

**RICHARDSON BAY SANITARY DISTRICT**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2013 AND 2012**

**RICHARDSON BAY SANITARY DISTRICT**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors,  
Richardson Bay Sanitary District

We have audited the accompanying financial statements of Richardson Bay Sanitary District as of and for the years ended June 30, 2013 and 2012, 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 financials 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 audits in accordance with auditing standards generally accepted in the United State of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. 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

purposes of expressing an opinion on the effectiveness of the District's internal controls. 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 respective financial position of Richardson Bay Sanitary District as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and the schedule of funding progress for retired employee health care plan on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standard Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

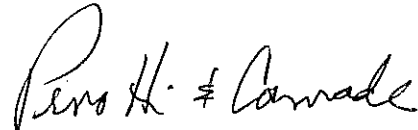
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Richardson Bay Sanitary District's basic

financial statements. The additional information on pages 24 through 28 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2013, on our consideration of Richardson Bay Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Richardson Bay Sanitary District's internal control over financial reporting and compliance.

December 17, 2013

A handwritten signature in cursive script, appearing to read "Peter H. Annade".

## **RICHARDSON BAY SANITARY DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the District's Independent Audit Report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2013. Please read it in conjunction with the District's general purpose financial statements and accompanying notes, which follow this section.

#### **Required Financial Statements**

The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amount of investment resources (assets) and obligations (liabilities). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine credit worthiness and whether the District has successfully recovered all of its cost through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments made during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities.

#### **Financial Analysis**

This discussion is intended to serve as an introduction to the District's basic financial statements. The District's financial statements are comprised of two components: 1) District financial statements, and 2) notes to the financial statements.

**RICHARDSON BAY SANITARY DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is the District's condensed statement of net assets.

	<u>2013</u>	<u>2012</u>	Increase (Decrease) Over 2012	Percent Increase (Decrease)
Cash	\$ 3,351,853	\$ 2,325,157	\$ 1,026,696	44.16%
Board restricted reserves	3,292,174	6,417,275	-3,125,101	-48.70%
Other current assets	77,547	111,653	-34,106	-30.55%
Property	12,056,830	9,498,370	2,558,460	26.94%
Pension costs funded in advance	<u>431,827</u>	<u>518,193</u>	<u>-86,366</u>	-16.67%
 Total assets	 <u>19,210,231</u>	 <u>18,870,648</u>	 <u>339,583</u>	 1.80%
 Payables and other liabilities	 <u>736,448</u>	 <u>185,157</u>	 <u>551,291</u>	 297.74%
Net assets:				
Invested in capital assets	12,056,830	9,498,370	2,558,460	26.94%
Unrestricted	<u>6,416,953</u>	<u>9,187,121</u>	<u>-2,770,168</u>	-30.15%
 Total net assets	 \$ <u>18,473,783</u>	 \$ <u>18,685,491</u>	 \$ <u>-211,708</u>	 -1.13%

***Net Assets Statement and Analysis***

The District's total net assets decreased by \$211,708, or 1.13%, as a result of operations for the year ended June 30, 2013. The District lost approximately \$1,622,000 from operating activities, which was offset by approximately \$1,402,000 in property tax collections and investment earnings resulting in a net loss (decrease in net assets) of approximately \$221,000. Budgeted net income from all activities was \$65,701 exclusive of depreciation of \$365,335 related to sewer lines, pump stations, equipment and vehicles. Property tax and investment income was budgeted to be \$1,290,000.

During the year, the District completed one of its two pipe replacement projects. Total cost incurred for these projects during the year ended June 30, 2013 was \$2,136,241. The final pipe replacement project is anticipated to be completed in 2013. The remaining cost of the project is anticipated to be approximately \$500,000. The District also continued its work on the renovation of the Greenwood Beach Pump Station. Total costs incurred for the pump station project amounted to \$765,375 during the year ended June 30, 2013. The project was substantially completed as of June 30, 2013. The costs of these capital improvement and other smaller capital improvement projects had been initially funded by operations. In June 2013 a \$3,133,000 transfer was made out of the capital improvements reserve to repay operations for a substantial portion of the costs of the 2012 and 2013 capital projects.

## RICHARDSON BAY SANITARY DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### *Net Assets Statement and Analysis (continued)*

In July 2006 the District expended \$1,036,000 to fund its prior service cost liability. Funding of future costs has been recognized as a net pension asset (Pension Costs Funded in Advance) to be amortized over a period of 12 years which represents the approximate period over which PERS estimated such costs would be funded.

Effective June 30, 2012, the District elected to participate in the California Employer's Retiree Benefit Trust (CERBT), a CalPERS program to assist agencies to fund in advance other postretirement benefits (OPEB). Contributions made by the District to the trust are invested by the trust to provide for payment of benefits.

As of June 30, 2013, 18% of the District's net assets were held in cash available for operations. The District did not require any long-term financing to fund operations or capital improvements in 2013 and 2012.

The following is the District's condensed statement of revenue, expenses and changes in net assets:

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease) Over 2012</u>	<u>Percent Increase (Decrease)</u>
Operating revenues	\$ 1,244,938	\$ 1,265,815	\$ (20,877)	-1.65%
Nonoperating revenues	1,401,974	1,406,355	(4,381)	-0.31%
Total revenues	2,646,912	2,672,170	(25,258)	-0.95%
Operating expenses	2,867,406	2,658,572	208,834	7.86%
Change in net assets	(220,494)	13,598	(234,092)	-1721.52%
Net assets - beginning of period	18,685,491	18,671,893	13,598	0.07%
Contributed Capital	8,786		8,786	100.00%
Net assets - end of period	<u>\$ 18,473,783</u>	<u>\$ 18,685,491</u>	<u>\$ (211,708)</u>	-1.13%

#### **Revenue, Expenses and Changes in Net Assets Statement and Analysis**

Operating revenues in 2013 decreased by approximately \$21,000 or 1.65% compared to 2012. The decrease is attributed to a \$28,245 loss on the write-off of improvements made previously to the Greenwood Beach Pump Station which were obsoleted by the 2013 renovation.

The decrease in non-operating revenue is related to the decrease in investment income. The District invests its cash reserves in short-term, highly liquid, unrestricted investments. The investment pool has decreased modestly; however, interest rates have fallen from an average of 0.21% to 0.15% over the past year resulting in decreased investment income of approximately \$11,000.



## RICHARDSON BAY SANITARY DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Revenue, Expenses and Changes in Net Assets Statement and Analysis (continued)

Operating expenses increased by 7.9% percent, or approximately \$209,000. The increase was primarily attributed to an expected increase in sewerage processing costs paid to Sewerage Agency of Southern Marin (SASM) and an increase in legal costs, discussed below.

Legal fees increased by approximately \$69,000 as the District sought legal action against the City of Mill Valley for what the District believes was City of Mill Valley's responsibility for two sewage spills that occurred at SASM. The District's suit was not successful.

Sewerage processing costs increased by 10%, or approximately \$114,000. The District and five other districts are members of a joint powers authority which operates the Sewerage Agency of Southern Marin (SASM). SASM's purpose is to treat and dispose of sewage collected by member agencies. On January 25 and January 31, 2008, partially treated sewage spilled into Richardson Bay. The waste water came from Sewerage Agency of Southern Marin's (SASM) processing plant. The California Regional Water Quality Control Board evaluated the causes for the spills. The evaluation resulted in a \$1.6 million fine assessed against SASM. SASM has paid the \$1.6 million fine with funds held in SASM's reserves.

SASM's revenue is derived from projected operating costs charged to the six member agencies. SASM's board has approved annual increases ranging from 3% to 10% for the next six years to replenish reserves and address expected increases in costs. See further discussion at note 10 of the financial statements.

In October 2009, the State of California approved AB1232. The bill permitted Marin Local Agency Formation Commission (MLAFCO), which oversees government boundaries, to initiate and approve the reorganization or consolidation of four of the six sanitary districts which make up SASM. In May 2013 a vote was taken in the four applicable districts where a majority of voters in all four districts opposed consolidation. Regardless of the vote, MLAFCO continues to have the authority to force consolidation. However, at this juncture, MLAFCO has not expressed its intent to force consolidation.

#### Capital Assets

The District's investment in capital assets as of June 30, 2013 is \$12,056,830, net of accumulated depreciation. This investment in capital assets includes building and improvements, sewerage lines, pump stations, water reclamation equipment, maintenance equipment and vehicles. Net capital assets increased by approximately 26.94% in 2013. Improvements of approximately \$2,901,000, the most significant of which were the improvements made Greenwood Beach Pump Station and pipe replacement projects discussed above. Depreciation of approximately \$365,000 was recorded. The District has developed and continually updates a comprehensive plan for replacement and improvement of sewer lines, pump stations, facilities and other District equipment. Additional information on the District's capital assets can be found in Note 4 to the financial statements.

## RICHARDSON BAY SANITARY DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### **Capital Assets (continued)**

The District and its Board have elected to make major replacements and improvements to its infrastructure. Since June 30, 2009 the District has made improvements to its capital assets of approximately \$6,750,000. Once the pipe replacement projects are completed in 2014, approximately seventy percent of the sewerage lines within the District are expected to have been replaced. Thereafter, the District's approach will be to make minor improvements with the intention of replacing the sewerage lines on a rolling basis every twenty years.

#### **Accounting System and Budgetary Control**

Management of the District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are made to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management and board authorization and are properly recorded to permit the preparation of financial statements. We believe that the District's internal accounting controls do adequately safeguard assets and provide reasonable assurance that financial transactions are recorded properly.

The District is a California Special District maintained in a single enterprise fund. As a special district, charges to customers are made only to those who receive services. The District's account structure, insofar as is practical and in accordance with generally accepted accounting principles, generally follows the State Controller's System of Accounts and Waste Management Districts, a set of procedures that provides the general accounting and reporting guidelines to be used by all California Special Districts performing waste management enterprise activities.

The District and its Board adopts an annual non-appropriated budget and a long-term capital improvements budget to serve as its approved financial plan. Any increases in connection fees and infrastructure charges are likewise approved by the Board after public hearings. The budget is used as a key control device: (1) to ensure Board approval for amounts set for operations and capital improvements; (2) to monitor expenses and project progress, and (3) as compliance that approved spending levels have not been exceeded. All operating activities and capital activities of the District are included within the approved budgets.

**RICHARDSON BAY SANITARY DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Accounting System and Budgetary Control (continued)**

The following is the District's current year statement of revenue and expenses compared to the budget.

	<b><u>Budgeted</u></b>	<b><u>Actual</u></b>
2012/2013 Fiscal Year Revenue:		
Property taxes	\$ 1,290,000	\$ 1,390,431
Sewer service charges	1,168,963	1,217,269
Interest	25,000	11,543
Other	40,500	27,669
Total Revenue	<u>2,524,463</u>	<u>2,646,912</u>
2012/2013 Fiscal Year Expense:		
Sewerage processing cost	1,261,212	1,216,814
Operating and maintenance	866,867	893,976
General and administration	330,683	391,281
Depreciation *		365,335
Total expenses	<u>2,458,762</u>	<u>2,867,406</u>
Net Income	\$ <u>65,701</u>	\$ <u>(220,494)</u>
Capital improvement budget for 2012/2013	\$ <u>2,530,000</u>	\$ <u>2,952,040</u>

\* Management has elected not to budget depreciation expense.

**RICHARDSON BAY SANITARY DISTRICT**

**STATEMENTS OF NET ASSETS  
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and equivalents	\$ 3,351,853	\$ 2,325,157
Accounts receivable	22,418	27,991
Sewerage processing costs paid in advance	55,129	
Due from State of California (including interest)		83,662
Total current assets	<u>3,429,400</u>	<u>2,436,810</u>
<b>Other Assets:</b>		
Board restricted cash reserves	3,292,174	6,417,275
Property, plant and improvements-net	12,056,830	9,498,370
Pension costs funded in advance	431,827	518,193
Total other assets	<u>15,780,831</u>	<u>16,433,838</u>
<b>Total Assets</b>	<b><u>\$ 19,210,231</u></b>	<b><u>\$ 18,870,648</u></b>
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
Accounts payable related to:		
Improvement projects in process	\$ 635,015	\$ 32,970
Operating expenses	49,190	56,811
Total accounts payable	<u>684,205</u>	<u>89,781</u>
Compensated absence liability	27,715	26,111
Deposits	7,788	7,298
Total current liabilities	<u>719,708</u>	<u>123,190</u>
<b>Long-term liability:</b>		
Unfunded OPEB liability	16,740	61,967
<b>Total Liabilities</b>	<b><u>\$ 736,448</u></b>	<b><u>\$ 185,157</u></b>
<b><u>NET ASSETS</u></b>		
<b>Net Assets:</b>		
Invested in capital assets	\$ 12,056,830	\$ 9,498,370
Unrestricted	<u>6,416,953</u>	<u>9,187,121</u>
<b>Net Assets</b>	<b><u>\$ 18,473,783</u></b>	<b><u>\$ 18,685,491</u></b>

See accompanying notes to the financial statements.

**RICHARDSON BAY SANITARY DISTRICT**

**STATEMENTS OF REVENUES AND EXPENSES  
AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating Revenues:</b>		
Sewer service charges	\$ 1,217,269	\$ 1,213,686
Connection charges	24,661	20,111
Other	3,008	32,018
Total operating revenues	<u>1,244,938</u>	<u>1,265,815</u>
<b>Operating Expenses:</b>		
Sewerage processing costs (SASM)	1,216,814	1,102,588
Operating and maintenance	893,976	899,256
General and administrative	391,281	303,891
Depreciation	365,335	352,837
Total operating expenses	<u>2,867,406</u>	<u>2,658,572</u>
<b>Operating Loss</b>	<u>(1,622,468)</u>	<u>(1,392,757)</u>
<b>Other Income:</b>		
Current taxes	1,390,431	1,383,789
Investment income	11,543	22,566
Total other income	<u>1,401,974</u>	<u>1,406,355</u>
<b>Increase (Decrease) in Net Assets</b>	(220,494)	13,598
<b>Net Assets, Beginning of Year</b>	18,685,491	18,671,893
<b>Contributed Capital</b>	8,786	
<b>Net Assets, End of Year</b>	<u>\$ 18,473,783</u>	<u>\$ 18,685,491</u>

See accompanying notes to the financial statements.

**RICHARDSON BAY SANITARY DISTRICT**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities:</b>		
Cash received from service, connection and other charges	\$ 1,279,246	\$ 1,240,894
Cash paid for:		
Sewerage processing costs	1,271,943	1,102,588
Operating and system maintenance	872,994	821,043
General and administrative	377,141	283,096
Total	<u>2,522,078</u>	<u>2,206,727</u>
Cash used for operating activities	<u>(1,242,832)</u>	<u>(965,833)</u>
<b>Cash Flows from Investing Activities:</b>		
Property additions	(2,349,995)	(1,480,137)
Additions to Board restricted reserves (including interest)	(8,137)	(14,563)
Board restricted reserves used for designated purposes	3,133,238	
Interest income	15,779	20,448
Cash provided by (used for) investing activities	<u>790,885</u>	<u>(1,474,252)</u>
<b>Cash Flows from Capital and Non-Capital Financing Activities:</b>		
Contributed capital	8,786	
Collection of loan to California State	79,426	
Property taxes collected	1,390,431	1,383,789
Cash provided by financing activities	<u>1,478,643</u>	<u>1,383,789</u>
<b>Net Increase (Decrease) in Cash and Equivalents</b>	1,026,696	(1,056,296)
<b>Cash and Equivalents, Beginning of Year</b>	<u>2,325,157</u>	<u>3,381,453</u>
<b>Cash and Equivalents, End of Year</b>	<u>\$ 3,351,853</u>	<u>\$ 2,325,157</u>

See accompanying notes to the financial statements.

**RICHARDSON BAY SANITARY DISTRICT**

**RECONCILIATIONS OF OPERATING LOSS TO CASH  
REQUIRED BY OPERATING ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>Operating Loss</b>	\$ (1,622,468)	\$ (1,392,757)
Add or deduct items not requiring the use of cash:		
Depreciation	365,335	352,837
Amortization of pension costs funded in advance	86,366	86,366
Loss on disposal of property	28,245	
Changes in assets and liabilities:		
Increase (decrease) in accounts receivable	5,573	(19,222)
Increase in SASM fee paid in advance	(55,129)	
Decrease in operating accounts payable and deposits	(7,131)	(7,482)
Increase (decrease) in compensated absence liability	1,604	(3,931)
Increase (decrease) in unfunded OPEB liability	<u>(45,227)</u>	<u>18,356</u>
<b>Cash Used for Operating Activities</b>	<b><u>\$ (1,242,832)</u></b>	<b><u>\$ (965,833)</u></b>

See accompanying notes to the financial statements.

# RICHARDSON BAY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### 1. THE ORGANIZATION

Richardson Bay Sanitary District (District) is an independent special district that provides sewage collection services in portions of the Town of Tiburon, California and adjacent unincorporated areas of Marin County. The District is a proprietary fund, also referred to as an enterprise fund, which is a fund established by governmental agencies to account for goods and services provided to the general public that are financed primarily through user charges.

The District's cash and equivalents and Board restricted reserves are pooled with other similar funds administered by the County of Marin. The County of Marin is restricted by State statute to invest in its own bonds, U.S. Treasury notes, commercial paper, and like investments. Interest earned on pooled funds is allocated to the District quarterly based on the District's average daily balance.

In 1979, the District joined with five similar districts in southern Marin County to create the Sewerage Agency of Southern Marin (SASM). SASM was formed to provide, at cost, final treatment to the sewage collected by member districts. Each district is charged an annual fee based on SASM's estimated operating costs, (including principal and interest repayments on debt and certain capital improvement costs) and the relative number of equivalent dwelling units contained within its boundaries.

In August 2012 SASM obtained \$4,500,000 in 2% to 4% revenue bond financing to cover improvements to its treatment facility. Bonds mature over a 30 year period. As a member of SASM, the District's assessment for sewage treatment cost will include its prorated share of the debt service related to this obligation.

Subsequent events have been evaluated through December 17, 2013, the date the financial statements were available to be issued.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader. Certain amounts on the 2012 financial statements have been reclassified to conform with current year presentation.

**Basis of Presentation and Accounting** - The activities of the District are accounted for in a single enterprise fund. The Agency is engaged in only business-type activities and the Agency's basic financial statements consist of only the financial statements required for enterprise funds. These include management's discussion and analysis, a statement of net assets, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, these notes to the basic financial statements, and required supplementary information.



**RICHARDSON BAY SANITARY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Proprietary enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency are charges to the households and commercial and public facilities in the district for sewer service. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. As permitted by the Governmental Accounting

Standards Board's Statements Number 20, the District applies all applicable GASB pronouncements as well as all applicable FASB pronouncements issued on or before November 30, 1989.

The District, as authorized by its Board of Directors, charges new users a fee to pay for capital improvements necessitated by their addition. Fees received have been treated as contributed capital and have been expended solely on infrastructure improvements.

**Cash Equivalents:** Cash equivalents include short-term, highly liquid, unrestricted investments administered by the County of Marin and transferable into operating funds upon appropriate notice to the County.

**Property, Plant and Improvements:** Property, plant and improvements are recorded at cost. Depreciation is computed using the straight line method over the estimated lives of the assets as follows:

Sewer lines and pump stations	40 years
Management facilities and water reclamation equip	10-20 years
Generators, office equipment and tools	5-20 years

The normal cost of maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

**Pension Costs Funded in Advance:** Pension costs funded in advance are being amortized and charged to operations (employee benefits) over 12 years based on the estimated time PERS anticipated the District would be required to fund the cost in expected annual installments.

**Compensated Absences:** The District accrues a liability for vacation and up to 60 days of sick leave earned by District employees because future payment for such absences has been earned.

**RICHARDSON BAY SANITARY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**3. BOARD RESTRICTED CASH RESERVES**

The Board of Directors has authorized the establishment of cash reserves as of June 30 for the following purposes:

	<u>2013</u>	<u>2012</u>
Sewer line replacement	\$ 3,870,000	\$ 6,300,000
Pumping facilities replacement	1,395,000	1,810,000
Vehicle replacement	120,000	120,000
Shop and office	122,000	137,000
Catastrophic event reserve	<u>1,000,000</u>	<u>1,000,000</u>
Total authorization	6,507,000	9,367,000
Unfunded portion	<u>3,214,826</u>	<u>2,949,725</u>
Funded reserves	<u>\$ 3,292,174</u>	<u>\$ 6,417,275</u>

While performing annual maintenance on sewer lines, the District identified a number of significantly deteriorated sewer lines that will require replacement over the next several years. The District believes these budgeted improvements will satisfy the EPA administrative order discussed in note 9 of the financial statements.

**4. DUE FROM STATE OF CALIFORNIA**

The State of California passed Assembly Bill ABX4 14 which permitted the State to borrow up to 8% of estimated 2009-2010 property tax revenue from the District and required the State to repay the borrowed funds with interest at two percent by no later than June 30, 2013. The State borrowed \$79,426 from the District during the year ended June 30, 2010. Interest income earned during the year ended June 30, 2013 amounted to \$1,044.

The loan was paid in full in June 2013.

## RICHARDSON BAY SANITARY DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### 5. PROPERTY, PLANT AND IMPROVEMENTS

Changes in the District's property, equipment and improvements and accumulated depreciation for the year ended June 30, 2013 is summarized as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>Historical Cost:</b>				
Sewer line and pump stations	\$ 12,139,090	\$ 2,952,040	\$ (35,285)	\$ 15,055,845
Management facilities and water reclamation equipment	1,852,096		(8,956)	1,843,140
Generators, office equipment and tools	642,107		855	642,962
Total	<u>14,633,293</u>	<u>\$ 2,952,040</u>	<u>\$ (43,386)</u>	<u>17,541,947</u>
<b>Accumulated Depreciation:</b>				
Sewer line and pump stations	3,092,417	305,928	(7,040)	3,391,305
Management facilities and water reclamation equipment	1,464,391	40,071	(8,956)	1,495,506
Generators, office equipment and tools	578,115	19,336	855	598,306
Total	<u>5,134,923</u>	<u>\$ 365,335</u>	<u>\$ (15,141)</u>	<u>5,485,117</u>
Property, Equipment and Improvements - net	<u>\$ 9,498,370</u>			<u>\$ 12,056,830</u>

#### 6. PERS RETIREMENT PLAN

**Plan Description:** Richardson Bay Sanitary District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefits provisions and all other requirements are established by state statute as adopted by the District. Copies of PERS' annual financial report may be obtained from their Executive Office - Lincoln Plaza, 400 P Street, Sacramento, CA 95814.

**Funding Policy:** The District makes the contributions required of District employees on their behalf and for their account, computed at an actuarially determined rate. The contribution requirements of plan participants and the District are established and may be amended by PERS. The contribution rate for the year ended June 30, 2013 and 2012 was 6.994% and 7.258%, respectively, of covered payroll. The contribution rate for the year ending June 30, 2014 will be 13.475%.

**RICHARDSON BAY SANITARY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**6. PERS RETIREMENT PLAN (continued)**

The District permits employees to contribute 8% of their compensation into the plan. It is the policy of the District to make this contribution on their behalf of employees who were hired prior to April 30, 2009. The District pays 1% of employee's contribution for employees hired after April 30, 2009. For the years ended June 30, 2013 and 2012 contributions to the plan were \$61,929 and \$63,129, respectively.

**Annual Pension Cost:** In July 2006 the District elected to expend \$1,036,000 to fund its past service cost liability. Funding of the liability has been recognized as a net pension asset to be amortized over a period of 12 years which represents the approximate period over which PERS estimated such costs would be funded. The annual amortization of \$86,366 has been charged to operating expense (employee benefits) in the years ended June 30, 2013 and 2012.

CalPERS uses the Entry Age Normal Cost Method with contributions determined as a level percentage of covered payroll, as well as applying asset smoothing to the market values of plan assets to determine their actuarial values. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, duration of service and type of employment, and (c) a 3.00% per year annually compounded overall payroll growth rate. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value).

**Three-year Trend Information**

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 30,404	100%	0
2012	\$ 60,129	100%	0
2013	\$ 61,929	100%	0

**Plan's Risk Pool History of Funded Status and Funding Progress**

<u>Valuation Date June 30</u>	<u>Accrued Liability</u>	<u>Actuarial Assets</u>	<u>Unfunded Liability (UL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL As a % Payroll</u>
2010	945,221,095	754,858,961	190,362,134	79.9%	159,156,834	119.6%
2011	1,023,127,404	825,991,347	197,136,057	80.7%	160,900,495	122.5%
2012	1,081,962,506	903,410,915	178,551,591	83.5%	153,161,984	116.6%

The District's pension funds have been combined into a Risk Pool of similar sized local government agencies throughout the State of California. The Plan's Risk Pool Funded Status is for the entire risk pool.

**RICHARDSON BAY SANITARY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

In addition to the pension benefits described in Note 6, the District provides post-retirement healthcare benefits to employees who retire from the District in accordance with District policy as approved by the Board of Directors. The District has agreed to cover the cost of health and dental insurance (exclusive of Medicare) for their retired employees. The District currently has five retirees who meet the eligibility requirements.

Effective June 30, 2012, the District has elected to participate in the California Employer's Retiree Benefit Trust (CERBT), a CalPERS program to assist agencies to advance fund other postretirement benefits (OPEB). The contributions are invested. The District is responsible for paying monthly OPEB premiums. The District has the ability to request withdrawals from CERBT to cover current annual premiums.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on an amount actuarially determined in accordance with the parameters of government accounting standards. The annual required amount represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The District contributes annually an amount equal to the actuarially determined annual obligation into CERBT. The District has also elected not to request withdrawals from CERBT to cover the current year's annual premiums.

The following table shows the components of the District's annual OPEB cost for the year, the amounts actually paid, and changes in the District's net OPEB obligation:

Annual required amount	\$ 63,613
Contributions into CERBT	(63,613)
Premiums paid on behalf of retirees	(45,227)
Decrease in net OPEB obligation	<u>(45,227)</u>
Net OPEB obligation, beginning of year	61,967
Net OPEB obligation, end of year	<u><u>\$ 16,740</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost paid and the net OPEB obligation for the years ended June 30, 2013 and 2012 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percent Paid</u>	<u>Net OPEB Obligation</u>
2011	\$70,534	65.67%	\$43,611
2012	\$72,314	74.62%	\$61,967
2013	\$63,613	171.10%	\$16,740

## RICHARDSON BAY SANITARY DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### **7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)**

An actuarial valuation is required once every three years. Valuations were performed as of June 30, 2010 and June 30, 2012. The actuarial accrued liability for benefits (AAL), the covered payroll (the annual payroll of active employees eligible to participate) and the ratio of the unfunded actuarial accrued liability (UAAL) are summarized on page 23.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status and the annual required employer contribution amount are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of assets set aside to cover obligations is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the approved policy (the policy as understood by the employer and qualified employees) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and qualified employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuations, the Entry Age Actuarial Cost Method was used. The actuarial assumptions included a discount rate (4 percent and 6.36 percent for the June 30, 2010 and 2012 valuations, respectively), the annual healthcare cost trend of 8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after five years and the annual dental cost trend of 4 percent. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of payroll over 30 years; the remaining amortization period at June 30, 2012.

#### **8. DEFERRED COMPENSATION PLAN**

Employees of the District may participate in two deferred compensation plans adopted under the provisions of Internal Revenue Code (IRC) Section 457 (Deferred Compensation Plans With Respect To Service For State and Local Governments).

The deferred compensation plans are available to all employees of the District. Under the plans, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until their withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

## RICHARDSON BAY SANITARY DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### **8. DEFERRED COMPENSATION PLAN (continued)**

The deferred compensation plans are administered by unrelated financial institutions.

In accordance with a revision to Section 457, the District has been designated as the trustee of the plans' assets and the plans' assets are to be held for the exclusive benefit of the plans' participants and beneficiaries and not diverted to any other purpose. The value of those plan assets approximates \$334,000 at June 30, 2013.

#### **9. 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; and natural disasters, for which the District carries insurance. The District is a member of the California Sanitation Risk Management Authority which is a pooled liability program whose purpose is to purchase insurance coverage on behalf of its members.

The Authority acts as a common risk management and insurance program for 50 member sanitary districts. Each member agency is assessed a premium based on ratable exposure. At year end, the premiums are retrospectively rated based on exposure and the actual loss histories of the individual member agencies. If member losses exceed member premiums, surcharges are assessed to compensate for this situation, and if member losses are less than premiums then premiums are adjusted or refunded to members.

The risk of loss is transferred from the District to the Authority under this arrangement. The Authority provides coverage for the first \$750,000 in general liability claims with the District being responsible for the first \$5,000. The Authority provides coverage for the next \$15 million in claims by purchasing commercial insurance coverage. The Authority provides \$30,966,540 in insurance covering the District's plant and business property.

The District paid no material uninsured losses during the last three fiscal years. There have been no significant reductions in insurance coverage, and there have been no settlements exceeding insurance coverage in the last three years.

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

**RICHARDSON BAY SANITARY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**10. CONTINGENCIES AND CONCENTRATIONS**

The following have the potential to effect the operations of the District:

**Bank Balances Exceeding FDIC Insurance** – Financial instruments that potentially subject the District to credit risk include cash on deposit with a financial institution that at times exceed the \$250,000 insurance limitation of the United States Federal Deposit Insurance Corporation.

**Contractual Commitments:**

**Sewerage Agency of Southern Marin** - On January 25 and January 31, 2008 partially treated sewage spilled into Richardson Bay. The waste water came from Sewerage Agency of Southern Marin's (SASM) processing plant. As result of the spills, an assessment of \$1.6 million had been levied against SASM by a governing oversight board. Of the total assessment of \$1.6 million, SASM paid \$800,000 to the California Regional Water Quality Control Board using reserve funds. In addition, the settlement provides that SASM shall fund and implement \$800,000 in improvements and programs referred to as supplemental environmental projects. In June 2010, the Board of SASM approved increases of the sewerage processing fee ranging between 3% and 10% over the next six years to replenish its reserves and address expected increases in operating costs.

The Environmental Protection Agency, EPA, has also issued an administrative order against SASM and the joint powers member agencies to employ certain procedures, make certain capital improvements, and provide additional reporting over the next several years. The Board Restricted Cash Reserve discussed in Note 3 includes budgeted expenditures for capital improvements required by the administrative order.



**RICHARDSON BAY SANITARY DISTRICT**

**REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS FOR  
RETIRED EMPLOYEES HEALTH CARE  
JUNE 30, 2013 AND 2012**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll</b>	<b>Unfunded AAL as a % of Covered Payroll</b>
6/30/2010	0	\$ 1,150,936	\$ 1,150,936	0%	\$ 394,212	292%
6/30/2012	0	\$ 899,625	\$ 899,625	0%	\$ 415,025	217%

**RICHARDSON BAY SANITARY DISTRICT**

**SUPPLEMENTAL SCHEDULE OF OPERATING AND  
SYSTEM MAINTENANCE AND GENERAL AND  
ADMINISTRATIVE EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>			<u>2012</u>
	<u>Operating and System Maintenance Expenses</u>	<u>General and Administrative Expenses</u>	<u>Total</u>	<u>Total</u>
Personnel	\$ 311,897	\$ 108,663	\$ 420,560	\$ 415,025
Benefits	235,232	81,953	317,185	318,743
Payroll taxes	20,925	10,478	31,403	32,162
Total payroll and related costs	<u>568,054</u>	<u>201,094</u>	<u>769,148</u>	<u>765,930</u>
Professional fees		131,433	131,433	69,376
Supplies	25,667	6,872	32,539	34,368
Utilities	27,169	3,939	31,108	31,283
Other	5,710	24,018	29,728	6,824
Truck	21,078		21,078	20,121
Insurance	19,785		19,785	4,616
Repairs and maintenance:				
Sewer	151,281		151,281	144,912
Pump station	30,862		30,862	49,032
Trestle Glen	28,098		28,098	20,625
Other	4,101		4,101	22,041
Telephone and communications		13,050	13,050	12,109
Board stipend		10,875	10,875	9,000
Laundry	10,450		10,450	10,454
Safety	1,721		1,721	2,456
<b>TOTALS</b>	<u>\$ 893,976</u>	<u>\$ 391,281</u>	<u>\$ 1,285,257</u>	<u>\$ 1,203,147</u>

**RICHARDSON BAY SANITARY DISTRICT**

**SCHEDULE OF ACTIVITY IN CASH RESERVED  
FOR INFRASTRUCTURE AND OTHER IMPROVEMENTS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Reserve Balance, Beginning of the Year:</b>	\$ 6,417,275	\$ 6,402,712
<b>Reduction:</b> Transfers by Board to operating funds	(3,133,238)	
<b>Addition:</b> Interest on restricted funds	<u>8,137</u>	<u>14,563</u>
<b>Reserve Balance, End of the Year</b>	<u>\$ 3,292,174</u>	<u>\$ 6,417,275</u>

## **STATISTICAL INFORMATION**

**Table 1**

## Revenues by Source

Year Ended June 30	Operating			Non Operating		Total
	Sewer Service Charges	Connection Fees	Other Operating	Property Tax Collection	Investment Income	
2013	\$ 1,217,269	\$ 24,661	\$ 3,008	\$ 1,390,431	\$ 11,543	\$ 2,646,912
2012	\$ 1,213,686	\$ 20,111	\$ 32,018	\$ 1,383,789	\$ 22,566	\$ 2,672,170
2011	\$ 1,181,215	\$ 22,381	\$ 20,138	\$ 1,394,602	\$ 52,771	\$ 2,671,107
2010	\$ 1,173,303	\$ 55,148	\$ 23,604	\$ 1,456,970	\$ 106,340	\$ 2,815,365
2009	\$ 1,169,561	\$ 41,951	\$ 21,615	\$ 1,400,245	\$ 245,332	\$ 2,878,704
2008	\$ 1,167,657	\$ 47,800	\$ 16,194	\$ 1,513,543	\$ 468,520	\$ 3,213,714
2007	\$ 1,137,703	\$ 43,639	\$ 18,618	\$ 1,260,287	\$ 438,718	\$ 2,898,965
2006	\$ 1,132,276	\$ 76,833	\$ 19,188	\$ 1,111,451	\$ 319,791	\$ 2,659,539
2005	\$ 1,152,830	\$ 71,444	\$ 23,629	\$ 1,018,697	\$ 152,782	\$ 2,419,382
2004	\$ 1,148,377	\$ 33,900	\$ 14,196	\$ 894,239	\$ 116,676	\$ 2,207,388

Source: Audited Financial Statements

**Table 2**

## Expenses by Function

Year Ended June 30	Sewerage Processing Charges	Operating and Maintenance	General and Administrative	Subtotal	Depreciation	Total
2013	\$ 1,216,814	\$ 893,976	\$ 391,281	\$ 2,502,071	\$ 365,335	\$ 2,867,406
2012	\$ 1,102,588	\$ 899,256	\$ 303,891	\$ 2,305,735	\$ 352,837	\$ 2,658,572
2011	\$ 950,486	\$ 893,821	\$ 287,606	\$ 2,131,913	\$ 320,631	\$ 2,452,544
2010	\$ 829,012	\$ 877,704	\$ 260,789	\$ 1,967,505	\$ 292,790	\$ 2,260,295
2009	\$ 826,943	\$ 954,145	\$ 260,593	\$ 2,041,681	\$ 274,712	\$ 2,316,393
2008	\$ 711,612	\$ 922,559	\$ 192,282	\$ 1,826,453	\$ 273,921	\$ 2,100,374
2007	\$ 704,901	\$ 879,792	\$ 188,963	\$ 1,773,656	\$ 275,973	\$ 2,049,629
2006	\$ 669,368	\$ 870,567	\$ 200,324	\$ 1,740,259	\$ 280,803	\$ 2,021,062
2005	\$ 678,561	\$ 997,344	\$ 166,641	\$ 1,842,546	\$ 278,616	\$ 2,121,162
2004	\$ 660,227	\$ 805,324	\$ 155,548	\$ 1,621,099	\$ 263,814	\$ 1,884,913

Source: Audited Financial Statements

**RICHARDSON BAY SANITARY DISTRICT**

**Statistical Section  
Miscellaneous Statistics  
June 30, 2013**

**General**

Authority	Resolution via public election
Governing body	Elected five member Board of Directors
Chief executive officer	District Manager
Chief financial officer	District Manager
Date of formation	February 21, 1949
Type of service	Sewage and solid waste collection
Number of employees	4

**Service Charges**

- ◆ Annual service charges are based upon the charge per EDU and the number of EDU's. An EDU generally is one household. However, in the case of multiple dwellings, the number of EDU's varies by dwelling. EDU's for commercial and industrial type buildings vary depending upon the quantity and strength of flow.
- ◆ Inspection and permit fees are based upon the number of fixtures within each dwelling.

**Contact Information  
June 30, 2013**

**Retirement Plans Contact Information:**

Public Employees Retirement Systems  
Lincoln Plaza  
400 P Street  
Sacramento, CA 95814  
(888) 225-7377