Sanitary District Number 5 of Marin County
Basic Financial Statements
June 30, 2012

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Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

Board of Directors
Sanitary District Number 5 of Marin County
Tiburon, California

I have audited the accompanying basic financial statements of the Sanitary District Number 5 of Marin County, California, (the District) as of and for the year ended June 30, 2012 as listed in the Table of Contents. These financial statements are the responsibility of the Sanitary District Number 5 of Marin County management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sanitary District Number 5 of Marin County, California, as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 2 through 8 and the Schedule of Funding progress on page 26 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express or provide any assurance.

In accordance with Government Auditing Standards, I have also issued my report dated July 22, 2013 on my consideration of the Sanitary District Number 5 of Marin County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 my audit.

As discussed in note 1E to these financial statements, the District adopted in fiscal 2012 the Governmental Accounting Standards Statements Number 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements; Statement Number 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Number 65. Items Previously Reported as Assets and Liabilities.

Terry E Krieg
Terry E. Krieg
Certified Public Accountant
July 22, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Sanitary District Number 5 of Marin County's annual financial report presents our discussion and analysis of the District's financial performance during the years that ended on June 30, 2012 and 2011. The financial statements are presented in a format to comply with the financial statement presentation requirements of the Governmental Accounting Standards Board with some of the major differences being this Management Discussion and Analysis (MD&A) section.

FINANCIAL HIGHLIGHTS

- The net position of the District's business-type activities increased by about $1,513,000 in fiscal 2012 compared to a $682,000 increase in the 2011 fiscal year.

- Total operating expenses in fiscal 2012 declined by about $233,000 compared to fiscal 2011. Lower line cleaning and inspection costs were the main reason for the cost decreases; this was due to the District's purchase of a rodder truck enabling staff to perform most of the line cleaning in-house. Total operating expenses in fiscal 2011 declined by about $106,000 compared to fiscal 2010; and most of this change was because of lower personnel costs and outside consulting costs.

- Customer rates in fiscal 2012 were increased by about 19 percent in the Tiburon zone and by about 20 percent in the Belvedere zone. In fiscal 2011, customer rates were increased by about 25 percent in the Tiburon Zone and by about 23 percent in the Belvedere zone.

- The District's investment in capital assets (excluding the impact of depreciation) increased by about $1.99 million in fiscal 2012 as a result of design costs and the start of construction on the main plant rehabilitation project. Excluding depreciation charges, there was about a $499,000 increase in capital assets in fiscal 2011.

- District cash and investments increased by about $12.4 million to a total of $17.58 million at the end of fiscal 2012 as result of the main plant rehabilitation project bond proceeds and cash flows from operations. The District's cash and investment holdings at the end of fiscal 2011 increased to $5.16 million compared to the $3.95 million held at the end of fiscal 2010.

- The District in fiscal 2012 issued $10,935,000 in revenue bonds to finance the main plant rehabilitation and renovation project. The bonds were sold at a $1,076,031 premium. No new debt was issued in fiscal 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements including related disclosures, and required supplementary information. The basic financial statements include one kind of statement that present both a short-term and long-term view of the District: Proprietary enterprise fund-type statements offer short and long-term financial information about the activities that the District operates like businesses, such as the Districts wastewater collection and treatment system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that provides more data about the District's pension plan. Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

FIGURE A-1 Major Financial Statement Features

	Basic Financial Statements
Scope	Activities the District operates similar to private businesses; the wastewater collection and treatment systems
Required financial statements	Statement of net position Statement of revenues, expenses, and changes in net position. Statement of cash flows.
Accounting basis and measurement focus	Accrual accounting and economic measurement focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term focus
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received

Basic Financial Statements

The basic financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position regardless of when cash is received or paid.

The basic financial statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health, or *position*.

Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The basic financial statements of the District consist of one category:

Business-type activities – The District charges fees to help it cover the costs of certain services it provides. All of the District's operations are accounted for in this category. The District uses proprietary enterprise fund type accounting principles to account for all operations. Proprietary accounting provides both long-and short-term financial information.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position increased by about $1,513,800 in fiscal 2012 compared to about a $682,100 increase in fiscal year 2011. (See Table A-1.)

TABLE A-1 NET POSITION OF THE DISTRICT

	Business-Type Activities		Percentage Change	
	2012	2011	2011-2012	2010-2011
Current and other assets	$ 17,638,200	$ 5,253,100	235.7%	31.5%
Capital assets	11,961,700	10,761,900	11.1%	-2.7%
Total assets	**29,599,900**	**16,015,000**	84.8%	**6.4%**
Long-term debt	11,443,500	627,500	1,723.7%	-15.5%
Other liabilities	1,764,800	509,700	246.2%	329.0%
Total liabilities	**13,208,300**	**1,137,200**	1,061.4%	**32.0%**
Net position:				
Invested in capital assets	9,725,100	10,128,400	-4.0%	-1.9%
Unrestricted	6,666,500	4,749,400	40.4%	22.6%
Total net position	**$ 16,391,600**	**$ 14,877,800**	10.1%	**4.8%**

The District's net position increased in fiscal 2012 by about $1,513,800. This increase was caused by the additional revenues generated by customer rate increases and by a reduction in line cleaning and inspection expenses in fiscal 2012.

In fiscal 2011, the District's net position increased by about $682,100, primarily due to an increase in operating revenues (about a 23.4 % overall increase) resulting from customer rate increases in both the Tiburon and the Belvedere zones.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Changes in net position.

Overall in fiscal 2012, there was about a 22 percent increase in charges for services when all zones were combined in the aggregate. Investment income increased in fiscal 2012 because of additional cash invested from the bond proceeds.

Overall, in fiscal 2011, there was about a 24 percent average rate increase in customer rates in both billing zones. Interest income revenues remained about the same as in 2010 with a slight 4 percent decline. Property tax revenues did decrease by about $104,000 as the District was allocated about $30,000 less in excess ERAF revenues in 2011, and there was a complete $66,000 curtailment of redevelopment tax distributions compared to fiscal 2010.

TABLE A-2 District's Revenues, Expenses and Changes in Net Position (In Rounded Dollars)

	Fiscal Year			
	2012	2011	Percentage Change 2011-2012	Percentage Change 2010-2011
Revenues				
Program revenues:				
Charges for services	$ 4,056,900	$ 3,393,200	20%	25%
Property taxes	831,200	831,500	-	-11%
Investment and other income	39,500	21,800	81%	5%
Total revenues	**4,927,600**	**4,246,500**	**16%**	**15%**
Expenses				
Salaries and benefits	1,672,100	1,576,000	6%	-10%
Maintenance and repairs	20,200	48,600	-58%	-36%
Line inspections and cleaning	102,700	342,500	-70%	69%
Supplies	98,300	94,600	4%	20%
Insurance	62,200	47,500	31%	-9%
Utilities	219,600	233,100	-6%	0%
Contract and professional services	73,700	65,700	12%	-42%
Other operating and non-operating	538,800	401,600	34%	-1%
Interest	28,700	34,000	-16%	-13%
Depreciation	796,000	802,200	-1%	0%
Total expenses	**3,612,300**	**3,645,800**	**-1%**	**3.3%**
Income (Loss) before contributions	1,315,300	600,700	119%	1269%
Capital contributions	**198,500**	**81,400**	**29%**	**-93%**
Change in net position	1,513,800	682,100	144%	-41%
Net position, beginning	14,877,800	14,195,700	-	-
Net position, ending	**$ 16,391,600**	**$ 14,877,800**	10%	**5%**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Table A-2 presents the cost of each of the District's largest functions from an expense perspective – operating expenses, and depreciation on capital assets.

Total district expenses in fiscal 2012 declined by about $34,000 compared to total fiscal 2011 expenses. However, the 2012 expenses actually declined an additional $205,000 because in fiscal 2012 the District had a one-time expense of $205,000 in debt issuance costs that were charged off in accordance with new accounting standards. In the expense area, line cleanings and inspection costs were about $240,000 less in fiscal 2012 as a rodder truck was purchased to complete the line cleaning work in-house.

Total District expenses in fiscal 2011 decreased in total by about $111,000 compared to fiscal 2010 expenses. This total decline in 2011 expenses is a net change with increases in some costs and decreases in other costs. The more significant expenses changes were (1) the $180,000 drop in personnel costs as a result of an early retirement in late fiscal 2010, (2) a $140,000 increase in line inspections and related manhole rehabilitation expenses and (3) about a $48,000 drop off in consulting and professional service fees as the District had few costs in 2011 for outreach expenses and rate setting related costs.

The District was able to completely cover all expenses in fiscal 2012 from its revenues as a result of the rate increases. The District paid for these costs in fiscal 2011 by using all of the direct charges collected from its customers and about 30 percent of the 2011 property tax revenues. In comparison, fiscal 2010 expenses exceeded all revenues from charges for services, property taxes and investment income, and resulted in a $51,000 use of carry forward balances from 2009.

Cash flows of $12.4 million were reported in fiscal 2012 after all activities were conducted by the District. Most of the positive cash inflows were a result of the revenue bond sale. But if the bond sale proceeds and related additions to capital assets are not considered, the District estimates that about $2.2 million was positive cash flows from operations. The District's cash flow net changes have been positive in both the 2011 and 2010 fiscal years with more than minimal cash flow additions. The 2011 net increase in cash and investment holdings was just over $1.2 million dollars compared to the $884,000 cash flow increase in fiscal 2010.

Capital contribution revenues derived from connections to the wastewater system were significantly lower in fiscal 2011 compared to fiscal 2010. One main reason was that contributed line and related facilities were booked in fiscal 2010 and accounted for almost $850,000 in capital contribution revenues. In fiscal 2011 there was also a decline in connection revenues as the District has in place a mandatory connection policy for customers with certain septic systems, and there is a grace period for hookups that extends to December 1, 2013. Fiscal 2012 capital connections were about $198,000 compared to about $81,000 in fiscal 2011.

The District invests its idle cash primarily in the State of California Local Agency Investment Fund (LAIF), and the District had about 92 percent of its total cash and cash equivalents invested in the LAIF at the end of fiscal 2011 compared to about 97 percent at the end of fiscal 2012. The District by policy manages its cash holdings by setting aside certain revenues, including property taxes, into Board designated capital replacement accounts in order to accumulate cash resources for future capital asset and plant needs. At the end of fiscal 2011, the District had about $3.3 million set aside for these purposes compared to about $2.3 million at the end of fiscal 2010. This was increased to $4.98 million at the end of 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2012, there was a net increase in capital assets of $1.19 million; mainly from the additions for final main plant design work and the start of construction on the main plant rehabilitation and renovation project. The District did spend an additional $403,000 on line improvements.

At the end of fiscal 2011, there was an actual net decrease in total capital assets as a result of depreciation charges. Excluding the reclassification of certain pipeline costs from the collection pipeline category to the main plant category (plant piping costs); the district added about $499,000 in capital asset costs in fiscal 2011. Of the $499,000 in fiscal 2011 cost additions, about $216,000 was reported in construction in progress for design work related to the pending main plant rehabilitation and modernization project. The District also recorded about $165,000 for the purchase of a rodder truck. Another $118,000 was for line improvements and other equipment assets.

TABLE A-3 District Investment in Capital Assets, Net of Accumulated Depreciation (In Rounded Dollars)

	Business-Type Activities		Total Percentage Change	Total Percentage Change
	2012	2011	2011-2012	2010-2011
Land	$ 49,300	$ 49,300	0%	0%
Main and Paradise Cove plants	5,413,500	5,877,200	-8%	-1%
Pipelines	3,230,900	2,940,100	10%	-15%
Construction in progress	1,791,100	215,900	730%	100%
Treatment and collection	536,000	595,400	-10%	-9%
Equipment, pumps and other	970,900	1,084,000	-10%	12%
Total	**$ 11,961,700**	**$ 10,761,900**	**11.1%**	**-3%**

More information about capital assets can be found starting on page 17 of the notes to the financial statements.

Long-Term Debt

In fiscal 2012, the District's financing Authority issued $10,935,000 in revenue bonds to provide financing for the main plant renovation project. Because of the financial condition of the District, the bonds were sold at a $1,076,031 premium that effectively reduces the overall interest rate on the District's bonds. Principal and interest payments begin in fiscal 2013.

There was no new long-term debt issued by the District in fiscal 2011 or 2010. More information about long-term debt can be found starting on page 19 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S OPERATING PLAN AND RATES

Several major changes in the District's financial capabilities and operations are anticipated in the future.

The State may again be facing fiscal funding issues in fiscal 2013 that may ultimately impact the District. The District, however, does not expect that these State funding issues will have a severe financial impact on the District.

In the capital area, the District has determined that it is in need of significant capital projects and programs. These deal primarily with the aging infrastructure of the District which is now reaching the end of its useful life due to improvement needs in the District collection system. The District's main plant rehabilitation and renovation project was started in fiscal 2012 and will continue in 2013.

Two additional initiatives may have an effect upon the operations of the District. The first deals with the expansion of the Paradise Treatment Plant that would allow a 100 percent increase in the connections in that area long term as the plant has been replaced by a new treatment facility.

The second initiative deals with the annexation of the pumping stations and collection pipelines within the City of Belvedere to Sanitary District No. 5. This annexation took place, effective July 1, 2005. This change brings all City wastewater operations under the responsibility of the Sanitary District Board of Directors. As a result of all of these financial and operational changes and identified needs, the Board authorized an evaluation of District rates and charges.

This evaluation resulted in the need for significant modifications in the sewer service charges of the District for both billing zones. For the 2013 fiscal year, the District has approved a rate increase of about 5 percent for customers in the Belvedere operation zone and about a 15 percent rate increase for customers in the Tiburon operations zone. Additional rate increases have been planned for both the Belvedere and Tiburon Zones through fiscal year 2015.

The final design for the main plant rehabilitation project has been completed, the primary construction contract has been awarded, and construction on the project started in June of 2012 and will continue into fiscal year 2014. The District had, at the end of 2012, $10.28 million available in unspent bond proceeds to finance 2013 construction costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Manager, Sanitary District Number 5 of Marin County, 2001 Paradise Drive, Tiburon, California, 94920.

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY
Statement of Net Position
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,316,391	$ 1,541,970
Receivables from other governments	17,439	38,774
Receivables , other	-	19,821
Interest receivable	15,364	5,820
Prepayments	24,834	22,590
Total current assets	2,374,028	1,628,975
Noncurrent assets:		
Cash and cash equivalents:		
Designated capital accounts	4,981,237	3,624,175
Bond proceeds accounts	10,282,900	-
Total designated cash and debt issuance costs	15,264,137	3,624,175
Capital assets:		
Capital assets not being depreciated :		
Land	49,295	49,295
Total capital assets not being depreciated	49,295	49,295
Capital assets being depreciated:		
Mechanical, electrical and main plant	12,862,101	12,862,101
Paradise Cove plant	1,906,604	1,906,604
Pipelines including subsurface and other	9,861,939	9,458,561
Treatment and collection system	1,641,297	1,641,297
Odor control and pumps	2,697,120	2,691,515
Plant equipment	181,466	181,466
Vehicles and other equipment	433,481	421,756
Less accumulated depreciation	(19,462,663)	(18,666,618)
Total capital assets being depreciated	10,121,345	10,496,682
Construction in progress	1,791,074	215,909
Total capital assets	11,961,714	10,761,886
Total noncurrent assets	27,225,851	14,386,061
Total assets	$ 29,599,879	$ 16,015,036
LIABILITIES		
Current liabilities:		
Accounts payable	$ 461,533	$ 458,009
Compensated absences	67,444	41,723
Contractual retentions	11,919	-
Accrued interest payable	137,876	-
Bonds and loans due within one year	698,000	119,000
Total current liabilities	1,376,772	618,732
Noncurrent liabilities:		
Compensated absences	10,000	10,000
Loan due in more than one year	385,466	508,466
Bonds due in more than one year	10,360,000	-
Premium on sale of bonds	1,076,032	-
Total liabilities	13,208,270	1,137,198
NET POSITION		
Invested in capital assets, net of related debt	9,725,116	10,128,420
Unrestricted	6,666,493	4,749,418
Total net position	$ 16,391,609	$ 14,877,838

See accompanying notes to the basic financial statements

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY
Statement of Revenues, Expenses, and Changes in Net Position
For The Fiscal Years Ended June 30, 2012 and 2011

	Fiscal Years Ending June 30	
	2012	2011
OPERATING REVENUES		
Sewer service fees	$ 3,959,901	$ 3,306,355
Maintenance agreements	62,886	53,863
Other operating revenues	34,088	33,031
Total operating revenues	4,056,875	3,393,249
OPERATING EXPENSES		
Salaries and benefits	1,672,127	1,575,975
Maintenance and repairs	20,212	48,551
Line cleaning and inspection	102,674	342,548
Supplies (chemicals)	98,283	94,559
Liability and property insurance	62,171	47,506
Utilities	219,582	233,143
Contract and professional services	73,687	65,715
Other operating	333,756	401,615
Depreciation	796,045	802,165
Total operating expenses	3,378,537	3,611,777
Operating income(loss)	678,338	(218,528)
NON-OPERATING REVENUES(EXPENSES)		
Property taxes	831,209	831,477
Gain on disposal capital assets	-	2,000
Debt issuance costs	(205,032)	-
Interest expense	(28,736)	(34,001)
Investment income	39,500	19,793
Net non-operating revenues (expenses)	636,941	819,269
Change in net position before capital contributions	1,315,279	600,741
Capital contributions		
Capital contributions	198,492	81,395
Total contributions	198,492	81,395
Change in net position	1,513,771	682,136
Total net position, beginning	14,877,838	14,195,702
Total net position, ending	$ 16,391,609	$ 14,877,838

See accompanying notes to the basic financial statements

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY
Statement of Cash Flows
For The Fiscal Years Ending June 30, 2012 and 2011

	Fiscal Years Ending June 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 4,001,057	$ 3,259,503
Other operating receipts	96,974	86,894
Payments to suppliers for goods and services	(998,572)	(1,094,461)
Payments to employees for services and benefits	(1,646,406)	(1,489,752)
Net cash used for operating activities	1,453,053	762,184
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax collections	831,209	831,477
Net cash provided by noncapital financing activities	831,209	831,477
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(28,736)	(34,001)
Payments to retire long-term debt	(119,000)	(115,000)
Proceeds from sale revenue bonds, net of issuance costs	11,806,000	-
Capital contributions	198,492	81,395
Purchases of capital assets	(1,771,546)	(332,004)
Net cash used for capital and related financing activities	10,085,210	(399,610)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest receipts	44,911	19,300
Net cash provided by investing activities	44,911	19,300
Net increase (decrease) in cash and cash equivalents	12,414,383	1,213,351
Balances-beginning of the year	5,166,145	3,952,794
Balances-end of the year	$ 17,580,528	$ 5,166,145
Reconciliation of operating loss to net cash used for operating activities:		
Operating income (loss)	$ 678,338	$ (219,528)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Depreciation expense and amortization	796,045	803,165
Change in assets and liabilities:		
Decrease (increase) in due from other governments	21,335	(28,031)
Decrease (increase) in other receivables	19,821	(18,821)
Decrease (increase) in prepayments	(2,244)	(468)
Increase (decrease) in accounts payable	(85,963)	217,971
Increase (decrease) in compensated absences	25,721	7,896
Net cash used for operating activities	$ 1,453,053	$ 762,184

Noncash capital financing activities:
None reported

See accompanying notes to the basic financial statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Sanitary District Number 5 of Marin County was reorganized March 17, 1947 as a special district under Provisions of the Sanitary District Act of 1923, and it is governed by five elected Directors. The District's service area includes a portion of the Town of Tiburon and Belvedere, California. The accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. The District has one component unit, the Tiburon/Belvedere Wastewater Financing Authority which authority is governed by the District's Board of Directors. The transactions between the Authority and the District have been eliminated from the accompanying financial statements and the Authority's transactions are reported as part of the District's financial activities.

B. Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property taxes, service fees, revenue from maintenance agreements and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The District is engaged in only business-type activities and the District'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 position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and these notes to the basic financial statements.

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 District are charges to the customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The District's investment policy has been to invest idle cash in demand deposits and the Marin County Treasurer's Investment Pool and the Local Agency Investment Fund of the State of California (LAIF). Investments are reported at fair value. The County Pool and LAIF are operated in accordance with applicable state laws and regulations, and the reported value of the District's investment in the County Pool and the LAIF are the same as the fair value of the County Pool shares and LAIF deposits.

2. Receivables, Property Taxes and Sewer Service Revenues

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Marin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District and accrues as receivable such taxes. Accordingly, the District provides for no allowance for doubtful accounts.

Sewer service fees (used to supplement tax revenues) are set by the District based upon rates applied to the number of equivalent dwelling units (EDUs) for nonvacant properties and adjusted flows applicable to commercial properties. The sewer service fees are incorporated into the property tax billings, and such fees are due in two equal installments on December 10 and April 10 following the assessment date. The District recognizes these fees as revenues in the year earned, which is also the year in which the service is provided to properties within the District. Under an arrangement with the County known as the Teeter Plan, the County advances substantially all of the sewer fees to the District each year, and the County bears the burden of any uncollectible accounts. Therefore, the District does not provide for an allowance for uncollectible accounts or bad debts.

3. Inventories and Prepaid Items

All inventories are valued at cost based upon physical determinations made at the end of each year.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

4. Designated Cash Equivalents and Investments

Cash equivalents and investments restricted for use in only capital projects are reported as noncurrent assets. The District follows the practice of reporting in this category the funds, which by Resolution of the Board of Directors, can only be used for the purpose of financing the design, construction, replacement and improvement of related District facilities.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (mainly the existing wastewater system), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets and assets constructed by developers are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed net of construction period interest revenues earned during such periods.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Treatment plant	15-40
Subsurface lines	50
Equipment and vehicles	5-15

6. Compensated Absences, Sick Leave, Claims and Other Post-Employment Benefits

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid vacation is recorded in the financial statements when the liability is incurred and is reported as compensated absences. The District does not provide for payment of unused sick leave at termination dates; it does allow for the conversion to service credit through the Public Employees retirement System.

The District obtains insurance coverage for property and equipment, fidelity bonds, automobile liability and general liability, and workers compensation insurance through its membership in the California Sanitation Risk Management Authority. The risk of loss is transferred from the District to the Authority in exchange for the District's payment of annual premiums. Incurred and unbilled claims, if any, are accrued as a liability when it is probable that an asset has been impaired, the amount of the obligation can be reasonably estimated, and the claim is not covered by insurance.

The District has agreed to pay for certain medical insurance premiums for retiring employees with at least five years of District service. Such insurance programs are administered as part of the Public Employees Retirement System (PERS). The District obtains actuarial valuations of its retiree medical insurance plan in order to determine estimated annual required contributions (ARC) to the Plan. Differences, if any, between the Plan ARC and actual contributions are reported as other net postemployment benefit liabilities or assets.

7. Long-term Obligations

In enterprise fund-type financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position

8. *Net Position*

In the financial statements, components of net position are reported in two categories as follows:

- Net investment in capital assets - This component of net position reports the net book value of capital assets used in District operations including construction in progress all net of related accumulated depreciation, and reduced by the carrying value of related long-term debt issued to finance the acquisition of such assets. Excluded from this component is the portion of debt related to unspent bond proceeds.
- Unrestricted – The unrestricted component of net position is the amounts not included in the determination of net investment in capital assets or the restricted component of net position.

E. Impact of Recently Issued and Adopted Accounting Principles

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in pronouncements issued before November 30, 1989 by the Financial Accounting Standards Board (FASB) that does not conflict with or contradict GASB pronouncements. This GASB statement is effective for periods beginning after December 15, 2011. The District elected to early implement GASB 62 in fiscal year 2012.The provisions of GASB 62 applicable to the presentation of premiums on debt were implemented in fiscal 2012 in connection with the sale of the District's revenue bonds.

In June 2011, the GASB issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. GASB 63 provides that the statement of net assets is to be renamed the statement of net position and includes four components being assets, deferred outflows, liabilities and deferred inflows. Outflows and Inflows were limited to derivative instruments and service concession agreements. GASB 63 is effective for periods beginning after December 15, 2011. The District elected to early implement GASB 63 in fiscal 2012 and adopted the net position presentation.

In March 2012, the GASB issued Statement 65, Items Previously Reported as Assets and Liabilities. GASB 65 provides guidance on reporting deferred outflows and inflows and changes the guidance in GASB 62 concerning accounting for debt issuance costs. The statement provides that debt issuance costs should be expensed in the period incurred. GASB 65 is effective for periods beginning after December 15, 2012. The District elected to early implement GASB 65 in fiscal 2012 and has restated its 2011 financial statements to remove capitalized debt issuance costs of $7,000 as of June 30, 2010. The 2011 financial statements have been restated for this change in accounting principle with the result being to increase by $1,000 the fiscal 2011 change in net position.

F. Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions. GASB 68 addresses accounting and financial reporting for pensions that are provided to employees of state and local governments. Under GASB 68, cost sharing employers are required to recognize a liability for their proportionate share of the net pension liability (the collective pension liability of all pool members). The net pension liability being the difference between the present value of projected benefit payments, less the amount of pension plan's fiduciary net position. GASB 68 expands disclosures about pension plans and required supplemental information. GASB 68 is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact that adoption of GASB 68 will have on the District's financial statements.

2. Detailed Notes

A. Cash Equivalents and Investments

Cash equivalents and Investments consisted of the following at June 30:

	2012	2011
Demand deposits	$ 477,110	$ 323,106
Local Agency Investment Fund (LAIF)	17,024,659	4,773,748
Marin County Treasurer's Investment Pool	78,759	69,291
Total cash and cash equivalents	$17,580,528	$ 5,166,145

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is that they will be made in institutions in California; they will be insured or collateralized in accordance with section 53562 of the California Government Code. At June 30, 2012, $302,530 of the District's bank balances of $552,530 were exposed to credit risk with the $302,530 being collateralized with the collateral held by the pledging bank's agent. At June 30, 2011, $270,390 of the District's bank balances of $457,390 were exposed to custodial credit risk with the $270,390 being collateralized with the collateral held by the pledging bank's agent.

Custodial Credit Risk – Investments. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the District's investments were invested in specific securities. All monies in the Marin County Treasurer's Investment Pool and the Local Agency Investment Fund (LAIF) are not evidenced by specific securities; and therefore are not subject to custodial credit risk.

Credit Risk- Investments. State law limits investments in various securities to certain levels of risk ratings issued by nationally recognized statistical rating organizations. It is the District's policy to comply with those requirements. The Marin County Treasurer's Investment Pool and LAIF are unrated.

The District's noncurrent cash and cash equivalents consisted of the following all invested in the Local Agency Investment Fund (LAIF)

	2012	2011
Designated capital and capital reserve accounts	$ 4,981,237	$ 3,328,863
Revenue bond proceeds construction account	10,282,900	-
Capital connection fee accounts	-	295,312
Total noncurrent cash and cash equivalents	$ 15,264,137	$ 3,624,175

2. Detailed Notes (Continued)

B. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 49,295	$ -	$ -	$ 49,295
Construction in progress	215,909	1,575,165	-	1,791,074
Total capital assets, not being depreciated	265,204	1,575,165	-	1,840,369
Capital assets, being depreciated:				
Main plant	15,050,991	-	-	15,050,991
Paradise Cove plant	1,906,604	-	-	1,906,604
Pipelines including subsurface	7,269,671	403,378	-	7,673,049
Treatment and collection system	1,641,297	-	-	1,641,297
Odor control and pumps	2,691,515	5,605	-	2,697,120
Plant equipment	181,466	-	-	181,466
Vehicles and other equipment	421,756	11,725	-	433,481
Total capital assets, being depreciated	29,163,300	420,708	-	29,584,008
Less accumulated depreciation:				
Main plant	(10,917,010)	(416,959)	-	(11,333,969)
Paradise Cove plant	(163,376)	(46,728)	-	(210,104)
Pipelines including subsurface	(4,329,575)	(112,479)	-	(4,442,054)
Treatment and collection system	(1,045,919)	(59,371)	-	(1,105,290)
Odor control and pumps	(1,872,605)	(116,217)	-	(1,988,822)
Plant equipment	(148,296)	(13,527)	-	(161,823)
Vehicles and other equipment	(189,837)	(30,764)	-	(220,601)
Total accumulated depreciation	(18,666,618)	(796,045)	-	(19,462,663)
Total capital assets, being depreciated, net	10,496,682	(375,337)	-	10,121,345
Business-type activities capital assets, net	$ 10,761,886	$ 1,199,828	$ -	$ 11,961,714

Construction in progress consists primarily of final plant design and other costs associated with the rehabilitation and renovation of the District's main wastewater treatment plant. The District capitalized $137,876 in accrued bond interest payable as construction period interest in fiscal 2012.

2. Detailed Notes (Continued)

B. Capital Assets (Continued)

Capital asset activity for the 2011 fiscal year was as follows:

	Beginning Balance	Increases and Reclassifications	Decreases and Reclassifications	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 49,295	$ -	$ -	$ 49,295
Construction in progress	-	215.909	-	215,909
Total capital assets, not being depreciated	49,295	215,909	-	265,204
Capital assets, being depreciated:				
Main plant	12,862,101	2,188,890	-	15,050,991
Paradise Cove plant	1,906,604	-	-	1,906,604
Pipelines including subsurface	9,375,284	83,277	(2,188,890)	7,269,671
Treatment and collection system	1,641,297	-	-	1,641,297
Odor control and pumps	2,691,515	-	-	2,691,515
Plant equipment	181,466	-	-	181,466
Vehicles and other equipment	244,797	199,896	(22,937)	421,756
Total capital assets, being depreciated	28,903,064	2,472,063	(2,211,827)	29,163,300
Less accumulated depreciation:				
Main plant	(8,776,127)	(427,040)	(1,713,843)	(10,917,010)
Paradise Cove plant	(116,341)	(47,035)	-	(163,376)
Pipelines including subsurface	(5,931,718)	(111,700)	1,713,843	(4,329,579)
Treatment and collection system	(984,438)	(61,481)	-	(1,045,919)
Odor control and pumps	(1,748,037)	(124,568)	-	(1,872,605)
Plant equipment	(131,789)	(16,507)	-	(148,296)
Vehicles and other equipment	(198,940)	(13,834)	22,937	(189,837)
Total accumulated depreciation	(17,887,390)	(802,165)	22,937	(18,666,618)
Total capital assets, being depreciated, net	11,015,674	1,669,898	(2,188,890)	10,496,682
Business-type activities capital assets, net	$ 11,064,969	$ 1,885,807	$ (2,188,890)	$10,761,886

2. Detailed Notes Continued)

C. Long-Term Debt

Changes in long-term debt for the fiscal years were as follows:

Fiscal Year Ended	Beginning of Year	Additions	Deletions	End of Year	Due in One Year
June 30, 2012:					
Refunding loan	$ 627,466	$ -	$ 119,000	$ 508,466	$123,000
2012 Revenue bonds	-	10,935,000	-	10,935,000	575,000
Compensated absences	51,723	77,444	51,723	77,444	67,444
Totals	$ 676,189	$11,012,444	$ 170,723	$11,490,910	$765,444
June 30, 2011:					
Refunding loan	$ 742,466	$ -	$ 115,000	$ 627,466	$119,000
Compensated absences	43,827	51,723	43,827	51,723	41,723
Totals	$ 786,293	$ 51,723	$ 158,827	$ 676,189	$160,723

Refunding Loan:

On December 4, 2006, the District entered into a refunding loan agreement with the Municipal Finance Corporation in an original amount of $1,172,429 to advance refund and retire the City of Belvedere's 1996 Certificates of Participation (the liability for which was assumed by the District as part of an annexation agreement). The refunding loan agreement has an interest rate of 4.58 percent.

The loan is payable in semi-annual installments of principal and interest each July 1 commencing July 1, 2007 and each January 1 as to interest only through July 1, 2016. The District has pledged the net revenues of its system as security for repayment of the loan, has pledged to set gross revenues at amounts sufficient to cover all obligations of the system including the loan and has pledged to generate net revenues, which together with unencumbered cash, are at least equal to 110 percent of the loan payments payable with respect to such fiscal year.

Total interest and principal remaining to be paid is $557,306. Annual principal and interest payments on this obligation are expected to require less than 34 percent of net revenues of the Belvedere zone as defined. Principal and interest paid in the 2012 fiscal year and total zone system net revenues as defined were $147,736 and $1,147,686 respectively.

Future debt service on the loan is:

Fiscal Year	Principal	Interest	Total
2013	$ 123,000	$ 23,286	$ 146,286
2014	126,000	17,652	143,652
2015	128,000	11,882	139,882
2016	131,466	5,983	137,449
Totals	$ 508,466	$ 58,803	$ 567,269

2. Detailed Notes Continued)

C. Long-Term Debt (Continued)

2012 Revenue Bonds

The Tiburon/Belvedere Wastewater Financing Authority, a joint powers authority, is governed by the same board of directors as are members of the District's board of directors. In February of 2012, the Authority issued $10,935,000 in 2012 revenue bonds, at a premium of $1,076, 031, for the purpose of providing financing for the District's rehabilitation and renovation of its main treatment plant. In exchange for the proceeds from the sale of the bonds, the District entered into an installment agreement with the Authority wherein the District agreed to make installment payments in amounts sufficient to provide for the payment of all future bond principal and interest as such payments become due. The agreement receivable by the Authority and payable by the District have been eliminated from the accompanying financial statements as the Authority is deemed a component unit of the District, and revenue bonds are reported as a long-term obligation of the District.

The bonds bear interest at rates from .25 percent to 5.0 percent, mature each October 1 through 2031, and interest is payable each October 1 and April 1 commencing October 1, 2012. The bonds consist of $5,205,000 in serial bonds maturing in various amounts through 2022 and $5,730,000 in term bonds maturing October 1, 2031. The serial bonds maturing on or before October 1, 2021 are not subject to optional redemption prior to their stated maturity. Bonds maturing on or after October 1, 2022 are subject to redemption at the option of the Authority from any available source of funds without premium. The term bonds are subject to mandatory sinking fund redemption in various amounts commencing October 1, 2023.

The District has pledged all net revenues of its system. This pledge constitutes a lien on the District's net revenues on a parity with the pledge and lien that secures the loan and any future parity obligations. The pledge and lien excludes any ad valorem property taxes, special assessments, or special taxes levied for the purpose of paying general obligation bonds, special assessments, or special tax obligations of the District. A rate covenant requires the District to establish rates to yield gross revenues in amounts sufficient to pay all O&M costs, all installment payments on the bonds and all parity obligations, and any other required payments. In addition, the District is obligated to generate system net revenues equal to at least 125 percent of all installment payments and principal and interest payments on any parity debt.

Fiscal Year Ending June 30	Principal	Interest	Total
2013	$575,000	$412,910	$987,910
2014	440,000	365,355	805,355
2015	440,000	363,153	803,153
2016	445,000	359,941	804,941
2017	450,000	355,800	805,800
2018-2022	2,350,000	1,649,800	3.999,800
2023-2027	2,745,000	1,222,825	3,967,825
2028-3032	3,490,000	453,497	3,943,497
Totals	$10,935,000	$5,183,281	$16,118,281

Total remaining principal and interest on the bonds is $16,118,281. No payments were made on the bonds in fiscal 2012. The District expects that the debt service on the bonds will be less than 39 percent of system net revenues as defined in the financing documents.

3. Other Information

A. Maintenance Agreements

The District has an agreement with the Sewerage Agency of Southern Marin (SASM) for operations and maintenance of the agency's joint outfall and the dechlorination responsibilities for SASM.

B. Risk Management

The District obtains general liability, property, automobile, and workers compensation insurance through its membership in the California Sanitation Risk Management Authority. Each member agency is assessed a premium based on ratable exposure. At the end of each year, the premiums are retrospectively rated based on exposure and 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 the arrangement. The Authority provides coverage for the first $500,000 in general liability and auto claims with the District being responsible for the first $10,000. The Authority provides coverage for the next $25 million in claims by purchasing commercial insurance coverages. The Authority provided $26.5 million in insurance coverage for the District's buildings and plant. The Authority provides purchased pollution liability insurance with a coverage limit of $1 million in excess of the District's $100,000 self-insured amount. Workers compensation insurance is also obtained through the District's membership in the Authority with the Authority covering the first $750,000 in losses. Excess coverage for $1 million is purchased by the Authority. The District paid no material uninsured losses during the last three fiscal 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 (IBNRs). 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. The District had no significant uninsured claim liabilities at June 30, 2012 and 2011.

C. Contingencies and Commitments

Litigation. In the opinion of the District's general counsel, there is no pending or threatened litigation which would have a material adverse impact on the accompanying financial statements.

Commitments. In April 2012, the District awarded the construction contract for the main plant rehabilitation and renovation project in the amount of $8,922,300. Construction started in June 2012.

3. Other Information (Continued)

D. Retirement System

Plan Description. The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan administered by the PERS. The 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. Benefit provisions and all other requirements are established by State statute and District Ordinances. The PERS issues a publicly available financial report that includes financial statements and required supplementary information for the PERS. That report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

Funding Policy and Annual Pension Cost. Plan members are required to contribute 8.0% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 28.262 percent of covered payroll. The contribution requirements of plan members and the District are established by resolutions and contracts of the District and may be amended by the PERS. The contributions to the PERS by the District for the last three fiscal years were as follows:

Three -Year Trend Information

Plan	Fiscal Year Ending	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
Regular employees	6/30/10	$ 289,018	100%	$ -
	6/30/11	$ 223,057	100%	$ -
	6/30/12	$ 240,305	100%	$ -

The PERS employer contribution rate for the District includes an amount to amortize a PERS created side fund over a 12 year period as of June 30, 2011. Amortization of this side fund accounts for about 50 percent of the District's employer contribution rate. The side fund was created by PERS to account for the difference between the funded status of the pool and the funded status of the District's plan, in addition to the District's unfunded PERS liability, at the time of joining the pool. It is an actuarial model used by PERS to set the District's contribution rate based on assumptions that may or may not be realized. In the absence of subsequent contract amendments or funding changes, the side fund will disappear at the end of the amortization period referred to above. The District's side fund was reported at $1,486,913 in the PERS June 30, 2011 actuarial valuation.

E. Post Employment Benefits Other Than Pensions

Plan Description. The District administers the District's retired employees health care plan, a single employer defined benefit health care plan. The plan provides medical benefits to eligible retired employees and their beneficiaries. The District's plan is affiliated with the State of California PERS in so far as the District's health insurance premiums are paid to the PERS. The PERS through an aggregation of single employer plans pools administrative functions in regard to purchases of commercial health care policies and coverages. District regulations and resolutions assign authority to establish and amend plan provisions to the District.

3. Other Information (Continued)

C. Post Employment Benefits Other Than Pensions (Continued)

Funding Policy. The contribution requirements of the Plan members and the District are established and may be amended by the District. The required contribution is based on a projected pay-as-you go financing requirement, with additional amounts to prefund the benefits determined annually by the District's Board of Directors. For the fiscal year ended June 30, 2012, the District contributed $37,559 for current year premiums (100% of total premiums) and $50,575 to prefund benefits. Plan members receiving benefits contributed no amounts of the total premiums.

Annual OPEB Costs and Net OPEB Obligation. The District's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level amount of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed 30 years.

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

	2012	2011
Annual required contribution (ARC)	$ 88,134	$ 94,965
Interest on net OPEB obligation	-	-
Adjustments to annual required contribution	-	-
Annual OPEB expense	88,134	94,965
Contributions made	(88,134)	(94,965)
Change in net OPEB obligation	-	-
Net OPEB Obligation, beginning of year	-	-
Net OPEB Obligation, end of year	$ -	$ -

Funding Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the Plan was 15.74 percent funded. The actuarial accrued liability for benefits was $875,383, and the actuarial value of Plan assets was $137,744, resulting in the unfunded actuarial accrued liability (UAAL) of $737,639. The covered payroll of active employees covered by the Plan was $955,597 and the ratio of the UAAL to the covered payroll was 77.19 percent. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and annual required contributions 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 about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the last two fiscal years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
June 30, 2012	$88,134	100%	$ -
June 30, 2011	$94,965	100%	$ -

3. Other Information (Continued)

C. Post Employment Benefits Other Than Pensions (Continued)

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

In the July 1, 2011 valuation, the entry age normal actuarial cost method was used. The actuarial assumptions include a 7.61 percent investment rate of return which is blended rate of expected long-term investment returns on plan assets and the employer's own investments calculated based upon the funded level of the plan at the valuation date, and on the annual health care cost trend of 7.3 percent decreasing to 5.5 percent in 2019. The plan assets to value at the latest valuation date were $137,744. The UAAL is being amortized as a level percentage of payroll over 28 years, the remaining amortization period at July 1, 2011.

D. Segment Information

The District has entered into a separate refunding loan to finance the retirement of long-term debt for the Belvedere zone of operations. The District's zones are accounted for in a single fund, but lender of the loan relies solely on the revenues generated by the individual activity by zone for repayment. The pledge of the combined system net revenues from both zones for repayment of the 2012 revenue bonds is made on a parity basis with the District's obligations under the refunding loan.

Summary information for the Tiburon/Paradise Cove zone and the Belvedere zone is as follows:

	Tiburon/Paradise Cove Zone	Belvedere Zone
Operating revenues	$ 1,983,949	$ 2,072,926
Depreciation expense	(741,413)	(54,632)
Other operating expenses	(1,711,572)	(870,920)
Operating income (loss)	(469,036)	1,147,374
Non-operating revenues (expenses)		
Property taxes	831,209	-
Investment income	25,880	13,620
Interest expense	-	(28,736)
Other expenses	(132,820)	(72,212)
Capital contributions	109,365	89,127
Change in net position	$ 364,598	$ 1,149,173

Required Supplementary Information
Sanitary District Number 5 of Marin County
Other Post Employment Benefits (OPEB)
Schedule of Funding Progress
June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	$ -	$ 955,000	$ 955,000	0.00%	$ 972,472	98.20%
7/1/2011	$ 137,744	$ 875,383	$ 737,639	15.74%	$ 955,597	77.19%

SANITARY DISTRICT NUMBER 5 OF MARIN COUNTY
Supplementary Financial Information
Combining Schedule of Revenues, Expenses, and Changes in Net Position By Zone
For The Fiscal Year Ended June 30, 2012

	Financial Zones				
	Paradise Cove	Tiburon	Tiburon/Paradise Cove Zones Combined	Belvedere	District Total
OPERATING REVENUES					
Sewer service fees	$ 72,043	$ 1,849,113	$ 1,921,156	$ 2,038,745	$ 3,959,901
Other operating revenues	2,190	60,603	62,793	34,181	96,974
Total operating revenues	74,233	1,909,716	1,983,949	2,072,926	4,056,875
OPERATING EXPENSES					
Salaries and benefits	35,601	1,060,564	1,096,165	575,961	1,672,126
Maintenance and repairs	-	13,093	13,093	7,119	20,212
Line cleaning and inspection	4,437	65,374	69,811	32,863	102,674
Supplies	-	63,664	63,664	34,620	98,284
Liability and property insurance	1,172	42,040	43,212	18,959	62,171
Utilities	13,849	130,805	144,654	74,928	219,582
Contract and professional services	1,226	53,028	54,254	19,433	73,687
Other operating	36,703	190,016	226,719	107,037	333,756
Depreciation	-	741,413	741,413	54,632	796,045
Total operating expenses	92,988	2,359,997	2,452,985	925,552	3,378,537
Operating income (loss)	(18,755)	(450,281)	(469,036)	1,147,374	678,338
NON-OPERATING REVENUES(EXPENSES)					
Property taxes	31,503	799,706	831,209	-	831,209
Issuance costs	-	(132,820)	(132,820)	(72,212)	(205,032)
Interest expense	-	-	-	(28,736)	(28,736)
Investment income	-	25,880	25,880	13,620	39,500
Net non-operating revenues (expenses)	31,503	692,766	724,269	(87,328)	636,941
Change in net position before capital contributions	12,748	242,485	255,233	1,060,046	1,315,279
Capital contributions					
Capital contributions	7,733	101,632	109,365	89,127	198,492
Total contributions	7,733	101,632	109,365	89,127	198,492
Change in net position	20,481	344,117	364,598	1,149,173	1,513,771