

SAUSALITO-MARIN CITY SANITARY DISTRICT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2007

C O N T E N T S

	PAGE
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2
BASIC FINANCIAL STATEMENTS	
BALANCE SHEET	7
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY	8
STATEMENT OF CASH FLOWS	10
NOTES TO FINANCIAL STATEMENTS	11

INDEPENDENT AUDITORS' REPORT

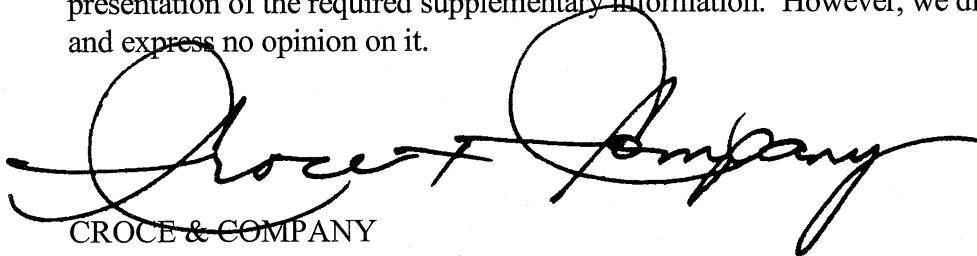
To the Board of Trustees
Sausalito-Marín City Sanitary District

We have audited the accompanying basic financial statements of **Sausalito-Marín City Sanitary District** (the District) as of and for the year ended June 30, 2007 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-Marín City Sanitary District** as of June 30, 2007, 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 6 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
December 6, 2007

SAUSALITO-MARIN CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

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, 2007. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 7.

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.

Financial Highlights

- Total assets of the District exceeded total liabilities at the close of the fiscal year by \$22,618,250 (net assets).
- Net assets of the District increased by \$1,297,061 during the current fiscal year.
- Operating revenues increased by \$449,672.
- Operating expenses increased by \$367,647.
- Property taxes increased by \$92,281 (\$445,176 vs. \$352,895) and investment earnings increased by \$65,234 (\$254,219 vs. \$188,985) in comparison to the prior year.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2007

- Revenue from the Tamalpais Community Services District (TCSO) service contract totaled \$710,311, which is an increase of \$266,148 over the prior year.
- Revenue from the City of Sausalito Pump Station O&M contract totaled \$35,038, which is a decrease of \$907 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 \$22,618,250 at June 30, 2007. The District's investment in capital assets at June 30, 2007 represents the largest portion of fund equity (79%). The District's net assets increased by \$1,297,061 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			
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Increase (Decrease)</u>	<u>%</u>
Assets				
Current assets	\$ 5,263,009	\$ 5,791,646	\$ (528,637)	(9.1)%
Capital assets	<u>17,930,721</u>	<u>16,045,861</u>	<u>1,884,860</u>	11.7
Total assets	<u>23,193,730</u>	<u>21,837,507</u>	<u>1,356,223</u>	6.2
Liabilities				
Total current liabilities	<u>575,480</u>	<u>516,318</u>	<u>59,162</u>	11.4
Net assets				
Invested in capital assets, net	17,930,721	16,045,861	1,884,860	6.2
Reserved for				
Future capital improvements	2,485,000	2,485,000	-	-
Operations	1,810,000	1,410,000	400,000	28.3
Renewal and replacements	332,000	332,000	-	-
Unreserved				
Unrestricted	<u>60,529</u>	<u>1,048,328</u>	<u>(987,799)</u>	<u>(94.2)</u>
Total net assets	<u>\$ 22,618,250</u>	<u>\$ 21,321,189</u>	<u>\$ 1,297,061</u>	<u>6.0%</u>

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2007

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 2007</u>	<u>Fiscal 2006</u>	<u>Increase (Decrease)</u>	<u>%</u>
Operating revenues	\$ 3,460,850	\$ 3,011,178	\$ 449,672	14.9%
Operating expenses	<u>2,863,184</u>	<u>2,495,537</u>	<u>367,647</u>	<u>14.7</u>
Operating income (loss)	597,666	515,641	82,025	15.9
Non-operating revenues	<u>699,395</u>	<u>541,880</u>	<u>157,515</u>	<u>29.0</u>
Net income	<u>\$ 1,297,061</u>	<u>\$ 1,057,521</u>	<u>\$ 239,540</u>	<u>22.6%</u>

Total operating revenue of \$3,460,850 increased by \$449,672 for the current year and operating expenses of \$2,863,184 increased by \$367,647, providing an increase of net operating income of \$82,025 when compared to the prior year. The District's net income increased by \$239,540 from the prior year.

The major capital expense components for the fiscal year ended June 30, 2007 were the following:

- Treatment Plant Odor Control Project – The purpose of the project is to abate the occasional off-site odors that emanate from existing treatment processes at the District's Wastewater Treatment Plant. These processes are the Screenings Equipment, the Primary Sedimentation Tank, the Fixed Film Reactors, the Sludge Gravity Thickener and the Sludge Dewatering facility. To achieve this, portions of open surfaces of these processes have been covered to contain the odorous emissions. The emissions are collected via ducting and a fan and conveyed to four new biotower reactors, located on the roof of the existing Operations Control Building, where odorous compounds are removed from the air stream. Odor control improvements were substantially complete and placed in service during Fiscal Year 2006/07.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2007

- Locust Street Pump Station Improvements Project: The Locust Street Pump Station Improvement Project consists of the upgrade of pumps, electrical equipment, piping and deteriorated concrete surfaces in the wet well. In addition, the aboveground access way to the station and existing standby generator need to be removed from the Bridgeway right of way to make room for a bike path per request of the City of Sausalito. This will require either construction of a new building in the Locust Street right of way to house the above ground electrical equipment or acquisition of private property adjacent to the pump station site where the electrical equipment would be located. The latter alternative is preferred. Design of the project will proceed once property acquisition is complete.
- Vehicle Access Causeway Repair Project: The Vehicle Access Causeway Rehabilitation Project involved selective demolition of deteriorated concrete, repair of beams, columns and suspended slab sections, replacement of portions of the suspended slab sections, strengthening of deteriorated concrete columns and application of a protective coating system on concrete surfaces that are exposed to the marine environment. The project was substantially complete in FY 2006/07.
- Administration Building and Site Improvement Project: The new Administration Building would measure approximately 2,200 square feet and would house a new Board and public meeting room, reception area, offices for the District Secretary and Manager, public restrooms, and a records storage area. The new building would replace two existing administrative buildings that do not comply with current regulatory requirements. Site improvements, consisting of additional parking in vicinity of the new building, including an ADA compliant parking space are included in the project. A CEQA/NEPA environmental assessment for the project was submitted to the National Park Service in FY 2006/07 for its approval. The project may be placed on hold following certification of the environmental assessment document pending completion of a financial planning analysis.
- Wastewater Treatment Plant Improvements Project –The Plant Improvement Project consists of a number of process improvements that together are designed to bring the District's wastewater treatment plant back into consistent compliance with its discharge requirements. The project consists of upgrading of the primary digester, addition of chemical storage improvements to implement chemically enhanced primary and secondary treatment systems, sludge handling improvements, and replacement of existing hydraulically driven Fixed Film Reactor distributors with motorized units. The design of the improvements were substantially complete and construction of the improvements began in FY 2006/07. The project is scheduled to be completed in FY 2007/08.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2007

- Sludge Dewatering Improvements Project – The project consists of the replacement of an existing 18 year old belt filter press with a sludge screw press. Included in the project would be sludge pumping, electrical, and structural improvements to locate the screw press on the elevated platform between the gravity thickener and secondary digester. A tug tractor would be acquired to haul a sludge dumpster from the plant site to Fort Baker road for pick-up by a waste hauling company. Predesign work was substantially complete in FY 2006/07. Final design and construction is scheduled to be complete in FY 2007/08.
- Wet Weather Conveyance and Treatment Evaluation Study: The study consists of a wet weather capacity evaluation of the lower portion of the District conveyance system tributary to the Main Street Pump Station and the treatment plant. It includes the development of system-wide alternatives, including both conveyance and treatment plant improvements. Work on the study began in FY 2006/07 and is scheduled to be complete in FY 2007/08.
- Supervisory Control and Data Acquisition System (SCADA) – The plant's computerized SCADA system continued to be upgraded and expanded in FY 2006/07.

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, 2007

ASSETS

Current assets

Cash and cash equivalents	\$ 5,067,061
Accounts receivable	97,153
Interest receivable	69,386
Prepaid expenses	<u>29,409</u>
Total current assets	<u>5,263,009</u>

Capital assets, net of accumulated depreciation

17,930,721

Total assets

\$ 23,193,730

LIABILITIES AND NET ASSETS

Current liabilities (payable from current assets)

Accounts payable	\$ 283,605
Accrued vacation	69,078
Accrued payroll	18,797
Regional Water Quality Control Board liability	<u>204,000</u>
Total current liabilities	<u>575,480</u>

Net assets

Invested in capital assets, net of related debt	17,930,721
Reserved for future capital improvements	2,485,000
Reserved for operations	1,810,000
Reserved for renewal and replacement	332,000
Unrestricted	<u>60,529</u>
Total net assets	<u>22,618,250</u>

Total liabilities and net assets

\$ 23,193,730

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, 2007

Operating revenues

Sewer service charges	\$ 2,494,556
TCSD service contract	710,311
Connection fees	124,334
Marin City sewer fees	94,581
Other revenue	<u>37,068</u>
Total operating revenue	<u>3,460,850</u>

Operating expenses

Salaries	695,144
Depreciation	540,226
Repairs	258,675
Power	229,978
Employee retirement	202,031
Employee benefits	180,797
Permits and fees	156,699
Chemicals	144,789
Consulting services	77,514
Payroll taxes	52,168
Supplies	45,172
Monitoring and laboratory	43,950
Legal and accounting	41,680
Solids disposal	37,935
Insurance	28,797
Directors' expenses	25,120
Safety	21,072
Fuel	16,143
Vehicle maintenance	15,433
Conference and training	12,924
Assessment roll fee	12,058
Telephone	11,694
Office	3,991
Workers' compensation	3,626
Other	2,845
Water	<u>2,723</u>
Total operating expenses	<u>2,863,184</u>
Operating income	<u>597,666</u>

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN NET ASSETS (CONTINUED)**

For the year ended June 30, 2007

Nonoperating revenues

Property taxes	445,176
Interest income	<u>254,219</u>
Total nonoperating revenues	<u>699,395</u>

Change in net assets 1,297,061

Net assets, beginning of year 21,321,189

Net assets, end of year \$ 22,618,250

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, 2007

Cash flows from operating activities

Cash received from customers	\$ 3,417,304
Cash paid to employees	(683,090)
Cash paid to suppliers	<u>(1,584,230)</u>
Net cash provided by operating activities	<u>1,149,984</u>

Cash flows from noncapital financing activities

Property taxes	<u>445,176</u>
Net cash provided by noncapital financing activities	<u>445,176</u>

Cash flows from capital and related financing activities

Purchases of capital assets	<u>(2,425,086)</u>
Net cash used in capital and related financing activities	<u>(2,425,086)</u>

Cash flows from investing activities

Interest received	<u>245,975</u>
Net cash provided by investing activities	<u>245,975</u>

Net decrease in cash and cash equivalents (583,951)

Cash and cash equivalents, beginning of year 5,651,012

Cash and cash equivalents, end of year \$ 5,067,061

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 597,666
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	540,226
Changes in operating assets and liabilities	
Accounts receivable	(43,546)
Prepaid expenses	(3,524)
Accounts payable	(45,892)
Accrued vacation	22,596
Accrued payroll	(10,542)
Regional Water Quality Control Board liability	<u>93,000</u>
Net cash provided by operating activities	<u>\$ 1,149,984</u>

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

SAUSALITO-MARIN CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 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, 2007

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

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2006 and were payable in two installments on November 1, 2006 and February 1, 2007. 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.

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SAUSALITO-MARIN CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

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 will be required to implement the provisions of this Statement for the year ending June 30, 2010. The District is in the process of determining the impact the implementation of this Statement will have on the financial statements.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the District as of June 30, 2007, consist of the following:

	Carrying <u>amount</u>	Bank <u>balance</u>	Fair <u>value</u>
<u>Deposits in commercial accounts</u>			
Checking – Insured (FDIC)	\$ 23,290	\$ 184,552	
Savings – Public Money Market Fund	<u>290,111</u>	<u>275,541</u>	
	<u>313,401</u>	<u>\$ 460,093</u>	
<u>Investment in external investment pools</u>			
California Local Agency Investment Fund	<u>4,753,453</u>		<u>\$ 4,753,453</u>
			<u>\$ 4,753,453</u>
<u>Petty cash</u>	<u>207</u>		
	<u>\$ 5,067,061</u>		

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B – CASH AND CASH EQUIVALENTS (CONTINUED)

As of June 30, 2007, \$84,552 of the District's bank deposits were uninsured and uncollateralized.

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.

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 \$4,753,453. 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 \$65,643,489,036 of which 3.466% is invested in structured notes and asset-backed securities. Included in LAIF's investment portfolio are United States Treasury and federal agency securities, 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.

SAUSALITO-MARIN CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 is as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2007</u>
Depreciable capital assets				
Original conveyance and treatment facilities	\$ 2,456,434	\$ -	\$ -	\$ 2,456,434
Secondary treatment plant	12,071,947	306,455	-	12,378,402
General equipment, facility upgrade and renewal	2,182,707	2,039,614	(9,254)	4,213,067
Conveyance system upgrade and renewal	5,666,793	73,586	-	5,740,379
Collection system upgrade and renewal	102,313	-	-	102,313
Office equipment	<u>18,544</u>	<u>5,431</u>	<u>-</u>	<u>23,975</u>
Total depreciable capital assets	22,498,738	2,425,086	(9,254)	24,914,570
Less accumulated depreciation	<u>(6,452,877)</u>	<u>(540,226)</u>	<u>9,254</u>	<u>(6,983,849)</u>
Total depreciable capital assets, net	<u>\$ 16,045,861</u>	<u>\$ 1,884,860</u>	<u>\$ -</u>	<u>\$ 17,930,721</u>

NOTE D – 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 P Street, Sacramento, CA 95814.

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SAUSALITO-MARIN CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2007 was 23.898% 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, 2007, the District's annual pension cost was \$148,066 and the District actually contributed \$148,066. The required contribution for the year ended June 30, 2007 was determined as part of the actuarial valuation as of June 30, 2004 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, 2007.

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

Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
6/30/05	\$ 152,667	100%	\$ 0
6/30/06	136,860	100	0
6/30/07	148,066	100	0

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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
6/30/03	\$515,421	\$456,062	\$ 59,359	88.5%	\$120,692	49.2%
6/30/04	681,517	580,961	100,556	85.2	160,107	62.8
6/30/05	872,346	729,556	142,789	83.6	203,995	70.0

NOTE E – 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, 2007 were \$35,181. 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, 2007 were \$3,730.

NOTE F – 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.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F – RISK MANAGEMENT (CONTINUED)

The latest audited financial information for the CSRMA is for the fiscal year ended June 30, 2006 and the condensed financial information of the CSRMA is as follows:

Total assets	\$ 28,803,485
Total liabilities	<u>14,571,663</u>
Net assets	<u>\$ 14,231,822</u>
Total revenues	\$ 10,345,559
Total expenses	<u>8,557,638</u>
Change in net assets	<u>\$ 1,787,921</u>

The entity did not have long-term debt outstanding at June 30, 2006. 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, 2007:

<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
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
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	2,500
Public Entity Property Insurance	32,138,502

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F – RISK MANAGEMENT (CONTINUED)

<u>Coverage</u>	<u>Limits of liability</u>
Workers' compensation (pooled program)	
Workers' compensation	
Deductible	None
Self-insured retention	750,000
Excess liability – National Union Fire Insurance Company	50,000,000
Employer's liability	
Self-insured retention	750,000
Excess liability – National Union Fire Insurance Company	1,000,000

NOTE G – 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, 2007, the members of the District's Board of Directors were as follows:

<u>Trustees</u>	<u>Term expires</u>
William Berkman	November 2009
Donald Beers	November 2007
Ann Arnott	November 2009
Raymond Gergus	November 2009
Norman Wohlschlaeger	November 2007

NOTE H – 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 I – 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 has recorded a liability for \$204,000 as of June 30, 2007.

SAUSALITO-MARIN CITY SANITARY DISTRICT
Trial Balance
As of June 30, 2007

	Jun 30, 07	
	Debit	Credit
1000 · Petty Cash	207.34	
1010 · Cash in Bank - Savings	290,111.24	
1005 · Cash in Bank - Operating	23,290.25	
1030 · Cash in LAIF	4,753,452.69	
1200 · Accounts Receivable	97,152.87	
1220 · Interest Receivable	69,385.58	
Complete Payroll Payment	0.05	
1250 · Prepaid Insurance	29,408.98	
1499 · Undeposited Funds	0.00	
2000 · Fixed assets:2001 · Orig Conveyance & Treatment Fac	2,456,434.00	
2000 · Fixed assets:2002 · Secondary Plant	12,378,402.06	
2000 · Fixed assets:2003 · Gen Equip/Fac Upgrade & Renewal	4,213,067.91	
2000 · Fixed assets:2004 · Conveyance Sys Upgrade & Renew	5,740,379.39	
2000 · Fixed assets:2005 · Collection Sys Upgrade & Renew	102,313.00	
2000 · Fixed assets:2015 · Office Equipment	23,974.04	
2000 · Fixed assets:2015 · Office Equipment:2020.1 · Copier	0.00	
2000 · Fixed assets:2030 · Vehicles	0.00	
2000 · Fixed assets:2040 · Treatment plant	0.00	
2080 · Accumulated depreciation		6,983,849.00
3010 · Accounts Payable		283,604.57
3000 · RWQCB Liability		204,000.00
3012 · A/P Salaries & Performance		18,796.57
3011 · Accounts payable - audit adj	0.00	
3200 · Accrued Vacation and Comp Time		69,077.88
3050 · Payroll Liabilities	0.00	
3050 · Payroll Liabilities:3160 · PERS Long Term Care	0.00	
3050 · Payroll Liabilities:3150 · PERS 457 Deferred Comp	0.00	
3050 · Payroll Liabilities:3140 · Hartford Deferred Comp	0.00	
3050 · Payroll Liabilities:3199 · Workers Comp Payable	0.00	
3050 · Payroll Liabilities:3130 · Medicare Payable	0.00	
3050 · Payroll Liabilities:3120 · Federal Withholding Payable	0.00	
3050 · Payroll Liabilities:3110 · FICA Payable	0.00	
3050 · Payroll Liabilities:3100 · Credit Union Payable	0.00	
3050 · Payroll Liabilities:3080 · Medical Insurance Payable	0.00	
3050 · Payroll Liabilities:3070 · PERS Payable	0.00	
3050 · Payroll Liabilities:3090 · Dental Payable	0.00	
3050 · Payroll Liabilities:3060 · PIT payable	0.00	
3920 · Inv in Cap Assets, Net of Debt		16,045,861.00
3940 · Reserve for Future Capital Impr		2,485,000.00
3960 · Reserve for Operations		1,410,000.00
3950 · Reserve for Renewal and Replace		332,000.00
3900 · Unrestricted - Beginning of Yr		1,048,327.24
5030 · Sewer Service Charges		2,494,555.76
5040 · Property Taxes		445,176.83
5050 · Marin City Sewer Fees		94,581.59
5060 · Sausalito Pump Maintenance		35,037.84
5070 · TCSD Service Contract		710,310.93
5080 · Connection Fees		124,334.00
5100 · Miscellaneous Income		2,030.49
5200 · Interest Income		254,218.76
Operating Expenses	2,637.30	
Operating Expenses:6000 · Salaries	672,547.49	
Operating Expenses:6005 · Vacation & Comp Time - y/e adj	22,596.30	
Operating Expenses:6020 · Social Security and Medicare	52,168.40	
Operating Expenses:6030 · Retirement	202,030.87	
Operating Expenses:6040 · Employee Benefits	180,796.85	
Operating Expenses:6045 · Workers Comp	3,626.00	
Operating Expenses:6050 · Chemicals	144,788.60	
Operating Expenses:6070 · Conference/Training	12,924.18	
Operating Expenses:6080 · Consulting Services	77,514.21	
Operating Expenses:6150 · Permits & Fees	156,699.18	
Operating Expenses:6110 · Fuel	16,143.05	
Operating Expenses:6140 · Monitoring	43,950.20	
Operating Expenses:6160 · Power	229,978.08	
Operating Expenses:6170 · Insurance	28,796.87	
Operating Expenses:6300 · Solids Disposal	37,935.03	

12:54 PM

02/06/08

Accrual Basis

SAUSALITO-MARIN CITY SANITARY DISTRICT

Trial Balance

As of June 30, 2007

	Jun 30, 07	
	Debit	Credit
Operating Expenses:6200 · Repairs	258,674.45	
Operating Expenses:6330 · Supplies	45,171.69	
Operating Expenses:6400 · Telephone	11,693.93	
Operating Expenses:6500 · Vehicles	15,433.43	
Operating Expenses:6550 · Safety	21,072.07	
Operating Expenses:6570 · Water	2,722.79	
Administrative Expenses:9500 · Assessment Roll Fee	12,057.79	
Administrative Expenses:7010 · Accounting	1,687.13	
Administrative Expenses:7020 · Audit	7,700.00	
Administrative Expenses:7030 · Director	25,120.00	
Administrative Expenses:7050 · Legal Notice	812.86	
Administrative Expenses:7060 · Legal General	31,479.67	
Administrative Expenses:7080 · Office Expense	3,990.64	
Administrative Expenses:8999 · City of Sausalito billable exp	208.00	
9900 · Depreciation	540,226.00	
TOTAL	33,040,762.46	33,040,762.46

SAUSALITO-MARIN CITY SANITARY DISTRICT

Adjusting Journal Entries

June 30, 2007

06/30/2007	C&C-8	To accrue additional vacation & comp time To accrue additional vacation & comp time	6005 • Vacation & Comp Time - y/e adj 3200 • Accrued Vacation and Comp Time	22,596.30 <u>22,596.30</u>	22,596.30 <u>22,596.30</u>
06/30/2007	C&C-9	To reclass to proper account To reclass to proper account To reclass to proper account	2002 • Secondary Plant 2004 • Conveyance Sys Upgrade & Renew 2003 • Gen Equip/Fac Upgrade & Renewal	306,455.31 1,042.50 <u>307,497.81</u>	307,497.81 <u>307,497.81</u>
06/30/2007	C&C-10	To capitalize assets To capitalize assets To capitalize assets	2003 • Gen Equip/Fac Upgrade & Renewal 2015 • Office Equipment 6200 • Repairs	6,851.89 5,430.79 <u>12,282.68</u>	12,282.68 <u>12,282.68</u>
06/30/2007	C&C-11	To dispose of asset To dispose of asset	2080 • Accumulated depreciation 2003 • Gen Equip/Fac Upgrade & Renewal	9,254.00 <u>9,254.00</u>	9,254.00 <u>9,254.00</u>
06/30/2007	C&C-12	To record additional depreciation To record additional depreciation	9900 • Depreciation 2080 • Accumulated depreciation	5,230.00 <u>5,230.00</u>	5,230.00 <u>5,230.00</u>
06/30/2007	C&C-13	To reverse deposit To reverse deposit	5070 • TCSD Service Contract 1010 • Cash in Bank - Savings	50,000.00 <u>50,000.00</u>	50,000.00 <u>50,000.00</u>
06/30/2007	C&C-14	To record additional amount payable to the Regional Water Quality Control Board as of 6/30/07. To record additional amount payable to the Regional Water Quality Control Board as of 6/30/07.	6150 • Permits & Fees 3000 • RWQCB Liability	93,000.00 <u>93,000.00</u>	93,000.00 <u>93,000.00</u>
				<u>714,539.62</u>	<u>714,539.62</u>

SAUSALITO-MARIN CITY ANITARY DISTRICT

Adjusting Journal Entries

June 30, 2007

Date	Num	Name	Memo	Account	Debit	Credit
06/30/2007	C&C-1	CMSA CMSA	To record additional A/R @ 6/30/07 To record additional A/R @ 6/30/07	1200 · Accounts Receivable 6200 · Repairs <i>Should be Safety</i>	223.90 223.90	223.90 223.90
06/30/2007	C&C-1A	TCSD Distr TCSD Distr	To record additional A/R at 6/30/07 To record additional A/R at 6/30/07	1200 · Accounts Receivable 5070 · TCSD Service Contract	50,000.00 50,000.00	50,000.00 50,000.00
06/30/2007	C&C-2		To record interest receivable at 6/30/07 To record interest receivable at 6/30/07	1220 · Interest Receivable 5200 · Interest Income	69,385.58 69,385.58	69,385.58 69,385.58
06/30/2007	C&C-3	Valentine Corp	To remove A/R @ 6/30/07 To remove A/R @ 6/30/07	6200 · Repairs 1200 · Accounts Receivable	963.44 963.44	963.44 963.44
06/30/2007	C&C-4		To record additional prepaid To record additional prepaid	1250 · Prepaid Insurance 6040 · Employee Benefits	14,802.98 14,802.98	14,802.98 14,802.98
06/30/2007	C&C-5		To record additional A/P @ 6/30/07 To record additional A/P @ 6/30/07 To record additional A/P @ 6/30/07 To record additional A/P @ 6/30/07 To record additional A/P @ 6/30/07 To record additional A/P @ 6/30/07 To record additional A/P @ 6/30/07 To record additional A/P @ 6/30/07	6030 · Retirement 6080 · Consulting Services 6140 · Monitoring 6050 · Chemicals 6150 · Permits & Fees 6200 · Repairs 2003 · Gen Equip/Fac Upgrade & Renewal 3010 · Accounts Payable	4,398.80 4,959.65 1,995.00 3,134.59 3,373.00 10,115.00 16,609.92 44,585.96	4,398.80 4,959.65 1,995.00 3,134.59 3,373.00 10,115.00 16,609.92 44,585.96
06/30/2007	C&C-6	Audit payables adj Audit payables adj	To remove A/P @ 6/30/07 To remove A/P @ 6/30/07	3010 · Accounts Payable 6160 · Power	15,920.40 15,920.40	15,920.40 15,920.40
06/30/2007	C&C-7		To accrue salaries @ 6/30/07 To accrue salaries @ 6/30/07	6000 · Salaries 3012 · A/P Salaries & Performance	18,796.57 18,796.57	18,796.57 18,796.57