

SAUSALITO-MARIN CITY SANITARY DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010

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Independent Auditors' Report

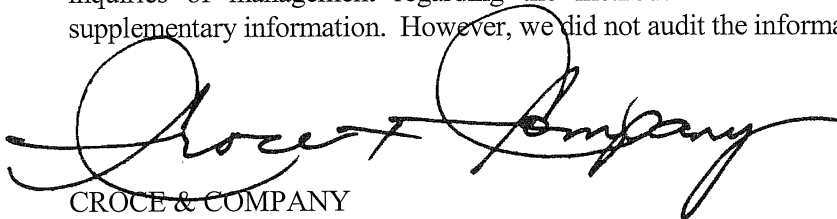
To the Board of Directors
Sausalito-Marin City Sanitary District

We have audited the accompanying basic financial statements of **Sausalito-Marin City Sanitary District** (the District) as of and for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Sausalito-Marin City Sanitary District** as of June 30, 2010, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



CROCE & COMPANY
Accountancy Corporation
Stockton, California
November 22, 2010

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis

June 30, 2010

As Manager of the Sausalito-Marin City Sanitary District (District), I offer readers of the District's financial statements this narrative overview and analysis of the financial statements of the District for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 8.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. These basic financial statements are for a single proprietary fund and include the financial statements, notes to those financial statements and other supplementary information.

Proprietary Fund Financial Statements

The District's operations are accounted for as a single proprietary fund using the full accrual basis of accounting. In this regard, the District's operations are accounted for in a manner similar to a private business enterprise. Within this one proprietary fund, the District segregates revenues and expenses for various purposes such as operations, debt service and capital improvements, but that segregation does not create separate proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 10 of this report.

Financial Highlights

- Total assets of the District exceeded total liabilities at the close of the fiscal year by \$25,000,128 (net assets).
- Net assets of the District increased by \$850,298 during the current fiscal year.
- Operating revenues increased by \$233,286.
- Operating expenses increased by \$99,118.
- Property taxes increased by \$20,737 (\$524,835 vs. \$504,098) and investment income decreased by \$82,886 (\$31,132 vs. \$114,018) in comparison to the prior year.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2010

- Revenue from the Tamalpais Community Services District (TCSD) service contract totaled \$1,250,809, which is an increase of \$166,560 over the prior year.
- Revenue from the City of Sausalito Pump Station O&M contract totaled \$87,217, which is an increase of \$3,918 over the prior year.

Financial Condition

Net assets are a measure of an entity's financial position and, over time, a trend of increasing or decreasing net assets is an indication of financial health of the organization. The District's net assets exceeded liabilities by \$25,000,128 at June 30, 2010. The District's investment in capital assets at June 30, 2010 represents the largest portion of fund equity (80%). The District's net assets increased by \$850,298 during the fiscal year, (see Table 1 below). Assets were reallocated among the future capital improvements, operations, and renewal and replacement funds pursuant to the District's reserve policy, which was developed in the fiscal year ended June 30, 2004.

Table 1

	Net assets			
	June 30, 2010	June 30, 2009	Increase (Decrease)	%
Assets				
Current assets	\$ 5,690,095	\$ 5,934,505	\$ (244,410)	(4.1)%
Capital assets, net	22,711,710	22,118,781	592,929	2.7
Other assets	27,516	-	27,516	100.0
Total assets	28,429,321	28,053,286	376,035	1.3
Liabilities				
Current liabilities	718,989	1,106,107	(387,118)	(35.0)
Noncurrent liabilities	2,710,204	2,797,349	(87,145)	(3.1)
Total liabilities	3,429,193	3,903,456	474,263	(12.2)
Net assets				
Invested in capital assets, net	19,914,361	19,218,051	696,310	3.6
Reserved for				
Future capital improvements	2,485,000	2,485,000	-	-
Operations	1,810,000	1,810,000	-	-
Renewal and replacements	332,000	332,000	-	-
Unreserved				
Unrestricted	458,767	304,779	153,988	50.5
Total net assets	\$ 25,000,128	\$ 24,149,830	\$ 850,298	3.5%

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2010

Results of Operations /Statement of Revenues, Expenses and Changes in Net Assets

Table 2

Statement of revenues, expenditures and changes in net assets

	<u>Fiscal 2010</u>	<u>Fiscal 2009</u>	<u>Increase (Decrease)</u>	<u>%</u>
Operating revenues	\$ 4,695,163	\$ 4,461,877	\$ 233,286	5.2%
Operating expenses	<u>4,282,951</u>	<u>4,183,833</u>	<u>99,118</u>	2.4
Operating income (loss)	412,212	278,044	134,168	48.3
Non-operating revenues	<u>438,086</u>	<u>496,123</u>	<u>(58,037)</u>	(11.7)
Net income	<u>\$ 850,298</u>	<u>\$ 774,167</u>	<u>\$ 76,131</u>	9.8%

Total operating revenue of \$4,695,163 increased by \$233,286 for the current year and operating expenses of \$4,282,951 increased by \$99,118, providing an increase of net operating income of \$134,168 when compared to the prior year. The District's net income increased by \$76,131 from the prior year.

The increase in operating revenue for fiscal year ended June 30, 2010 was due to an increase in TCSD service contract revenue. The TCSD service contract is based on the District's operation and maintenance expenditures and TCSD's flow to Sausalito-Marin City Sanitary District's plant. During FY 2010, the District's operation and maintenance expenses, as well as capital expenses increased. Revenue from TCSD is a percentage of the District's expenditures.

Operating Fund

Major changes in operating expenses incurred in the fiscal year ended June 30, 2010 compared to the fiscal year ended June 30, 2009 include the following:

- Employee Transitioning: Approximately \$290,000 of additional employee salary and benefit expense was incurred to implement an employee transition plan in preparation for turnover of staff due to retirements.
- Consulting Services: A decrease of approximately \$113,000 of consulting service expenses was realized in 2010 as sewer overflow reduction action plans were completed in the previous fiscal year. Capacity assessment and assurance studies were capitalized in 2010 in anticipation of the need for implementation of collection system and treatment improvements.
- Permits and Fees: A \$112,000 reduction in permit and fees expense was realized as a result of a one time expense that was incurred in FY 2008/09 regarding a regulatory penalty assessed against the District for two wastewater spills.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2010

Capital Fund

Strategic and financial planning was undertaken in 2010 to facilitate policy decisions by the District Board of Directors on a multitude of economic, regulatory, and logistical issues, including the following:

1. Improving the performance and reliability of District infrastructure to protect public health and the environment and to avoid costly regulatory enforcement actions and third party lawsuits by replacing aging collection, conveyance and treatment facilities.
2. Complying with increasingly stringent environmental regulations.
3. Increasing revenue to meet operating and capital needs during the current recession.

Since 2001, the District has undertaken comprehensive conveyance and treatment facilities studies to develop short and long term plans for infrastructure renewal, replacement, and upgrades. During the fiscal year ended June 30, 2010, the District, in collaboration with the City of Sausalito (City) and Tamalpais Community Services District (TCSD), developed a cost effective wet weather improvement strategy to eliminate overflows caused by excessive inflow and infiltration (I/I) and to end the treatment practice known as blending, which regulators will no longer allow in future discharge permits. The wet weather strategy calls for the District to implement secondary treatment capacity, conveyance system, and collection system upgrades and for the City and TCSD, which together own 86% of the gravity sewers in the District's service area, to implement comprehensive sewer repair and rehabilitation projects and a private lateral repair program in their respective jurisdiction to reduce I/I. Conveyance and treatment upgrades would be made over the next 5 to 10 years, while collection system rehabilitation would require 20 to 30 years to complete. The alternative of constructing an equalization storage basin in the City of Sausalito to store peak wet weather flow is not included in the plan but may need to be re-considered in the future if planned I/I reductions via collection system renewal is not achieved.

Planned capital upgrades to District infrastructure have been projected to cost \$39.0 million over the next ten years. Analysis has shown that current revenue falls significantly short of projected future operating and capital revenue requirements and that increases in the District's sewer service charge are required to fund the shortfall. To reduce the amount of the increases and to spread capital cost to current and future customers over the life of the assets, the District plans to issue a \$29 million bond to help pay for capital improvements. About \$4 million is allocated to TCSD so that it can refinance its current short-term loan debt to the District and finance its share of future improvement costs, rather than pay for them from cash. The result smoothes out TCSD's capital charges. TCSD will also pay its share of other cash-funded projects and renewal and replacement costs.

The District has projected a possible reduction in revenue from TCSD starting in FY 2013/14 as that agency contemplates shifting some of its wastewater flow to another neighboring treatment plant for processing. The District and TCSD have entered into discussions about making changes to the Agencies' service agreement that would provide mutual benefit to the two agencies, including financing TCSD's capital charges to reduce upfront costs and re-considering the wastewater flow shift to avoid a revenue loss by the District. Changes to the service agreement have not yet been negotiated.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2010

To meet future revenue requirements, the District Board of Directors plans to adopt an ordinance in FY 2010/11 to increase annual sewer service charges to District residents and businesses over the next four years. The proposed increases are presented below:

	<u>City of Sausalito</u>	<u>Unincorporated Area¹</u>
FY 2010-11	\$469	\$521
FY 2011-12	\$563	\$613
FY 2012-13	\$647	\$701
FY 2013-14	\$725	\$780

¹ The difference in charges between City of Sausalito and unincorporated area reflects the added District cost of collection system maintenance and capital improvements in the unincorporated area. The City of Sausalito provides these services for its residents and businesses and assesses its customers an additional charge over the District's charge. Charges reflect annual cost per equivalent dwelling unit.

These rate increases will enable the District to issue bonds for the capital improvements that are required for the District to comply with its discharge permit. The rate increases in the first two years are needed in order to provide minimal debt service coverage.

Each year, prior to implementing the rate increase, the District Board plans to confirm the need for the rate increase. The District plans to implement a lower rate increase, if possible, as financial conditions warrant.

The major capital expense components for the fiscal year ended June 30, 2010 were the following:

- Locust Street Pump Station Improvements Project: The Locust Street Pump Station Improvement Project consists of the replacement of a 50-year old underground pump structure with a new submersible pump station. The District has acquired easements from a private property owner for the project and has substantially completed construction plans and specifications. The District is pursuing low interest State Revolving Loan Fund financing for the project. Award of the construction contract to lowest responsible contractor is expected in early 2011. Completion of the improvements is planned for late 2011.
- Sodium Bisulfite Building and Additional Plant Improvements Project: The project consists of demolishing the existing Sodium Bisulfite Building and constructing a new, larger building, including new tanks, piping, controls, and fire detection and alarm system. The construction contract for the project was awarded to the lowest responsive bidder. The project is expected to be substantially complete in early 2010/11.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2010

- Marin City Collection System Repair and Rehabilitation: The project consists of the renewal of aged infrastructure in Marin City. Condition assessment of existing sewers and design of sewer improvements are planned in FY 2010/11. The project will improve the reliability of the collection system, reduce inflow and infiltration, and decrease maintenance costs. The District has selected an engineering consultant to conduct preliminary and final engineering for the project. The project is planned to be completed in FY 2011/12.

Request for Information

This financial report is to provide interested parties with a general overview of the District's finances. If you have any questions about this report or need additional information, you may submit a request in writing to: District Manager, Sausalito-Marin City Sanitary District, #1 East Road (Fort Baker Road), P.O. Box 39, Sausalito, CA 94966, or telephone (415) 332-0244.

SAUSALITO-MARIN CITY SANITARY DISTRICT

Balance Sheet

June 30, 2010

Assets

Current assets

Cash and cash equivalents	\$ 4,533,536
Cash and cash equivalents – restricted	1,020,637
Accounts receivable	88,124
Interest receivable	6,787
Prepaid expenses	<u>41,011</u>
Total current assets	<u>5,690,095</u>

Capital assets, net of accumulated depreciation

22,711,710

Other assets

Note receivable	<u>27,516</u>
Total assets	<u>\$ 28,429,321</u>

Liabilities and Net Assets

Current liabilities (payable from current assets)

Accounts payable	\$ 256,614
Accrued vacation	97,884
Accrued payroll	53,202
Regional Water Quality Control Board liability	203,626
Current maturities of long-term debt	<u>107,663</u>
Total current liabilities	<u>718,989</u>

Noncurrent liabilities

Long-term debt	2,689,686
Accrued other post-employment benefits	<u>20,518</u>
Total noncurrent liabilities	<u>2,710,204</u>
Total liabilities	<u>3,429,193</u>

Net assets

Invested in capital assets, net of related debt	19,914,361
Reserved for future capital improvements	2,485,000
Reserved for operations	1,810,000
Reserved for renewal and replacement	332,000
Unrestricted	<u>458,767</u>
Total net assets	<u>25,000,128</u>
Total liabilities and net assets	<u>\$ 28,429,321</u>

The accompanying notes are an integral part of this financial statement.

SAUSALITO-MARIN CITY SANITARY DISTRICT

**Statement of Revenues, Expenditures, and
Changes in Net Assets**

For the year ended June 30, 2010

Operating revenues

Sewer service charges	\$ 3,176,511
TCSD service contract	1,250,809
Marin City sewer fees	95,299
Other revenue	92,854
Connection fees	<u>79,690</u>
Total operating revenue	<u>4,695,163</u>

Operating expenses

Salaries	1,248,013
Depreciation	907,990
Repairs	351,216
Employee benefits	328,833
Employee retirement	272,914
Power	220,481
Chemicals	180,581
Permits and fees	124,489
Consulting services	94,873
Payroll taxes	74,558
Supplies	66,955
Monitoring and laboratory	66,311
Other	61,333
Legal and accounting	58,399
Safety	48,935
Solids disposal	32,915
Directors' expenses	26,080
Insurance	22,180
Vehicle maintenance	18,133
Workers' compensation	17,545
Telephone	14,953
Conference and training	11,086
Assessment roll fee	10,712
Fuel	9,186
Office	7,636
Water	<u>6,644</u>
Total operating expenses	<u>4,282,951</u>

Operating income	<u>412,212</u>
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SAUSALITO-MARIN CITY SANITARY DISTRICT

**Statement of Revenues, Expenditures, and
Changes in Net Assets (Continued)**

For the year ended June 30, 2010

Nonoperating revenues (expenses)	
Property taxes	524,835
Investment income	31,132
Interest expense	<u>(117,881)</u>
Total nonoperating revenues	<u>438,086</u>
Change in net assets	850,298
Net assets, beginning of year	<u>24,149,830</u>
Net assets, end of year	<u><u>\$ 25,000,128</u></u>

The accompanying notes are an integral part of this financial statement.

SAUSALITO-MARIN CITY SANITARY DISTRICT

Statement of Cash Flows

For the year ended June 30, 2010

Cash flows from operating activities

Cash received from customers	\$ 4,920,320
Cash paid to employees	(1,216,675)
Cash paid to suppliers	<u>(2,545,506)</u>
Net cash provided by operating activities	<u>1,158,139</u>

Cash flows from noncapital financing activities

Property taxes	524,835
Advances on note receivable	<u>(27,516)</u>
Net cash provided by noncapital financing activities	<u>497,319</u>

Cash flows from capital and related financing activities

Purchases of capital assets	(1,500,919)
Payments on long-term debt	(103,381)
Interest paid on long-term debt	<u>(117,881)</u>
Net cash used in capital and related financing activities	<u>(1,722,181)</u>

Cash flows from investing activities

Interest received	<u>44,594</u>
Net cash provided by investing activities	<u>44,594</u>

Net decrease in cash and cash equivalents (22,129)

Cash and cash equivalents, beginning of year 5,576,302

Cash and cash equivalents, end of year (including \$1,020,637
for capital acquisitions reported as restricted cash and
cash equivalents)

\$ 5,554,173

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 412,212
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	907,990
Changes in operating assets and liabilities	
Accounts receivable	225,157
Prepaid expenses	(16,338)
Accounts payable	(263,220)
Accrued vacation	(4,103)
Accrued payroll	14,923
Regional Water Quality Control Board liability	(139,000)
Accrued other post-employment benefits	<u>20,518</u>
Net cash provided by operating activities	<u>\$ 1,158,139</u>

The accompanying notes are an integral part of this financial statement.

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note A – Summary of Significant Accounting Policies

This summary of significant accounting policies of Sausalito-Marin City Sanitary District (the District) is presented to assist in understanding the District's financial statements.

Description of reporting entity

The Sausalito-Marin City Sanitary District is a political subdivision of the State of California, located in Marin County, California. The District is an independent special district organized under the California Health & Safety Code, a provision of the Sanitary District Act of 1923, for the purpose of collecting, conveying, treating and disposing of wastewater within its jurisdictional boundaries, which includes the City of Sausalito and unincorporated areas, including Marin City. The District provides wastewater conveyance, treatment and disposal service to the Tamalpais Community Services District and the National Park Service under contract and operates and maintains the City of Sausalito Pump Stations under contract.

Basis of accounting

The financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting. As allowed by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District's proprietary funds follow all GASB pronouncements and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Proprietary 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 District's operating revenues include all revenues derived from sewage services. Operating expenses include all costs related to sewage services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fund accounting

The District utilizes proprietary funds to account for its activities, which are similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note A – Summary of Significant Accounting Policies (Continued)

Budgetary accounting

The District does not adopt an appropriated budget and is not required to adopt such a budget by law. However, the District does adopt a non-appropriated budget annually which is approved by the Board of Directors.

Cash and cash equivalents

For the purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts receivable

District management considers all accounts receivable to be fully collectible. Accordingly, an allowance for doubtful accounts has not been recorded in these financial statements.

Capital assets

All capital assets are valued at historical cost or estimated historical cost if historical cost is not available. The District's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

Depreciation has been provided on capital assets and is charged as an expense against operations each year. The total amount of depreciation taken over the years is reported on the balance sheet as a reduction in the book value of capital assets. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense.

Depreciation is provided using the straight line method. The estimated useful lives are as follows:

Treatment plant	30-100 years
Equipment	10-25 years
Other	3-10 years

Long-lived assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note A – Summary of Significant Accounting Policies (Continued)

Net assets

Equity in the financial statements is classified as net assets and displayed in three components as follows:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Property taxes

Property taxes were levied July 1, 2009 and were payable in two installments on November 1, 2009 and February 1, 2010. The County of Marin bills and collects property taxes on behalf of the District. Property tax revenues are recognized as revenue when received.

Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

New accounting pronouncements

In July 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require state and local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the financial statements. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

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SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note A – Summary of Significant Accounting Policies (Continued)

This Statement generally provides for prospective implementation – that is, employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District implemented the provisions of this Statement for the year ended June 30, 2010.

Note B – Cash and Cash Equivalents

Cash and cash equivalents of the District as of June 30, 2010, consist of the following:

	<u>Carrying amount</u>	<u>Bank balance</u>	<u>Fair value</u>
<u>Deposits in commercial accounts</u>			
Checking – Insured (FDIC)	\$ 178,389	\$ 186,464	
Savings – Public Money Market Fund	<u>571,337</u>	<u>771,337</u>	
	<u>749,726</u>	<u>\$ 957,801</u>	
<u>Investment in external investment pools</u>			
Marin County Treasurer	46,722		\$ 46,722
California Local Agency Investment Fund	<u>4,757,522</u>		<u>4,757,522</u>
	<u>4,804,244</u>		<u>\$ 4,804,244</u>
<u>Petty cash</u>	<u>203</u>		
	<u>\$ 5,554,173</u>		

As of June 30, 2010, \$707,801 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Marin County Treasurer

Cash held by the Marin County Treasury is pooled with other County deposits for investment purposes by the County Treasurer in accordance with the investment policy of the County Treasurer (see County Treasurer's investment policy at <http://www.co.marin.ca.us/>). The Pool has established

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note B – Cash and Cash Equivalents (Continued)

a treasury oversight committee to monitor and review the management of public funds maintained in the Pool. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily cash balances. The value of the District shares in the Pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the Pool. The District's investment in the Pool is unrated, stated at cost which approximates fair value, available upon demand and considered cash equivalents.

Investment in State Investment Pool

Although the District did not participate in any securities lending transactions or enter into any reverse repurchase agreements during the year, the District does have an investment in the California Local Agency Investment Fund (LAIF) in the amount of \$4,757,522. Investments in LAIF are invested in accordance with the investment policy of the State Treasurer for LAIF accounts (see State Treasurer's investment policy for LAIF accounts and separately issued financial reports for LAIF at <http://www.treasurer.ca.gov/pmia-laif/>). The total amount invested by all public agencies in LAIF is \$69,385,966,558 of which 2.64% is invested in medium-term and short-term structured notes and asset-backed securities. Included in LAIF's investment portfolio are United States Treasury and federal agency securities, International Bank for Reconstruction and Development federal agency floating rate debentures, bank notes, certificates of deposit, commercial paper, corporate floaters and bonds, time deposits and California Assembly Bill 55 and State of California General Fund Loans. Participants equity in LAIF is determined by the dollar amount of the participant's deposits, adjusted for withdrawals and distributed investment income.

Investment income is prorated to individual funds based on their average daily investment balances. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool. The District's investment in the pool is unrated, stated at amortized cost which approximates fair value, available upon demand and considered cash equivalents.

The District does not maintain a formal investment policy.

Note C – Note Receivable

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing

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SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note C – Note Receivable (Continued)

plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to Sausalito-Marin City Sanitary District was \$27,518.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the accrual basis of accounting, the tax revenues were recognized in the fiscal year for which they were levied.

Note D – Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

	Balance July 1, 2009	Additions	Disposals	Transfers	Balance June 30, 2010
Nondepreciable capital assets					
Construction in progress	\$ 1,532,749	\$ 939,025	\$ -	\$ (924,329)	\$ 1,547,445
Net nondepreciable capital assets	<u>1,532,749</u>	<u>939,025</u>	<u>-</u>	<u>(924,329)</u>	<u>1,547,445</u>
Depreciable capital assets					
Original conveyance and treatment facilities	2,456,434	-	-	-	2,456,434
Secondary treatment plant	12,836,807	-	-	-	12,836,807
General equipment, facility upgrade and renewal	7,691,205	380,780	-	924,329	8,996,314
Conveyance system upgrade and renewal	5,823,181	73,373	-	-	5,896,554
Collection system upgrade and renewal	157,272	107,741	-	-	265,013
Office equipment	<u>40,933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,933</u>
Total depreciable capital assets	29,005,832	561,894	-	924,329	30,492,055
Less accumulated depreciation	<u>(8,419,800)</u>	<u>(907,990)</u>	<u>-</u>	<u>-</u>	<u>(9,327,790)</u>
Total depreciable capital assets, net	<u>20,586,032</u>	<u>(346,096)</u>	<u>-</u>	<u>924,329</u>	<u>21,164,265</u>
Net capital assets	<u>\$ 22,118,781</u>	<u>\$ 592,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,711,710</u>

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note E – Long-Term Liabilities

Long-term liabilities outstanding as of June 30, 2010 consist of the following:

	Interest rate	Maturity date	Amounts authorized and issued	Outstanding	Due within one year
Note payable – City National Bank	4.10%	May 8, 2028	<u>\$ 3,000,000</u>	<u>\$ 2,797,349</u>	<u>\$ 107,663</u>

The following is a summary of long-term liability issuances and transactions during the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010
Note payable – City National Bank	<u>\$ 2,900,730</u>	<u>\$ -</u>	<u>\$ 103,381</u>	<u>\$ 2,797,349</u>

Note payable – City National Bank

On April 1, 2008, the District entered into an installment agreement with Municipal Finance Corporation for the acquisition and construction of wastewater system improvements. Municipal Finance Corporation assigned the loan to City National Bank. The note is payable in semi-annual principal and interest payments of \$110,631 and is secured by a pledge of net revenues of the District. In addition, the District is obligated to set rates at a level such that the enterprise's unencumbered cash net revenues will at least be equal to 115 percent of that year's debt service on the loan.

Summary of long-term liabilities service requirements

Long-term liabilities service requirements to maturity are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 107,663	\$ 113,599	\$ 221,262
2012	112,123	109,140	221,263
2013	116,767	104,495	221,262
2014	121,604	99,658	221,262
2015	126,640	94,622	221,262
2016-2020	716,367	389,945	1,106,312
2021-2025	877,537	228,775	1,106,312
2026-2028	<u>618,648</u>	<u>45,139</u>	<u>663,787</u>
Total requirements	<u>\$ 2,797,349</u>	<u>\$ 1,185,373</u>	<u>\$ 3,982,722</u>

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note F – Defined Benefit Pension Plan

Plan description

The Sausalito-Marin City Sanitary District has a defined benefit pension plan, the Miscellaneous Plan of the Sausalito-Marin City Sanitary District (the Plan), which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (or other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

Funding policy

The Plan provides for the contribution by active plan members of 8% of their annual covered salary. The employer has elected to make this contribution for the employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year ended June 30, 2010 was 24.296% for the District. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual pension cost

For the year ended June 30, 2010, the District's annual pension cost was \$368,986 and the District actually contributed \$368,986. The required contribution for the year ended June 30, 2010 was determined as part of the actuarial valuation as of June 30, 2007 using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases depending on age, service and type of employment ranging from 3.25% to 14.45%; (c) 3.00% inflation and (d) payroll growth of 3.25%. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period. Changes in liability due to plan amendments, changes in actuarial assumptions or changes in actuarial methods are amortized as a level percentage of payroll over a closed twenty year period. The Plan has a net unfunded actuarial liability at June 30, 2010.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note F – Defined Benefit Pension Plan (Continued)

Trend information for the District's defined benefit pension plan:

Fiscal year <u>ended</u>	Annual pension <u>cost (APC)</u>	Percentage of APC <u>contributed</u>	Net pension <u>obligation</u>
6/30/08	\$ 208,365	100%	\$ 0
6/30/09	246,933	100	0
6/30/10	368,986	100	0

Funded status of the CalPERS pooled plan (reported in millions)

Actuarial <u>date</u>	Entry age normal accrued <u>liability</u>	Actuarial value of <u>assets</u>	Unfunded/ (Overfunded) <u>liability</u>	Funded <u>status</u>	Annual covered <u>payroll</u>	Unfunded actuarial accrued liability (excess assets) <u>as a % of payroll</u>
6/30/05	\$ 872,346	\$ 729,556	\$ 142,789	83.6%	\$ 203,995	70.0%
6/30/06	1,280,157	1,069,547	210,610	83.6	304,898	69.1
6/30/07	1,627,025	1,362,059	264,967	83.7	376,292	70.4

Note G – Deferred Compensation Plan

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The deferred compensation plan is available to all full-time employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, death, or unforeseeable emergency. Total employee contributions to the plan during the year ended June 30, 2010 were \$59,891. The District contributes 1.5% of unrepresented employee's salary as deferred compensation. Total District contributions to the plan during the year ended June 30, 2010 were \$11,360.

Note H – Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In order to insure for risks of loss, the District participates in a joint venture under a joint powers agreement with the California Sanitation Risk Management Authority (CSRMA). The relationship between the District and the CSRMA is such that the CSRMA is not a component unit of the District for financial reporting purposes.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note H – Risk Management (Continued)

The CSRMA arranges for and provides self-insured programs for liability, property and workers' compensation for member districts. The District currently participates in all of CSRMA's insurance programs. The CSRMA is governed by a board consisting of a representative from each member district. The board controls the operations of the CSRMA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the CSRMA. The District's share of surpluses and deficits cannot be determined, although District management does not expect such amounts, if any, to be material in relation to the financial statements.

The latest audited financial information for the CSRMA is for the fiscal year ended June 30, 2009 and the condensed financial information of the CSRMA is as follows:

Total assets	\$ 29,209,229
Total liabilities	<u>14,730,899</u>
Net assets	<u>\$ 14,478,330</u>
Total revenues	\$ 11,002,376
Total expenses	<u>7,809,040</u>
Change in net assets	<u>\$ 3,193,336</u>

The entity did not have long-term debt outstanding at June 30, 2009. The District's share of the year-end assets, liabilities or fund equity has not been calculated by the CSRMA.

The District is covered by the following types of insurance through the CSRMA as of June 30, 2010:

<u>Coverage</u>	<u>Limits of liability</u>
Commercial general liability, employment practices liability, and errors and omissions (pooled program)	
General liability deductible	\$ 5,000
Errors and omissions deductible	2,500
Employment practices liability deductible	25,000
Sewer backup deductible	10,000
Self-insured retention	750,000
Excess liability	
Munich Reinsurance America	10,000,000
Clarendon America Insurance Company	5,000,000
Additional excess liability	
Ironshore Specialty Insurance Company	10,000,000

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note H – Risk Management (Continued)

Auto liability (pooled program)	
Deductible	1,000
Self-insured retention	750,000
Excess liability – Lexington Insurance Company (any one occurrence)	7,000,000
Property	
Deductible	5,000
Public Entity Property Insurance	27,371,120
Workers' compensation (pooled program)	
Workers' compensation	
Deductible	None
Self-insured retention	750,000
Excess liability – National Union Fire Insurance Company	Statutory
Employer's liability	
Self-insured retention	750,000
Excess liability – National Union Fire Insurance Company	1,000,000

Note I – Other Post-Employment Benefits other than Pensions

Plan description

The District administers an Other Post-Employment Benefit (OPEB) Plan, a single-employer defined benefit plan. The District's OPEB Plan provides medical insurance for eligible retirees and spouses through the District's group health insurance, which covers both active and retired members. In order to be eligible to retire with District-paid health benefits, an employee must have been hired by the District prior to 2004 or, if hired after 2004, must have 10 years of service credit, 5 of which must be with the District. The activity and liability from the OPEB plan are included in these financial statements.

Funding policy

The District pays 100% of the cost of the OPEB plan for employees hired before 2004. For employees hired after 2004 with 10 years of service, 5 of which must be with the District, the District pays 50% of the cost of the OPEB plan. The amount of health benefit increases proportionally based on the employee's credited years of service to 100% after 20 years. The District funds the plan on a pay-as-you-go basis and maintains reserves and records a liability for the difference between the pay-as-you-go and the actuarially determined annual OPEB cost.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note I – Other Post-Employment Benefits other than Pensions (Continued)

Annual OPEB cost

The following table presents the components of the District's annual OPEB cost, amounts actually contributed, and changes in net OPEB obligation for the year ended June 30, 2010:

Annual required contribution	\$ 175,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB expense	175,000
Contributions made:	
Retired employees post employment medical benefit payments	(154,482)
Increase in net OPEB obligation	20,518
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$ 20,518

Funded status of the plan

The most recent valuation dated July 1, 2010 includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$2,279,000. There are no plan assets because the District funds the plan on a pay-as-you-go basis and maintains reserves and records a liability for the difference between the pay-as-you-go and the actuarially determined annual cost.

Schedule of funding progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the 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 for the year ended June 30, 2010 (the transition year) follows:

Fiscal year end	Actuarial valuation date	Actuarial accrued liability (a)	Actuarial value of assets (b)	Unfunded actuarial liability (UAAL) (a) – (b)	Funded status (b) / (a)	Annual covered payroll (c)	UAAL as a percentage of covered payroll [(a) – (b)] / (c)
6/30/10	7/1/10	\$2,279,000	\$ -	\$2,279,000	0.0%	\$ 1,248,013	182.6%

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note I – Other Post-Employment Benefits other than Pensions (Continued)

Transition year trend information

The District's annual OPEB cost, percentage of annual OPEB costs contributed, and the net OPEB obligation are as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB costs contributed</u>	<u>Net OPEB obligation</u>
6/30/10	\$ 175,000	88.3%	\$ 20,518

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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.75% investment rate of return and an annual healthcare cost trend rate of 7.9% initially, reduced by decrements to an ultimate rate of 5.5% after ten years. A level dollar amortization of the Unfunded Actuarial Accrued Liability is used over an open 30-year period.

Note J – Governing Board

The powers of the District are exercised by a Board of Directors consisting of five directors, each elected for a term of four years by the qualified electors within the District. As of June 30, 2010, the members of the District's Board of Directors were as follows:

<u>Directors</u>	<u>Term expires</u>
William Berkman	November 2013
Donald Beers	November 2012
Ann Arnott	November 2013
Raymond Gergus	November 2013
Norman Wohlschlaeger	November 2012

Note K – Contingencies and Commitments

The District is involved in litigation arising in the ordinary course of its operations that, in the opinion of management, will not have a material effect on the District's results of operations.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2010

Note K – Contingencies and Commitments (Continued)

In addition, the District has entered into construction and service contracts with various companies. Many of the contracts are considered fixed fee arrangements. However, work under these contracts could be discontinued at the direction of the District. Therefore, it is the opinion of the management that a fixed commitment does not exist.

Note L – Regional Water Quality Control Board Liability

The Regional Water Quality Control Board (RWQCB) imposes mandatory penalties for violations of effluent limits as contained in the District's National Pollutant Discharge Elimination System permit. The District has incurred violations over the last several years and each qualifying violation will be assessed at \$3,000 each. On May 21, 2007, the RWQCB assessed \$204,000 in mandatory minimum penalties to the District. The District recorded a liability for \$204,000 as of June 30, 2007. The remaining liability as of June 30, 2010 is \$84,626. In addition, during February 2009, the District incurred a sewage spill. Accordingly, the RWQCB assessed the District \$258,000 in penalties due to the spill. The remaining liability as of June 30, 2010 is \$119,000. As of June 30, 2010, the combined total amount of liability outstanding is \$203,626.