

RICHARDSON BAY SANITARY DISTRICT

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2012 AND 2011**

RICHARDSON BAY SANITARY DISTRICT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management Discussion and Analysis	3-8
Financial Statements:	
Statements of Net Assets	9
Statements of Revenues And Expenses and Changes in Net Assets	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-21
Supplementary Information:	
Required Supplemental Schedule of Funding Progress for Retired Employee Health Care Plan	22
Supplemental Schedule of Operating, System Maintenance and General and Administrative Expenses	23
Schedule of Activity in Cash Reserved for Infrastructure and Other Improvements	24
Statistical Information	25 - 27



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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 listed in the table of contents as of June 30, 2012 and 2011 and for the years then ended. These financial statements are the responsibility of Richardson Bay Sanitary District's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richardson Bay Sanitary District as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity 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.

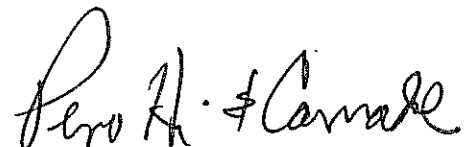
In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2013 on our consideration of Richardson Bay Sanitary District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant 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 the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and the schedule of funding progress for retired employee health care plan on page 22 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information on pages 23 through 27 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.

March 19, 2013

A handwritten signature in black ink, appearing to read "Peter H. Carmale". The signature is written in a cursive style with a large initial "P".

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, 2012. 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>2012</u>	<u>2011</u>	Increase (Decrease) Over 2011	Percent Increase (Decrease)
Cash	\$ 2,325,157	\$ 3,381,453	\$ -1,056,296	-31.24%
Board restricted reserves	6,417,275	6,402,712	14,563	0.23%
Other receivables	111,653	90,313	21,340	100.00%
Property	9,498,370	9,062,104	436,266	4.81%
Pension costs funded in advance	518,193	604,559	-86,366	-14.29%
Total assets	<u>18,870,648</u>	<u>19,541,141</u>	<u>-670,493</u>	-3.43%
Payables and other liabilities	<u>185,157</u>	<u>869,248</u>	<u>-684,091</u>	-78.70%
Net assets:				
Invested in capital assets	9,498,370	9,062,104	436,266	4.81%
Unrestricted	<u>9,187,121</u>	<u>9,609,789</u>	<u>-422,668</u>	-4.40%
Total net assets	<u>\$ 18,685,491</u>	<u>\$ 18,671,893</u>	<u>\$ 13,598</u>	0.07%

Net Assets Statement and Analysis

The District's total net assets increased by \$13,598, or 0.07%, as a result of operations for the year ended June 30, 2012. The District lost approximately \$1,393,000 from operating activities, which was fully offset by approximately \$1,406,000 in property tax collections and investment earnings resulting in a net income (change in net assets) of approximately \$14,000. Budgeted net income from all activities was \$353,814 exclusive of depreciation of \$352,837 related to sewer lines, pump stations, equipment and vehicles. Property tax and investment income was budgeted to be \$1,340,000.

During the year, the District completed sewer line replacement at E. Strawberry/Avenida Mira Flores and pump station replacement at Harbor Point Force Main. Total cost incurred and paid for these two replacements during the year ended June 30, 2012 was \$517,655. Late in the year the District began work on the Greenwood Beach Pump Station. Total costs incurred as of June 30, 2012 amounted to \$88,109. The total cost for the project is approximately \$600,000 and is expected to be completed in 2013. The costs of these capital improvement and other smaller capital improvement projects have been initially funded by operations.

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.

As of June 30, 2012, 12% of the District's net assets were held in cash available for operations. The District has not required any long-term financing to fund operations or capital improvements in 2012 and 2011.

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

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease) Over 2011</u>	<u>Percent Increase (Decrease)</u>
Operating revenues	\$ 1,265,815	\$ 1,223,734	\$ 42,081	3.44%
Nonoperating revenues	<u>1,406,355</u>	<u>1,447,373</u>	<u>(41,018)</u>	-2.83%
Total revenues	2,672,170	2,671,107	1,063	0.04%
Operating expenses	<u>2,658,572</u>	<u>2,452,544</u>	<u>206,028</u>	8.40%
Change in net assets	13,598	218,563	(204,965)	-93.78%
Net assets - beginning of period	<u>18,671,893</u>	<u>18,453,330</u>	<u>218,563</u>	1.18%
Net assets - end of period	<u>\$ 18,685,491</u>	<u>\$ 18,671,893</u>	<u>\$ 13,598</u>	0.07%

Revenue, Expenses and Changes in Net Assets Statement and Analysis

Operating revenues in 2012 increased by approximately \$42,000 or 3.4% compared to 2011. Much of the increase in operating revenues is attributed to additional equivalent dwelling units charged to commercial properties. The sewer rate charged per equivalent dwelling unit remained constant in both years.

The decrease in non-operating revenue is related to the decrease in both property tax allocation and investment income. In recent years excess ERAF (educational revenue augmentation funds) has been distributed to various agencies in Marin County, including the District. The excess ERAF decreased from approximately \$418,000 in 2011 to approximately \$398,000 in 2012. The District cannot predict what portion of revenues shared with the State will be returned to the District at the end of the fiscal year, if any, and takes a conservative approach when budgeting property tax revenues. The collection of property taxes by the County of Marin was approximately 7% higher than expected in the annual budget.

RICHARDSON BAY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 0.38% to 0.21% over the past year resulting in decreased investment income of approximately \$30,000.

Total expenses increased by 8.4% percent. The increase was primarily attributed to a 15% increase in sewerage processing costs paid to SASM or an increase of approximately \$152,000 and an increase in the required PER retirement contributions. In the year ended June 30, 2011, no funding for previous years' service cost was required, while in the year ended June 30, 2012, the District was required to make additional contributions for such service cost. The additional cost for 2012 totaled approximately \$30,000.

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 seven 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 September 2012 MLAFCO allowed the districts to gather signatures and enough opposing signatures were gathered to put the issue to a mail-in vote. The election is to be held in May 2013.

Capital Assets

The District's investment in capital assets as of June 30, 2012 is \$9,498,370, 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 4.81% in 2012. Improvements of approximately \$790,000, the most significant of which were the improvements made at E. Strawberry/Avenida Mira Flores and Harbor Point Force Main discussed above. Depreciation of approximately \$353,000 was recorded. The District has developed and continually updates a comprehensive

RICHARDSON BAY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets (continued)

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.

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 \$3,797,000. The District expects to continue this trend with significant improvements to its sewerage lines and pump stations over the next two years. It is at that time, substantially all 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 base 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.

	<u>Budgeted</u>	<u>Actual</u>
2011/2012 Fiscal Year Revenue:		
Property taxes	\$ 1,290,000	\$ 1,383,789
Sewer service charges	1,168,964	1,213,686
Interest	50,000	22,566
Other	61,500	52,129
Total Revenue	<u>2,570,464</u>	<u>2,672,170</u>
2011/2012 Fiscal Year Expense:		
Sewerage processing cost	1,096,706	1,102,588
Operating and maintenance	823,930	899,256
General and administration	296,014	303,891
Depreciation *		352,837
Total expenses	<u>2,216,650</u>	<u>2,658,572</u>
Net Income	\$ <u>353,814</u>	\$ <u>13,598</u>
Capital improvement budget for 2011/2012	\$ <u>1,178,500</u>	\$ <u>789,103</u>

* Management has elected not to budget depreciation expense.

RICHARDSON BAY SANITARY DISTRICT

**STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current Assets:		
Cash and equivalents	\$ 2,325,157	\$ 3,381,453
Accounts receivable	27,991	8,769
Due from State of California	83,662	
Total current assets	<u>2,436,810</u>	<u>3,390,222</u>
Other Assets:		
Board restricted cash reserves	6,417,275	6,402,712
Property, plant and improvements-net	9,498,370	9,062,104
Due from State of California		81,544
Pension costs funded in advance	518,193	604,559
Total other assets	<u>16,433,838</u>	<u>16,150,919</u>
Total Assets	<u>\$ 18,870,648</u>	<u>\$ 19,541,141</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable related to:		
Improvement projects in process	\$ 32,970	\$ 724,004
Operating expenses	56,811	58,594
Total accounts payable	<u>89,781</u>	<u>782,598</u>
Compensated absence liability	26,111	30,042
Deposits	7,298	12,997
Total current liabilities	<u>123,190</u>	<u>825,637</u>
Long-term liability:		
Unfunded OPEB liability	61,967	43,611
Total Liabilities	<u>\$ 185,157</u>	<u>\$ 869,248</u>
<u>NET ASSETS</u>		
Net Assets:		
Invested in capital assets	\$ 9,498,370	\$ 9,062,104
Unrestricted	9,187,121	9,609,789
Net Assets	<u>\$ 18,685,491</u>	<u>\$ 18,671,893</u>

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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Sewer service charges	\$ 1,213,686	\$ 1,181,215
Connection charges	20,111	22,381
Other	32,018	20,138
Total operating revenues	<u>1,265,815</u>	<u>1,223,734</u>
Operating Expenses:		
Sewerage processing costs (SASM)	1,102,588	950,486
Operating and maintenance	899,256	893,821
General and administrative	303,891	287,606
Depreciation	352,837	320,631
Total operating expenses	<u>2,658,572</u>	<u>2,452,544</u>
Operating Loss	<u>(1,392,757)</u>	<u>(1,228,810)</u>
Other Income:		
Current taxes	1,383,789	1,394,602
Investment income	22,566	52,771
Total other income	<u>1,406,355</u>	<u>1,447,373</u>
Increase in Net Assets	13,598	218,563
Net Assets, Beginning of Year	<u>18,671,893</u>	<u>18,453,330</u>
Net Assets, End of Year	<u>\$ 18,685,491</u>	<u>\$ 18,671,893</u>

See accompanying notes to the financial statements.

RICHARDSON BAY SANITARY DISTRICT

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash received from service, connection and other charges	\$ <u>1,240,894</u>	\$ <u>1,219,448</u>
Cash paid for:		
Sewerage processing costs	1,102,588	1,364,992
Operating and system maintenance	821,043	809,567
General and administrative	283,096	252,496
Total	<u>2,206,727</u>	<u>2,427,055</u>
Cash used for operating activities	<u>(965,833)</u>	<u>(1,207,607)</u>
Cash Flows from Investing Activities:		
Property additions	(1,480,137)	(1,280,596)
Additions to Board restricted reserves (including interest)	(14,563)	(32,176)
Interest income	20,448	50,653
Cash used for investing activities	<u>(1,474,252)</u>	<u>(1,262,119)</u>
Cash Flows from Capital and Non-Capital Financing Activities:		
Property taxes collected	1,383,789	1,394,602
Cash provided by financing activities	<u>1,383,789</u>	<u>1,394,602</u>
Net Decrease in Cash and Equivalents	(1,056,296)	(1,075,124)
Cash and Equivalents, Beginning of Year	<u>3,381,453</u>	<u>4,456,577</u>
Cash and Equivalents, End of Year	<u>\$ <u>2,325,157</u></u>	<u>\$ <u>3,381,453</u></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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating Loss	\$ (1,392,757)	\$ (1,228,810)
Add or deduct items not requiring the use of cash:		
Depreciation	352,837	320,631
Amortization of pension costs funded in advance	86,366	86,366
Changes in assets and liabilities:		
Decrease in accounts receivable	(19,222)	(6,436)
Decrease in operating accounts payable and deposits	(7,482)	(406,840)
Increase (decrease) in compensated absence liability	(3,931)	3,269
Increase in unfunded OPEB liability	<u>18,356</u>	<u>24,213</u>
Cash Used for Operating Activities	<u>\$ (965,833)</u>	<u>\$ (1,207,607)</u>

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.

The Marin Local Agency Formation Commission, which oversees government boundaries, proposed the consolidation of the Alto, Almonte, Homestead Valley and Richardson Bay sanitary districts. In September 2012 MLAFCO allowed the districts to gather signatures and enough opposing signatures were gathered to put the issue to a mail-in vote by the residents in the four affected districts. The election is to be held in May 2013.

Subsequent events have been evaluated through March 19, 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.

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.

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,

RICHARDSON BAY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 operating. 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.

Revenue Recognition: Revenues have been classified as either operating or non-operating. Operating revenues generally result from services in connection with the District's principal ongoing operations including sewer service charges, connection fees, and other fees. Items not meeting this definition are reported as non-operating.

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)

Other Post-Employment Benefits (OPEB): Health insurance benefits payable to employees after retirement have been charged to operations based on their actuarially determined annual cost. The District has elected to fund only the current out-of-pocket costs associated with those benefits and reflect a liability for the remainder.

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>2012</u>	<u>2011</u>
Sewer line replacement	\$ 6,300,000	\$ 5,850,000
Pumping facilities replacement	1,810,000	1,530,000
Vehicle replacement	120,000	120,000
Shop and office	137,000	137,000
Catastrophic event reserve	<u>1,000,000</u>	<u>5,000,000</u>
Total authorization	9,367,000	12,637,000
Unfunded portion	<u>2,949,725</u>	<u>6,234,288</u>
Funded reserves	<u>\$ 6,417,275</u>	<u>\$ 6,402,712</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 requires 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, 2012 amounted to \$4,236.

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, 2012 is summarized as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<u>Historical Cost:</u>				
Sewer line and pump stations	\$ 11,360,451	\$ 778,639		\$ 12,139,090
Management facilities and water reclamation equipment	1,850,567	1,529		1,852,096
Generators, office equipment and tools	686,706	8,935	\$ (53,534)	642,107
Total	<u>13,897,724</u>	<u>\$ 789,103</u>	<u>\$ (53,534)</u>	<u>14,633,293</u>
<u>Accumulated Depreciation:</u>				
Sewer line and pump stations	2,801,613	\$ 290,804		3,092,417
Management facilities and water reclamation equipment	1,424,356	40,035		1,464,391
Generators, office equipment and tools	609,651	21,998	\$ (53,534)	578,115
Total	<u>4,835,620</u>	<u>\$ 352,837</u>	<u>\$ (53,534)</u>	<u>5,134,923</u>
Property, Equipment and Improvements - net	<u>\$ 9,062,104</u>			<u>\$ 9,498,370</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, 2012 was 7.258% of covered payroll. The contribution rate for the year ending June 30, 2013 will be 6.994%. No funding was required for 2011 because plan earnings and the funding described in the following paragraph have eliminated the need to make any contribution for previous years' service cost.

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, 2012 and 2011 contributions to the plan were \$63,129 and \$30,404, respectively.

Annual Pension Cost: For the year ended June 30, 2011 there was no annual required contribution. There was no beginning originating net pension obligations for that year. 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, 2012 and 2011.

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>
2010	\$ 34,192	100%	0
2011	\$ 30,404	100%	0
2012	\$ 60,129	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>
2009	883,394,429	694,384,975	189,009,454	78.6%	161,972,631	116.7%
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%

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. 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) and GASB liabilities.

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. The annual cost of providing such benefits has been actuarially determined and the District, at this time, has determined to fund this obligation to the extent of payment of the annual premiums.

As explained previously, the District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 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	\$ 72,314
Contributions made	(53,958)
Increase in net OPEB obligation	<u>18,356</u>
Net OPEB obligation, beginning of year	43,611
Net OPEB obligation, end of year	<u><u>\$ 61,967</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, 2012 and 2011 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

An actuarial valuation is required once every three years. The valuation was performed as of June 30, 2010. Based on that valuation, the actuarial accrued liability for benefits (AAL) was \$1,150,936; the covered payroll (the annual payroll of active employees eligible to participate) was \$394,212 and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 292%.

RICHARDSON BAY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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 amount of the employer 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 obligation 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 June 30, 2010 actuarial valuation, the Entry Age Actuarial Cost Method was used. The actuarial assumptions included 4 percent discount rate, 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, 2010.

In 2012 the District's board elected to participate in the California Employers' Retiree Benefit Trust (CERBT), a CalPERS program to assist agencies to prefund future other postretirement benefits. The District is in the process of joining the program.

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.

The deferred compensation plans are administered by unrelated financial institutions.

RICHARDSON BAY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

8. DEFERRED COMPENSATION PLAN (continued)

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 \$270,878 at June 30, 2012.

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 15% over the next nine 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, 2012 AND 2011**

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

RICHARDSON BAY SANITARY DISTRICT

**SUPPLEMENTAL SCHEDULE OF OPERATING AND
SYSTEM MAINTENANCE AND GENERAL AND
ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>			<u>2011</u>
	<u>Operating and System Maintenance Expenses</u>	<u>General and Administrative Expenses</u>	<u>Total</u>	<u>Total</u>
Personnel	\$ 306,427	\$ 108,598	\$ 415,025	\$ 413,190
Benefits	235,339	83,404	318,743	283,194
Payroll taxes	23,553	8,609	32,162	29,925
Professional fees		69,376	69,376	45,911
Utilities	27,975	3,308	31,283	31,540
Supplies	25,745	7,003	32,748	31,854
Insurance	4,616		4,616	29,728
Repairs and maintenance:				
Sewer	144,912		144,912	205,783
Pump station	49,032		49,032	33,052
Trestle Glen	20,625		20,625	16,114
Other	22,041	1,620	23,661	3,675
Truck	20,121		20,121	15,311
Telephone and communications		12,109	12,109	10,169
Laundry	10,454		10,454	9,412
Board stipend		9,000	9,000	13,500
Other	5,960	864	6,824	6,062
Safety	2,456		2,456	3,007
TOTALS	\$ 899,256	\$ 303,891	\$ 1,203,147	\$ 1,181,427

RICHARDSON BAY SANITARY DISTRICT

**SCHEDULE OF ACTIVITY IN CASH RESERVED
FOR INFRASTRUCTURE AND OTHER IMPROVEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Reserve Balance, Beginning of the Year:	\$ 6,402,712	\$ 6,370,536
Additions:		
Interest on restricted funds	<u>14,563</u>	<u>32,176</u>
Reserve Balance, End of the Year	<u>\$ 6,417,275</u>	<u>\$ 6,402,712</u>

Interest on unexpended infrastructure changes received after December 31, 1998 is credited to the reserve. Interest is not required to be credited for transfers initiated by The Board of Directors.

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	
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
2003	\$ 1,158,525	\$ 57,670	\$ 14,096	\$ 820,542	\$ 168,488	\$ 2,219,321

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
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
2003	\$ 623,577	\$ 712,878	\$ 153,110	\$ 1,489,565	\$ 241,926	\$ 1,731,491

Source: Audited Financial Statements

RICHARDSON BAY SANITARY DISTRICT

**Statistical Section
Miscellaneous Statistics
June 30, 2012**

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, 2012**

Retirement Plans Contact Information:

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