

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

**Basic Financial Statements
Fiscal Years Ended
June 30, 2012 and 2011**

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
San Rafael Sanitation District
San Rafael, California

We have audited the accompanying basic financial statements of San Rafael Sanitation District, a component unit of the City of San Rafael, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These basic financial statements are the responsibility of San Rafael Sanitation District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of San Rafael Sanitation 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 for Special Districts.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
October 25, 2012

**SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The Management's Discussion and Analysis provides an overview of the District's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it along with the District's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

The District's total net assets as of June 30, 2012, were \$48,412,000 which is an increase of \$3,423,000 over the prior year's balance. This amount is comprised of \$34,110,000 investment in capital net assets and unrestricted net assets of \$14,302,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between assets and liabilities reported as net assets. 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.

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

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

San Rafael Sanitation District is a single-purpose entity that has elected to account for its activity as a proprietary fund type under governmental accounting standards. Accordingly, the District presents only government-wide financial statements.

**SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The following table is a summary of the District's assets, liabilities, and net assets.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 14,793,858	\$ 13,758,331	\$ 14,902,752
Noncurrent assets	34,110,291	33,328,111	28,386,728
Total assets	<u>48,904,149</u>	<u>47,086,442</u>	<u>43,289,480</u>
Current liabilities	491,763	2,097,536	1,217,305
Noncurrent liabilities	-	-	909,701
Total liabilities	<u>491,763</u>	<u>2,097,536</u>	<u>2,127,006</u>
Net assets			
Invested in capital assets net of debt	34,110,291	32,845,291	27,484,928
Unrestricted	<u>14,302,095</u>	<u>12,143,615</u>	<u>13,677,546</u>
Total net assets	<u>\$ 48,412,386</u>	<u>\$ 44,988,906</u>	<u>\$ 41,162,474</u>

The increase in current assets from 2011 is primarily a result of normal changes in working capital. Most of the increase in noncurrent assets was the result of capital improvement projects undertaken each year. Noncurrent liabilities decreased from 2010 to 2011 as the final payment of our certificates of participation became due within one year. The final payment was made in July 2011.

**SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Our results of operations are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 12,368,889	\$ 12,220,845	\$ 11,504,859
Nonoperating revenues	1,202,179	1,221,018	1,238,578
Interest income	<u>24,964</u>	<u>59,265</u>	<u>93,274</u>
Total income	<u>13,596,032</u>	<u>13,501,128</u>	<u>12,836,711</u>
Operating expenses	10,185,779	9,597,112	8,989,288
Interest expense	<u>5,170</u>	<u>80,518</u>	<u>98,066</u>
Total expenses	<u>10,190,949</u>	<u>9,677,630</u>	<u>9,087,354</u>
Income before capital contributions	3,405,083	3,823,498	3,749,357
Add: connection fees received	<u>18,397</u>	<u>2,934</u>	<u>54,690</u>
Increase in fund net assets	<u>3,423,480</u>	<u>3,826,432</u>	<u>3,804,047</u>
Net assets at beginning of the year	<u>44,988,906</u>	<u>41,162,474</u>	<u>37,358,427</u>
Net assets at end of the year	<u>\$ 48,412,386</u>	<u>\$ 44,988,906</u>	<u>\$ 41,162,474</u>

The final of five annual rate increases was implemented in 2011. As expected, sewer service revenues during 2012 experienced only a slight increase over 2011 due to rates being held constant. Overall operating expenses increased 7% and 6% in 2011 and 2012, respectively, primarily due to increased costs related to our major contract service providers.

Included in operating expenses are significant labor costs consisting of salary and benefits contracted-for through the City of San Rafael. These costs increased mainly due to retirement benefit and general cost increases. Sewage treatment operating costs include a proportionate share of revenue bonds issued by the Central Marin Sanitation Agency (CMSA). The cost attributed to debt service increased by 11% from 2011 while charges for treatment services increased by 3%.

At June 30, 2012, unrestricted net assets were approximately \$14.3 million. Although there are no legal restrictions on this balance, these funds are held to finance the District's ongoing capital improvement programs. Details of capital improvements are described in *Capital Assets and Debt Administration*.

**SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land & easements	\$ 115,329	\$ 115,329	\$ 115,329
Construction in progress	455,002	1,129,447	415,357
Subsurface lines	10,519,444	9,406,321	4,532,272
Sewage collection facilities	22,281,364	21,884,807	22,707,884
General plant & admin facilities	739,152	792,207	606,880
Capital assets - net	<u>\$ 34,110,291</u>	<u>\$ 33,328,111</u>	<u>\$ 28,377,722</u>

In addition to operations and maintenance (O&M) programs, the District also maintains ongoing capital improvement programs. These programs largely influence how the District budgets and sets its rates. The first program, known as the *Capital Improvement Program*, was last updated and adopted by the Board in May 2003. It sets forth in priority order a series of projects to upgrade and replace aging sewage pumping and collection systems. Much of the program has been completed. The remaining program totals to approximately \$8.3 million to be financed on a pay-as-you-go basis over a remaining three-year period through the fiscal year 2014-15. Budgeted annual costs for the three-year period range from \$1.4 to 2.6 million.

In August 2006, the District Board expanded its capital improvement program to include an 80-year lifecycle subsurface line replacement program. Line replacement projects will be budgeted in a manner that is systematic and rational. Like the program mentioned above, the line replacement program will be financed pay-as-you-go through a series of rate increases.

During the year ended June 30, 2012, the District expended \$2 million toward capital improvement projects.

**SAN RAFAEL SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Long-term liabilities net of discount are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
2001 Certificates of participation	-	\$ 940,000	\$ 1,380,000
Deferred amounts on refunding	-	-	(26,526)
Discount on certificates of participation	-	-	(3,773)
Long-term liabilities - net	<u>-</u>	<u>\$ 940,000</u>	<u>\$ 1,349,701</u>

The District continues to expand, upgrade and improve the quality of its sewage pumping and collection systems to keep current with environmental regulations and the needs of its service area. The District has used debt to finance the significant costs of major upgrades to spread the costs to future as well as current residents. For each of the fiscal years 2012 and 2011, no new debt was issued, only repayments in the amounts of \$940,000 and \$440,000, respectively. The 2001 COP's fully matured and were retired in August 2011.

THE FUTURE OF THE DISTRICT

The District is not subject to general economic conditions such as increases or declines in property tax values or other types of revenues that vary with economic conditions, such as sales taxes. Accordingly, the District sets its rates to its users to cover the costs of operation, maintenance and capital improvements. Sewer charges are an annual rate charged to all premises connected to the system, utilizing a user charge system comprised of rate classifications. In August 2006, the District adopted a series of five rate increases to fund its operations & maintenance and capital programs. The rate increases began with the fiscal year 2006-07 and ran through the fiscal year 2010-11. In recent years, the employees' retirement and health benefits, capital improvement, and operations and maintenance costs have increased and are projected to continue to increase for both the District and CMSA. Therefore, the District will be considering sewer rate increases.

REQUESTS FOR INFORMATION

This financial report is designed to provide our residents, taxpayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to the address on our letterhead.

Respectfully submitted,

Doris Toy

District Manager/District Engineer

Basic Financial Statements

**SAN RAFAEL SANITATION DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2012 and 2011**

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and short-term investments	\$ 14,585,504	\$ 13,137,705
Investments restricted for certificates of participation	-	472,130
Accounts receivable	12,960	3,188
Interest receivable on certificates of participation	-	560
Prepaid expenses	59,212	51,410
Due from related parties	136,182	93,338
Total current assets	<u>14,793,858</u>	<u>13,758,331</u>
Noncurrent assets:		
Nondepreciable assets	570,331	1,244,776
Collection systems and facilities - at cost	57,725,218	54,940,663
Accumulated depreciation	(24,185,258)	(22,857,328)
Total noncurrent assets	<u>34,110,291</u>	<u>33,328,111</u>
Total assets	<u>48,904,149</u>	<u>47,086,442</u>
 LIABILITIES		
Current liabilities:		
Accounts payable	443,070	512,228
Payable to related parties	48,693	629,798
Interest payable on certificates of participation	-	15,510
Current portion of certificates of participation	-	940,000
Total current liabilities	<u>491,763</u>	<u>2,097,536</u>
 NET ASSETS		
Invested in capital assets, net of related debt	34,110,291	32,845,291
Unrestricted	14,302,095	12,143,615
Total net assets	<u>\$ 48,412,386</u>	<u>\$ 44,988,906</u>

**SAN RAFAEL SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2012 and 2011**

	2012	2011
OPERATING REVENUES		
Sewer charges	\$ 12,368,889	\$ 12,220,845
 OPERATING EXPENSES		
Sewage collection	3,010,555	2,978,916
Sewage treatment	5,567,100	5,228,080
Depreciation and amortization	1,327,930	1,137,630
General and administrative	280,194	252,486
Total operating expense	10,185,779	9,597,112
Operating income (loss)	2,183,110	2,623,733
 NONOPERATING REVENUES (EXPENSES)		
Property taxes	1,192,566	1,214,519
Aid from governmental agencies	9,613	6,499
Interest income	24,964	59,265
Interest expense	(5,170)	(80,518)
Total nonoperating revenues (expenses)	1,221,973	1,199,765
Income before capital contributions	3,405,083	3,823,498
Add: connection fees received	18,397	2,934
CHANGE IN NET ASSETS	3,423,480	3,826,432
Net assets at beginning of the year	44,988,906	41,162,474
Net assets at end of the year	\$ 48,412,386	\$ 44,988,906

**SAN RAFAEL SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 and 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from sewer charges	\$ 12,368,889	\$ 12,220,845
Contract labor with City of San Rafael	(2,975,394)	(1,999,834)
Sewage treatment with joint venture	(5,574,902)	(5,239,796)
Payments to vendors and suppliers	(964,695)	(756,267)
Net cash provided from operating activities	2,853,898	4,224,948
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property taxes	1,192,566	1,214,519
Aid from governmental agencies	9,613	6,499
Net cash provided from non-capital financing activities	1,202,179	1,221,018
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Connection fees collected	18,397	2,934
Cash paid for capital acquisitions	(2,163,649)	(6,088,019)
Interest received from certificates of participation reserve investment	560	2,388
Principal payments on certificates of participation	(940,000)	(440,000)
Interest payments on certificates of participation	(20,680)	(50,820)
Net cash used in capital financing activities	(3,105,372)	(6,573,517)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received from Marin County pooled cash and investments account	24,964	56,968
Net increase (decrease) in cash and cash equivalents	975,669	(1,070,583)
Cash and cash equivalents at beginning of year	13,609,835	14,680,418
Cash and cash equivalents at end of year	\$ 14,585,504	\$ 13,609,835

**SAN RAFAEL SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 and 2011
(continued)**

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

	2012	2011
Operating income	\$ 2,183,110	\$ 2,623,733
Adjustments to reconcile operating income to net cash provided from operating activities:		
Depreciation and amortization	1,327,930	1,137,630
Changes in current assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and other current assets	(60,417)	73,748
Increase (decrease) in:		
Accounts payable and other current liabilities	(596,725)	389,837
Net cash provided from operating activities	\$ 2,853,898	\$ 4,224,948

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

San Rafael Sanitation District is a *Sanitation District* in the County of Marin formed in 1947 under Section 4700 of the California Health & Safety Code. It serves the southern two-thirds of the City of San Rafael and adjacent unincorporated areas. The District provides wastewater transmission over its entire service area and performs collection system maintenance in the unincorporated areas. The City of San Rafael contracts with the District to maintain the collection systems in the incorporated areas.

Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a component unit, may serve as the nucleus for its financial reporting entity when the component unit provides separately issued financial statements. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and is able to impose its will on that organization. The San Rafael Sanitation District is a component unit of the City of San Rafael. The District is governed by a three member Board of Directors serving four-year terms. The City Council of the City of San Rafael appoints two out of the three board members and has the ability to remove the two board members at will. The third member is a representative of the County of Marin.

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

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTRODUCTION

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations.). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District is discussed below.

BASIS OF ACCOUNTING

The District's operations are accounted for as a governmental enterprise fund, and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then restricted resources as they are needed.

The District distinguishes between operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. These revenues are primarily charges to customers for services. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL STATEMENT AMOUNTS

Cash and investments:

All of the District's cash, except cash of the restricted debt service reserve, is deposited in the Marin County Investment Pool. The debt service reserve administered by a trustee bank utilizes the State of California Local Agency Investment Fund (LAIF) for its investment needs.

Investments are stated at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. All investment income and changes in fair value is recognized in the Statements of Revenues, Expenses and Changes in Fund Net Assets.

For purposes of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Collection systems and facilities:

Collection systems and facilities purchased or constructed are stated at cost. Assets contributed have been recorded at the fair market value at the date received. Interest is capitalized for assets constructed when applicable. The costs of normal repairs and maintenance that do not add to the value of an asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Applicable capital assets must be capitalized for amounts \$1,000 or above and may be capitalized for amounts from \$500 to \$1,000 if determined to be sensitive. Depreciation is provided by the straight-line method over the estimated useful lives of capital assets as follows:

Subsurface lines	50 years
Sewer collection facilities	5-50 years
General plant & administrative facilities	3-15 years

Joint ventures

The District participates in a joint-powers agreement with the Central Marin Sanitation Agency, a regional sewage treatment facility, as further explained in NOTE 5.

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sewer charges

Sewer charges are billed and collected on behalf of the District by the County of Marin as a special assessment on annual property tax billings. Property taxes are levied on January 1 and are due in two equal installments on November 1 and February 1. In accordance with the Teeter Plan, the County remits to the District all charges which are assessed and the County retains responsibility for collecting past due amounts.

In 1993, the District entered into an agreement (commonly known as the Teeter Plan) with the County of Marin. The Teeter Plan calls for the County to advance the District its share of the annual gross levy of secured property taxes and special assessments. In consideration, the District gives the County of Marin its rights to penalties and interest on delinquent secured property tax receivables and actual proceeds collected. The receivable on the balance sheet refers to unsecured property taxes.

Property taxes

The County of Marin levies taxes and places liens on real property as of January 1 on behalf of the District. Property taxes are due the following November 1 and February 1 and become delinquent December 10 and April 10, for the first and second installments, respectively. Unsecured property taxes are levied throughout the year.

Connection fees

Connection fees represent a one-time contribution of resources to the District imposed on contractors and developers for the purpose of financing capital improvements. Connection fees are recognized after non-operating revenues (expenses) in the statements of revenues, expenses and changes in fund net assets. The District utilizes connection fees received on a first-in-first-out basis to finance current year capital projects. Accordingly, if there is a balance of connection fees available at year-end, it is classified as restricted net assets.

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Staff salaries and benefits and workers' compensation

The District has no regular full-time employees. The City of San Rafael provides staff to the District under contract and provides all benefits including workers' compensation insurance.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS

The District maintains all of its cash in the County of Marin pooled investment fund for the purpose of increasing interest earnings through pooled investment activities. Interest earned on the investment pool is allocated quarterly to the participating funds using the daily cash balance of each fund. This pool, which is available for use by all funds, is displayed in the financial statements as "Cash and short-term investments."

The County Pool includes both voluntary and involuntary participation from external entities. The District is a voluntary participant. The State of California statutes require certain special districts and other governmental entities to maintain their cash surplus with the County Treasurer. The District has approved by resolution, the investment policy of the County of Marin which complies with the California Government Code.

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

2. CASH AND INVESTMENTS (continued)

The County's investment pool is not registered with the Securities and Exchange Commission as an investment company. Investments made by the Treasurer are regulated by the California Government Code and by the County's investment policy. The objectives of the policy are in order of priority, safety, liquidity, yield, and public trust. The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the types of investments in the pool, maturity dates, par value, actual costs and fair value.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. The District has not adopted a policy to manage interest rate risk.

In accordance with its investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment pool to 540 days, or 1.5 years. At June 30, 2012 and 2011, the County's investment pool had a weighted average maturity of 243 and 281 days, respectively.

For purposes of computing weighted average maturity, the maturity date of variable rate notes is the length of time until the next reset date rather than the stated maturity date.

CREDIT RISK

State law and the County's Investment Policy limits investments in commercial paper, corporate bonds, and medium term notes to the rating of "A" or higher as provided by Moody's Investors Service or Standard & Poor's Corporation. The County's Investment Policy limits investments purchased by Financial Institution Investment Accounts, a type of mutual fund, to United States Treasury and Agency obligations with a credit quality rating of "AAA/V1."

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

2. CASH AND INVESTMENTS (continued)

CONCENTRATION OF CREDIT RISK

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

The following is a summary of the concentration of credit risk by investment type of the Marin County Investment Pool as a percentage of fair value at June 30, 2012:

Investments in Investment Pool	<u>Percent of Portfolio</u>
Federal agency - discount	73%
Federal agency - coupons	25%
Money market funds	<u>2%</u>
	100%

CUSTODIAL CREDIT RISK

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

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

3. COLLECTION SYSTEMS AND FACILITIES

A summary of the District's collection systems and facilities for the years ended June 30, 2012 and 2011 respectively, follows:

	Balance at June 30, 2011	Additions	Transfers & Adjustments	Balance at June 30, 2012
Nondepreciable capital assets:				
Land and easements	\$ 115,329	-	-	\$ 115,329
Construction in progress	1,129,447	\$ 1,941,755	\$ (2,616,200)	455,002
Total nondepreciable	<u>1,244,776</u>	<u>1,941,755</u>	<u>(2,616,200)</u>	<u>570,331</u>
Depreciable capital assets:				
Subsurface lines	18,266,110	58,939	1,395,360	19,720,409
Sewage collection facilities	35,590,971	-	1,220,840	36,811,811
General plant and administration	1,083,582	109,416	-	1,192,998
Total depreciable	<u>54,940,663</u>	<u>168,354</u>	<u>2,616,200</u>	<u>57,725,218</u>
Total collection systems & & facilities-at cost	<u>56,185,439</u>	<u>2,110,110</u>	<u>-</u>	<u>58,295,549</u>
Less: accumulated depreciation:				
Subsurface lines	8,859,789	341,176	-	9,200,965
Sewage collection facilities	13,706,164	824,283	-	14,530,447
General plant and administration	291,375	162,471	-	453,846
Total accumulated depreciation	<u>22,857,328</u>	<u>1,327,930</u>	<u>-</u>	<u>24,185,258</u>
Total collection systems & & facilities-net	<u>\$ 33,328,111</u>	<u>\$ 782,180</u>	<u>\$ -</u>	<u>\$ 34,110,291</u>

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

3. COLLECTION SYSTEMS AND FACILITIES (continued)

	Balance at June 30, 2010	Additions	Transfers & Adjustments	Balance at June 30, 2011
Nondepreciable capital assets:				
Land and easements	\$ 115,329	-	-	\$ 115,329
Construction in progress	415,357	\$ 5,838,278	\$ (5,124,188)	1,129,447
Total nondepreciable	<u>530,686</u>	<u>5,838,278</u>	<u>(5,124,188)</u>	<u>1,244,776</u>
Depreciable capital assets:				
Subsurface lines	13,148,145	-	5,117,965	18,266,110
Sewage collection facilities	35,584,748	-	6,223	35,590,971
General plant and administration	833,841	249,741	-	1,083,582
Total depreciable	<u>49,566,734</u>	<u>249,741</u>	<u>5,124,188</u>	<u>54,940,663</u>
Total collection systems & & facilities-at cost	<u>50,097,420</u>	<u>6,088,019</u>	<u>-</u>	<u>56,185,439</u>
Less: accumulated depreciation:				
Subsurface lines	8,615,873	243,916	-	8,859,789
Sewage collection facilities	12,876,864	829,300	-	13,706,164
General plant and administration	226,961	64,414	-	291,375
Total accumulated depreciation	<u>21,719,698</u>	<u>1,137,630</u>	<u>-</u>	<u>22,857,328</u>
Total collection systems & & facilities-net	<u>\$ 28,377,722</u>	<u>\$ 4,950,389</u>	<u>\$ -</u>	<u>\$ 33,328,111</u>

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

4. LONG TERM DEBT

Long-term debt at June 30, 2012 and 2011 is summarized as follows:

	2012	2011
2001 Certificate of Participation	\$ -	\$ 940,000
Less:		
Current maturities		(940,000)
Long term debt - net	\$ -	\$ -

The District and its Financing Corporation on May 1, 2001 issued \$4,710,000 of Certificates of Participation at a discount of \$35,702. The Certificates were used (1) to refund in whole the outstanding Series 1991 Certificates of Participation, (2) to finance the District's share of a new- construction corporation yard, (3) to fund in whole or in part, a reserve fund for the Certificates, and (4) to pay certain costs of issuing the Certificates. The Certificates are fully registered with principal due annually on August 1 and interest payable semi-annually on February 1 and August 1. The Certificates of Participation we paid off on August 1, 2011.

5. JOINT VENTURES

In October 1979, the District entered into a joint powers agreement with three neighboring sanitation agencies in central Marin County forming the Central Marin Sanitation Agency (CMSA). CMSA serves as a regional wastewater treatment plant for its four member agencies and San Quentin Prison (SQ) and is governed by a six-member Board of Commissioners, two appointed by the Board of Directors of the San Rafael Sanitation District (SRSD), two appointed by the governing board of Sanitary District No. 1 (SD 1), one appointed by the governing board of Sanitary District No. 2 (SD 2), and one appointed by the City Council of the City of Larkspur (Larkspur). Total project costs for the joint venture were funded from federal (75%) and state (12.5%) clean water grants and from local shares (12.5% total) allocated among the member agencies and SQ based upon the weighted average of the strength and volume of sewage flows per member at inception of the project.

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

5. JOINT VENTURES (continued)

Final individual local shares of total project costs were approximately \$7.6 million for SRSD, \$6.3 million for SD 1, \$1.6 million for SD 2, \$1 million for Larkspur, and \$1.4 million for SQ. CMSA derives its annual funding for its operations and capital programs almost exclusively from service charges to its member agencies, ongoing financial relationship, but is a legally separate entity. The joint powers agreement does not provide an explicit measurable right as required to establish an equity interest for any of the joint venture participants, and in addition to, stipulates that all excess capital funds, if any, and all excess administration, operations and maintenance funds from whatever source, if any, are the property of CMSA. Complete separate financial statements of the other member agencies and CMSA may be obtained by contacting their administrative offices directly.

6. COMMITMENTS

As of June 30, 2012, the G Street - 5th Avenue to Mission Avenue Sewer Improvement Project had commenced and the remaining obligation was \$114,405. The project will be completed during the 2012-13 fiscal year.

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. The District participates in a joint powers agreement with other entities forming the California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program for 60 member entities. CSRMA is governed by a Board of Directors composed of one representative from each member agency and meets three times per year in conjunction with conferences of the California Association of Sanitation Agencies. The Board controls the operations of CSRMA including selection of management and approval of operating budgets, independent of any influence by member entities.

The District pays annual premiums to CSRMA for its primary insurance and property insurance programs. Primary and property insurance programs are fully insured wherein CSRMA purchases insurance as a group thereby reducing its costs. CSRMA provides both fully insured and pooled insurance programs for its participating member entities. Because all employees of the District are contracted employees from the City of San Rafael, workers' compensation insurance is not carried by the District but is provided through the City.

The District's primary and property insurance programs transfer risk to commercial insurance policies for claims above deductibles, while the District retains risk for claims to the extent of deductibles. Settled claims for CSRMA have not exceeded coverage in any of the past three fiscal years.

The following summarizes active insurance policies as of June 30, 2012 and 2011 together with coverage limits for each insured event:

Insurance Program	Limits	Coverage Description
CSRMA - American Alternative Ins.	\$ 3,000,000	Gen/Mgt liability - aggregate
CSRMA - American Alternative Ins.	\$ 1,000,000	Gen/Mgt liability - occurrence
CSRMA - American Alternative Ins.	\$ 1,000,000	Gen/Mgt liability - accident no deductible
CSRMA - American Alternative Ins.	\$ 4,000,000	Excess liability Employer's liability excluded
CSRMA - Public Entity Property Insurance Program (P,E.P.I.P.)	\$ 11,163,263 \$ 10,000	Special from property Property deductible

**SAN RAFAEL SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

8. RELATED PARTY TRANSACTIONS

The District engages the City of San Rafael to fund the payroll, benefits and related administration for the District's personnel. They also provide the District with various vehicle repairs and other minor services. The District incurred expenditures of \$2,435,497 and \$2,281,194 with the City of San Rafael for the years ended June 30, 2012 and 2011 respectively.

The District had an obligation to the City of San Rafael for the fiscal years ended June 30, 2012 and 2011 of \$48,693 and \$629,798 respectively. The large obligation in 2011 relates primarily to fourth quarter personnel expense. The personnel expense related to 2012 was paid within the fiscal year. The District also has a receivable from the City of San Rafael for the fiscal years ended June 30, 2012 and 2011 of \$136,182 and \$93,338, respectively. These are the result of reimbursement for capital projects and overpayments of personnel expense within the year that will be credited to the first quarter of the following year.

9. CONTINGENT LIABILITY

The District is involved in contract disputes arising from the normal course of business. Management believes the disposition of disputes will not have a material adverse effect on the overall financial position of the District at June 30, 2012.