069</u>	<u>\$ 919,925</u>	<u>\$ 98,254</u>	<u>\$ 821,671</u>

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE 6 – LONG-TERM DEBT (Continued)**

The changes in long-term debt at June 30, 2010, is as follows:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Total</u>	<u>Balance June 30, 2010</u>	
					<u>Current</u>	<u>Long-Term</u>
Loan payable	\$ <u>1,104,057</u>	\$ <u>-</u>	\$ <u>90,063</u>	\$ <u>1,013,994</u>	\$ <u>94,069</u>	\$ <u>919,925</u>

**NOTE 7 - COMPENSATED ABSENCES**

As of June 30, 2011, it is estimated that the District’s employees have \$42,136 of accumulated vested vacation time and sick leave. Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The accumulated benefits will be liquidated in future years as employees elect to use them.

**NOTE 8 - DISTRICT EMPLOYEES’ RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)**

Plan Description

The Cayucos Sanitary District’s (the District) defined benefit pension plan, Public Employees’ Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The PERS is part of the Public Agency portion of the California Public Employees’ Retirement System, (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes with the Public Employees’ Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in the PERS are required to contribute 8% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2010/2011, was 13.872%. The contribution requirements of the plan members are established by State statute and employer contribution rate was established and may be amended by CalPERS. The Cayucos Sanitary District’s contributions to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$50,621, \$49,588, and \$50,916, respectively, and equal 100% of the required contributions for each fiscal year.

**NOTE 9 - CONTINGENCIES**

According to the District’s attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.