

SAUSALITO-MARIN CITY SANITARY DISTRICT

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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SAUSALITO-MARIN CITY SANITARY DISTRICT

BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sausalito-Marin City Sanitary District

We have audited the accompanying financial statements of the business-type activities of the Sausalito-Marin City Sanitary District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Maye & Associates

August 31, 2012

**Sausalito-Marin City Sanitary District
Management Discussion and Analysis
June 30, 2012**

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, 2012. 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 11 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information that can be found on page 14 of this report.

Financial Highlights

- Total assets of the District exceeded total liabilities at the close of the fiscal year by \$33,874,422 (fund equity).
- Fund equity of the District increased by net income of \$3,922,094 during the current fiscal year.
- Operating revenues increased by \$685,601.
- Operating expenses overall increased by \$88,537.
- Operating income increased by \$597,064.
- Net assets at end of year increased \$2,031,000 from \$26,445,000 to \$28,476,000.

- The District's long term debt increased by \$1,414,449 from \$2,577,562 to \$3,992,011.
- Cash and cash equivalents at end of year (reserves) decreased \$293,465 from \$5,181,477 to \$4,888,012.
- Property taxes were marginally lower (\$492,244 vs. \$502,616) and investment earnings decreased (\$16,963 vs. \$22,876) in comparison to the prior year.
- Revenue from the Tamalpais Community Services District service contract was flat (\$1,192,334 vs. 1,284,356), which is a decrease of \$92,022 from 2010/11 revenues.
- Revenue from the City of Sausalito Pump Station O&M contract totaled \$66,973.43, which is a decrease of \$14,212 over 2010/11 revenues.

Financial Condition

For the fiscal year ending June 30 2012, the District is in the second year of a four year sewer service charge rate increase plan. In fiscal year 2011/12, residents in the City of Sausalito will pay \$563 per year while the residents in unincorporated areas will pay \$616 per year. (The additional charge is to pay for the cost of collection system maintenance and rehabilitation.

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 \$28,475,930 at June 30, 2012. The District's investment in capital assets at June 30, 2012 represents the largest portion of fund equity (81%). The District's fund equity increased by \$2.03 million 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 FY 2003/04.

Table 1
FUND EQUITY

	June 30, 2012	June 30, 2011	Increase (Decrease)	%
Current assets	\$ 6,610,104	\$ 5,974,100	\$ 636,004	10.6%
Capital assets	27,236,802	23,950,712	3,286,090	13.7%
Total assets	33,846,906	29,924,812	3,922,094	13.1%
Total current liabilities	1,256,023	829,628	426,395	51.4%
Fund equity:				
Invested in capital assets, net	23,071,854	21,261,027	1,810,827	8.5%
Restricted Reserves:				
Operations	2,485,000	2,485,000	-	0.0%
Future capital improvements	1,810,000	1,810,000	-	0.0%
Renewal and replacements	332,000	332,000	-	0.0%
Unrestricted:	777,076	557,383	219,693	39.4%
Total fund equity	\$ 28,475,930	\$ 26,445,410	\$ 2,030,520	7.7%

Table 2
Statement of Revenues, Expenditures and Changes in Fund Equity

	Fiscal 2012	Fiscal 2011	Increase (Decrease)	%
Operating revenues	\$ 5,840,861	\$ 5,155,260	\$ 685,601	13.3%
Operating expenses	4,210,408	4,121,871	88,537	2.1%
Operating income (loss)	1,630,453	1,033,389	597,064	57.8%
Nonoperating revenues	400,067	411,893	(11,826)	-2.9%
Net income	<u>\$ 2,030,520</u>	<u>\$ 1,445,282</u>	<u>\$ 585,238</u>	<u>40.5%</u>

Total operating revenue increased by \$685,601 to \$5.84 million for the current year. Operating expenses were \$4.21 million and increased by \$88,537 for the current year. Overall the operating income increased \$597,064 in the current year when compared to the prior year. The increase was primarily due to a 15% increase in sewer service charge rates. The District's net income increased by \$585,238 from the prior year.

Table 3
LIABILITIES

	Fiscal 2012	Fiscal 2011	Increase (Decrease)	%
Current Liabilities	\$ 1,256,023	\$ 829,628	\$ 426,395	51.4%
Noncurrent Liabilities				
Long Term Debt	3,992,011	2,577,562	\$ 1,414,449	54.9%
Accrued OPEB's ¹	150,458	99,728	50,730	50.9%
Total Noncurrent liabilities	<u>4,142,469</u>	<u>2,677,290</u>	<u>1,465,179</u>	<u>54.7%</u>
Total Liabilities	<u>\$ 5,398,492</u>	<u>\$ 3,506,918</u>	<u>\$ 1,891,574</u>	<u>53.9%</u>

¹ Other Post Employment Benefits

Total liabilities increased from \$3,506,918 to \$5,398,492, which included pay down of the 2008 City National Bank load and addition of OPEB liabilities, which the district began reporting in 2009/10 in accordance with Governmental Accounting standards Board requirements.

Operating Fund

The overall operating expenses increase 2.1 percent from fiscal year 2011 to 2012. Major Changes in operating expenses in fiscal year ending June 30, 2012 compared to fiscal year ending June 30, 2011 include the following:

- Salaries: Staffing levels stayed at 12 FTE positions. Salaries increased 8.6 percent over the previous year as a result of having all available positions filled and a negotiated COLA increase of 1.4% that went into effect on July 1, 2011.
- Repairs: The repair budget was decreased \$57,330 to reflect expected repairs needed during the budget year.
- Consulting Services: Expenses increase \$71,715 for consulting service related to reissuance of the facility NPDES permit by the San Francisco Regional water Quality Control Board. Also to cover the development of a sewer service charge rate allocation study.
- Monitoring: The monitoring budget now includes an added expense of \$51,998 for annual contract lab services and a new regulatory requirement item to complete nutrient monitoring.
- Permits and Fees: Expenses were increased \$20,795 to cover new regulatory requirements and existing permit fee renewal increases.
- Solids Disposal: Solids disposal expenses increased \$19,396 to cover the new biosolids hauling and disposal contract.

Capital Fund

The District incurred \$4,377,143 in major capital project expenses during the fiscal year ending June 30, 2012. The following major improvement project work was in progress or completed:

- Locust Street Pump Station Improvements Project: The Locust Street Pump Station Improvement Project consists of the replacement of a 50-year old pump station with a modern, new submersible pump station. The District awarded the construction contract to lowest responsible contractor in June 2011. The District received a low interest State Revolving Loan for the project in August 2011. This project is complete.
- Marin City Collection System Repair and Rehabilitation: The project consists of the renewal of approximately 10,500 linear feet of sewers in Marin City and 900 linear feet of 24-inch gravity sewer interceptor in Bridgeway from Napa Street to Locust Street. The project will improve the reliability of the collection system, reduce inflow and infiltration, and decrease maintenance costs. The project is in-progress and is scheduled to be completed by November 2012.
- Temporary Pump Station and FFR Valve Replacement Project: The project consisted of the construction of a temporary pump station to bypass primary effluent flow around the Primary Effluent Box, upstream gravity sewer leading to and including the Fix Film Reactor supply Pump Station. This project is complete.

- Primary Effluent Box, Recycle Box, Pipe Rehabilitation and Valve Replacement Project: The Primary Effluent Box and Recycle Box have been in continuous service since 1952 and the FFR Supply Pump Station has been in continuous service since 1986. In the intervening time, the concrete walls of the Primary Effluent Box and Recycle Stream Box have deteriorated due to the effects of hydrogen sulfide corrosion. Corrosion was determined to be near the depth of the reinforcing steel and accelerated rebar corrosion was anticipated without repairs. This project is complete.
- Headworks and Primary and Secondary Treatment improvements Project: The project involves upgrades to the wastewater treatment plant to improve reliability, operational flexibility and minimize plant maintenance. In addition, it would reduce wet weather blending events and address site constraints, including plant and truck loading access and administrative space constraints. Planning and preliminary engineering design work on the project is complete. The project environmental document and final design is scheduled for FY 2012/13 along with the project application to the National Park Service for approval.
- Pump Station Reliability Improvements Project: The District completed design of improvements at five sewer pump stations to improve pump station reliability. The project consists of the installation of bypass pumping connections, including underground vaults, piping and valves at five (5) District sewer pump stations (Marin City, Princess Street, Drake, Highway Booster and Main Street). In addition, a wet weather pumping bypass connection from the District gravity interceptor to the Scotty's sewer pump station force main. Design is complete. Project bidding and construction will be completed in FY 2012/13.
- Main Street Pump Station Rehabilitation Project
The project will include the replacement of the two (2) Main Street Pump Station 250 HP wet weather sewage pumps. The existing pumps have reached their expected service life. The replacement pumps will be a more modern design that incorporates pump design technology that reduces clogging due to rags and debris. In addition, a new 150 HP standby submersible sewage pump will be installed in an existing wet well structure. The new 150 HP pump and the existing station 100 HP dry season pump will provide the required back-up pumping firm capacity should one of the two 250 HP pumps fail. The project design and construction will be completed in the summer of 2013.

Other

The District is finalizing a new wastewater collection, treatment and disposal service agreement between the Tamalpias Community Services District and SMCSD. The District started the process of securing a new 50-year easement agreement for the treatment plant site from the National Park Service (GGNRA).

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-Marín City Sanitary District, #1 East Road, Sausalito, Ca., 94965, or telephone (415) 332-0244.

SAUSALITO-MARIN CITY SANITARY DISTRICT
BALANCE SHEET
AT JUNE 30, 2012
WITH COMPARATIVE AMOUNTS AT JUNE 30, 2011

ASSETS	2012	2011
Current Assets		
Cash and cash equivalents (Note 2)	\$4,888,012	\$5,169,459
Cash and cash equivalents - restricted (Note 2)		12,018
Accounts receivable	1,701,640	751,303
Interest receivable	4,127	5,826
Prepaid insurance	16,325	35,494
Total Current Assets	<u>6,610,104</u>	<u>5,974,100</u>
Capital assets, net of accumulated depreciation (Note 4)	<u>27,236,802</u>	<u>23,950,712</u>
Other Assets		
Note receivable (Note 3)	<u>27,516</u>	<u>27,516</u>
Total Assets	<u><u>\$33,874,422</u></u>	<u><u>\$29,952,328</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$958,212	\$607,369
Accrued compensation time and vacation (Note 1L)	80,574	62,829
Accrued payroll		3,007
River watch liability (Note 13)	40,000	40,000
Regional Water Quality Control Board liability (Note 12)	4,300	4,300
Current maturities of long-term debt (Note 5)	172,937	112,123
Total Current Liabilities	<u>1,256,023</u>	<u>829,628</u>
Noncurrent Liabilities		
Long-term debt (Note 5)	3,992,011	2,577,562
Accrued other post-employment benefits (Note 9)	150,458	99,728
Total Noncurrent Liabilities	<u>4,142,469</u>	<u>2,677,290</u>
Total Liabilities	<u>5,398,492</u>	<u>3,506,918</u>
Net Assets (Note 1. I.)		
Invested in capital assets, net of related debt	23,071,854	21,261,027
Unrestricted,		
Reserved for future capital improvements	2,485,000	2,485,000
Reserved for operations	1,810,000	1,810,000
Reserved for renewal and replacement	332,000	332,000
Unrestricted, unreserved	777,076	557,383
Total Net Assets	<u>28,475,930</u>	<u>26,445,410</u>
Total Liabilities and Net Assets	<u><u>\$33,874,422</u></u>	<u><u>\$29,952,328</u></u>

See accompanying notes to financial statements

SAUSALITO-MARIN CITY SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2011

	2012	2011
OPERATING REVENUES		
Sewer service charges	\$4,382,231	\$3,594,694
TCSO service contract	1,192,334	1,284,356
Marin City sewer fees	198,818	156,942
Other revenue	67,478	107,008
Connection fees		12,260
Total Operating Revenues	<u>5,840,861</u>	<u>5,155,260</u>
OPERATING EXPENSES		
Salaries	1,042,878	960,532
Depreciation (Note 4)	1,091,053	1,117,492
Repairs	177,965	235,295
Employee benefits	313,710	283,424
Employee retirement	331,003	374,647
Power	212,408	204,846
Chemicals	198,844	190,506
Permits and fees	98,865	78,070
Lateral replacement program	2,835	
Consulting services	152,361	81,646
Payroll taxes	82,911	80,877
Supplies	53,383	77,149
Monitoring and laboratory	84,911	32,913
Other	33,364	31,048
Legal and accounting	81,429	98,116
Safety	37,138	44,413
Solid disposal	59,870	40,474
Directors' expenses	23,680	21,440
Insurance	39,330	48,214
Vehicle maintenance	11,871	12,309
Workers' compensation	16,717	35,445
Telephone	16,995	17,716
Conference and training	8,459	19,108
Assessment roll fee	12,667	14,025
Fuel	9,321	9,372
Office	9,933	7,084
Water	6,507	5,710
Total Operating Expenses	<u>4,210,408</u>	<u>4,121,871</u>
Operating income	<u>1,630,453</u>	<u>1,033,389</u>
Nonoperating revenues (expenses)		
Property taxes	492,244	502,616
Investment income	16,963	22,876
Interest expense	(109,140)	(113,599)
Total nonoperating revenue, net	<u>400,067</u>	<u>411,893</u>
CHANGES IN NET ASSETS	2,030,520	1,445,282
NET ASSETS AT BEGINNING OF YEAR	<u>26,445,410</u>	<u>25,000,128</u>
NET ASSETS AT END OF YEAR	<u>\$28,475,930</u>	<u>\$26,445,410</u>

See accompanying notes to financial statements

SAUSALITO-MARIN CITY SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$4,890,524	\$4,492,081
Cash paid to employees	(1,622,123)	(1,624,643)
Cash paid to supplies	<u>(1,061,752)</u>	<u>(1,188,830)</u>
Cash Flows from Operating Activities	<u>2,206,649</u>	<u>1,678,608</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	<u>492,244</u>	<u>502,616</u>
Net Cash Flows From Noncapital Financing Activities	<u>492,244</u>	<u>502,616</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(4,377,143)	(2,356,494)
Payments on long-term debt	1,475,263	(107,664)
Interest paid on long-term debt	<u>(109,140)</u>	<u>(113,599)</u>
Cash Flows from Capital and Related Financing Activities	<u>(3,011,020)</u>	<u>(2,577,757)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>18,662</u>	<u>23,837</u>
Cash Flows from Investing Activities	<u>18,662</u>	<u>23,837</u>
NET CASH FLOWS	(293,465)	(372,696)
Cash and cash equivalents at beginning of year	<u>5,181,477</u>	<u>5,554,173</u>
Cash and cash equivalents at end of year	<u><u>\$4,888,012</u></u>	<u><u>\$5,181,477</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$1,630,453	\$1,033,389
Adjustment to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	1,091,053	1,117,492
Changes in operating assets and liabilities		
Accounts receivable	(950,337)	(663,179)
Prepaid expenses	19,169	5,517
Accounts payable	350,843	350,755
Accrued vacation	17,745	(35,055)
Accrued payroll	(3,007)	(50,195)
River watch liability		40,000
Regional water Quality Control Board liability		(199,326)
Accrued other post-employment benefits	<u>50,730</u>	<u>79,210</u>
Net cash provided by operating activities	<u><u>\$2,206,649</u></u>	<u><u>\$1,678,608</u></u>

See accompanying notes to financial statements

SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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This summary of significant accounting policies of Sausalito-Marín City Sanitary District (the District) is presented to assist in understanding the District's financial statements.

A. Description of reporting entity

The Sausalito-Marín 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.

B. 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.

C. 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.

SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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D. 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.

E. 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.

F. 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.

G. 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 plant	10-25 years
Other	3-10 years

H. 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.

SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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I. 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."

J. Property taxes

Property taxes were levied July 1, 2011 and were payable in two installments on November 1, 2011 and February 1, 2012. The County of Marin bills and collects property taxes on behalf of the District. Property tax revenues are recognized as revenue when received.

K. Estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Compensated absences

The District records the expense of employee's vacation and sick leave benefits in the period in which they accumulate and become vested. The changes in compensated absences were as follows:

Beginning Balance	\$62,829
Additions	80,574
Payments	<u>(62,829)</u>
Ending Balance	<u><u>\$80,574</u></u>

SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the District as of June 30, 2012, consist of the following:

	Carrying amount	Bank balance	Fair value
<i>Deposits in commercial accounts</i>			
Checking - Insured (FDIC)	\$172,528	\$708,536	
Savings - Public Money Market Fund	996,205	996,205	
	<u>1,168,733</u>	<u>\$1,704,741</u>	
<i>Investment in investment pool</i>			
California Local Agency Investment Fund	3,719,079		\$3,723,615
	<u>3,719,079</u>		<u>\$3,723,615</u>
<i>Petty cash</i>	<u>200</u>		
<i>Total Cash and Cash Equivalents</i>	<u>\$4,888,012</u>		

As of June 30, 2012, \$1,454,741 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.

A. 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 \$3,719,079. 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/>). 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. At June 30, 2012 these investments matured in an average of 268 days.

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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 3 – 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 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-Marín City Sanitary District was \$27,516.

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.

SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – CAPITAL ASSETS

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

	Balance June 30, 2011	Additions	Adjustments & Transfers	Balance June 30, 2012
Nondepreciable capital assets				
Construction in progress	\$2,400,216	\$3,073,325	(\$1,054,969)	\$4,418,572
Net nondepreciable capital assets	2,400,216	3,073,325	(1,054,969)	4,418,572
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	9,970,751	1,244,680	736,731	11,952,162
Conveyance system upgrade and renewal	5,992,592	24,483	318,238	6,335,313
Collection system upgrade	183,653			183,653
Office equipment	53,608	34,655		88,263
Total depreciable capital assets	31,493,845	1,303,818	1,054,969	33,852,632
Less accumulated depreciation	(9,943,349)	(1,091,053)		(11,034,402)
Total depreciable capital assets, net	21,550,496	212,765	1,054,969	22,818,230
Net capital assets	\$23,950,712	\$3,286,090		\$27,236,802

NOTE 5 – LONG-TERM LIABILITIES

Long-term liabilities outstanding as of June 30, 2012 consist of the following:

	Original Issue Amount	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Amount due within one year
Note payable - City National Bank 4.10%, due 5/8/28	\$3,000,000	\$2,689,685		\$112,123	\$2,577,562	\$116,767
State Water Resources Control Board Loan 2.60%, due 5/15/32	2,298,373		\$1,587,386		1,587,386	56,170
Total Long-Term Debt		\$2,689,685	\$1,587,386	\$112,123	\$4,164,948	\$172,937

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – LONG-TERM LIABILITIES (Continued)

A. 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.

B. State Water Resource Control Board

The District entered into a loan contract with the State of California (State Water Resources Control Board) on August 15, 2011, for the purpose of financing the Locust Street Pump Station Improvements project. The total loan amount cannot exceed \$2,298,373, with a stated interest rate of 2.6% per annum. To date, the District has received \$1,969,323. Principal and interest payments will be due annually beginning on May 15, 2013 through the fiscal year 2032.

C. 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>
2013	\$172,937	\$151,477	\$324,414
2014	184,943	139,471	324,414
2015	191,627	132,787	324,414
2016	198,562	125,852	324,414
2017	205,758	118,655	324,413
2018-2022	1,146,607	475,457	1,622,064
2023-2027	1,372,029	250,037	1,622,066
2028-2032	692,485	44,533	737,018
Total requirements	<u>\$4,164,948</u>	<u>\$1,438,269</u>	<u>\$5,603,217</u>

NOTE 6 – DEFINED BENEFIT PENSION PLAN

A. 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.

SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)

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.

B. 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, 2012 was 22.516% 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.

C. Annual pension cost

For the year ended June 30, 2012, the District's annual pension cost was \$315,887 and the District actually contributed \$315,887. The required contribution for the year ended June 30, 2012 was determined as part of the actuarial valuation as of June 30, 2010 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 3.55% 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 15 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, 2012.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$368,986	100%	\$0
6/30/2011	269,826	100%	0
6/30/2012	315,887	100%	0

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)

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

Actuarial Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Status	Annual Covered Payroll	Unfunded Actuarial Accrued Liability (Excess Assets) as a % of Payroll
6/30/2008	\$1,823,366	\$1,529,549	\$293,817	83.9%	\$414,590	70.9%
6/30/2009	2,140,439	1,674,260	466,179	78.2%	440,071	105.9%
6/30/2010	2,297,871	1,815,672	482,199	79.0%	434,023	111.1%

NOTE 7 – 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, 2012 were \$71,489. 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, 2012 were \$18,515.

NOTE 8 – 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.

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.

SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 – RISK MANAGEMENT (Continued)

The latest audited financial information for the CSRMA is for the fiscal year ended June 30, 2011 and the condensed financial information of the CSRMA is as follows:

Total assets	\$31,453,997
Total liabilities	<u>15,533,884</u>
Net assets	<u><u>\$15,920,113</u></u>
 Total revenues	 \$10,355,129
Total expenses	<u>7,622,401</u>
Change in net assets	<u><u>\$2,732,728</u></u>

The entity did not have long-term debt outstanding at June 30, 2011. 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, 2012:

Coverage	Limits	Deductibles
General Liability, Errors and Omissions, and Employment Practices Liability (CSRMA pooled program)	\$15,550,000	\$42,500
Excess General Liability (Ironshore Specialty Insurance Company)	25,500,000	None
Public Entity Physical Damage (Beazley Insurance Company)	170,905	2,000
Special Form Property (Public Entity Program Insurance Program)	27,563,913	5,000
Workers' Compensation (CSRMA pooled program)	750,000	None
Excess Workers' Compensation (Safety National Casualty Corporation)	Statutory	None

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. 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.

SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)
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B. 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.

C. Annual OPEB cost

The following table presents the components of the District's annual OPEB cost, amounts actually contributed of \$140,427 to the Plan, and changes in net OPEB obligation for the year ended June 30, 2012:

Annual required contribution (ARC)	\$193,446
Interest on net OPEB (obligation) asset	7,729
Adjustment to annual required contribution	<u>(10,018)</u>
 Annual OPEB expense	 191,157
 Contributions made:	
Retired employees post employment medical benefit payments	 <u>(140,427)</u>
 Increase in net OPEB obligation	 50,730
 Net OPEB obligation, beginning of year	 <u>99,728</u>
 Net OPEB obligation, end of year	 <u><u>\$150,458</u></u>

D. Funded status of the plan

The most recent valuation dated July 1, 2009 includes an Actuarial Accrued Liability of \$1,956,161 and Unfunded Actuarial Accrued Liability of \$1,754,836. 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.

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

E. 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, 2012 (the transition year) follows:

Actuarial Valuation Date	Actuarial Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Actuarial Accrued Liability (UAAL) (A) – (B)	Funded Status (B) / (A)	Annual Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(A) – (B) / (C)]
7/1/2007	\$2,279,000	\$0	\$2,279,000	0.0%	\$1,248,013	182.6%
7/1/2009	1,956,161	201,325	1,754,836	10.3%	1,137,221	154.3%

F. Transition year trend information

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

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
6/30/2010	\$175,000	\$154,482	88.28%	\$20,518
6/30/2011	176,000	96,790	54.99%	99,728
6/30/2012	193,446	140,427	72.59%	150,458

G. 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.

SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

In the July 1, 2009 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 7.6% 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 a closed 30-year period.

NOTE 10 – GOVERNING BOARD

The powers of the District are exercised by a Board of Directors consisting of five directors, each elected or a term of four years by the qualified electors within the District. As of June 30, 2012, the members of the District's Board of Directors were as follows:

	<u>Term Expires</u>
Ann Arnott, President	November 2013
Raymond Gergus, Vice President	November 2013
Donald Beers, Director	November 2015
William F. H. Ring, Director	November 2015
Dan J. Rheiner, Director	November 2013

NOTE 11 – 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.

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 12 – 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. 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, 2012 is \$4,300.

NOTE 13 – RIVER WATCH LIABILITY

The District entered into a Settlement and Release of Claims Agreement on July 31, 2008 with Northern California River Watch, a 501(c)(3) non-profit public benefit corporation to resolve allegations that the District violated Section 505 of the Federal Water Pollution Control Act. As part of the settlement, the District agreed to provide funding in the amount of \$40,000 for a supplemental environmental project relating to a storm water pollution study or grant or reduced cost programs for lateral replacements. The District has recorded a liability in the amount of \$40,000 for the supplemental environmental project. As of June 30, 2012, the liability outstanding is \$40,000.

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