

**SAUSALITO-MARIN CITY SANITARY DISTRICT**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2008**

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## **Independent Auditors' Report**

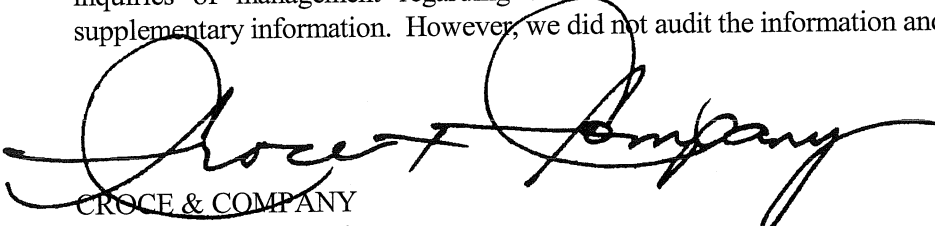
To the Board of Trustees  
**Sausalito-Marin City Sanitary District**

We have audited the accompanying basic financial statements of **Sausalito-Marin City Sanitary District** (the District) as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Sausalito-Marin City Sanitary District** as of June 30, 2008, 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  
January 29, 2009

# **SAUSALITO-MARIN CITY SANITARY DISTRICT**

## **Management's Discussion and Analysis**

June 30, 2008

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, 2008. 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 \$23,375,663 (net assets).
- Net assets of the District increased by \$757,413 during the current fiscal year.
- Operating revenues increased by \$42,496.
- Operating expenses increased by \$609,393.
- Property taxes increased by \$121,388 (\$566,564 vs. \$445,176) and investment income decreased by \$94,139 (\$160,080 vs. \$254,219) in comparison to the prior year.

(Continued)

# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Management's Discussion and Analysis (Continued)

June 30, 2008

- Revenue from the Tamalpais Community Services District (TCSD) service contract totaled \$836,629, which is an increase of \$126,318 over the prior year.
- Revenue from the City of Sausalito Pump Station O&M contract totaled \$39,707, which is an increase of \$4,669 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 \$23,375,663 at June 30, 2008. The District's investment in capital assets at June 30, 2008 represents the largest portion of fund equity (75%). The District's net assets increased by \$757,413 during the fiscal year, (see Table 1 below). Assets were reallocated among the future capital improvements, operations, and renewal and replacement funds pursuant to the District's reserve policy, which was developed in the fiscal year ended June 30, 2004.

**Table 1**

	Net assets			
	June 30, 2008	June 30, 2007	Increase (Decrease)	%
<b>Assets</b>				
Current assets	\$ 6,381,957	\$ 5,263,009	\$ 1,118,948	21.2%
Capital assets, net	<u>20,580,507</u>	<u>17,930,721</u>	<u>2,649,786</u>	14.8
Total assets	<u>26,962,464</u>	<u>23,193,730</u>	<u>3,768,734</u>	16.2
<b>Liabilities</b>				
Current liabilities	686,071	575,480	110,591	19.2
Long-term debt	<u>2,900,730</u>	<u>-</u>	<u>2,900,730</u>	100.0
Total liabilities	<u>3,586,801</u>	<u>575,480</u>	<u>3,011,321</u>	523.0
<b>Net assets</b>				
Invested in capital assets, net	17,580,507	17,930,721	(350,214)	2.0
Reserved for				
Future capital improvements	2,485,000	2,485,000	-	-
Operations	1,810,000	1,810,000	-	-
Renewal and replacements	332,000	332,000	-	-
Unreserved				
Unrestricted	<u>1,168,156</u>	<u>60,529</u>	<u>1,107,627</u>	<u>183.0</u>
Total net assets	<u>\$ 23,375,663</u>	<u>\$ 22,618,250</u>	<u>\$ 757,413</u>	<u>3.3%</u>

(Continued)

## SAUSALITO-MARIN CITY SANITARY DISTRICT

### Management's Discussion and Analysis (Continued)

June 30, 2008

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 2008</u>	<u>Fiscal 2007</u>	<u>Increase (Decrease)</u>	<u>%</u>
Operating revenues	\$ 3,503,346	\$ 3,460,850	\$ 42,496	1.2%
Operating expenses	<u>3,472,577</u>	<u>2,863,184</u>	<u>609,393</u>	21.3
Operating income (loss)	30,769	597,666	(566,897)	(94.9)
Non-operating revenues	<u>726,644</u>	<u>699,395</u>	<u>27,249</u>	3.9
Net income	<u>\$ 757,413</u>	<u>\$ 1,297,061</u>	<u>\$ (539,648)</u>	(41.6%)

Total operating revenue of \$3,503,346 increased by \$42,496 for the current year and operating expenses of \$3,472,577 increased by \$609,393, providing a decrease of net operating income of \$566,897 when compared to the prior year. The District's net income decreased by \$539,648 from the prior year.

The increase in operating expenses for the fiscal year ended June 30, 2008 were largely due to the following factors:

- Employee Transition Planning: Over the next several years, management is anticipating a 75 percent turnover of employees due to retirements. With these retirements, a significant amount of corporate knowledge could be lost. To avoid this loss and to take steps to maintain a well trained workforce, the District hired three new operation and maintenance employees in 2007/08 as part of its transition plan. In addition, an engineer was hired to manage the design and construction of capital improvement projects that are planned over the next ten years.
- Consulting Services: Consulting services expenses were greater in 2007/08 due to the service required to renew the District's NPDES permit and to conduct public outreach to explain and solicit community support for the District's new wet weather conveyance and treatment capital improvements, including increased sewer service charges to fund capital improvements over the next ten years.

The major capital expense components for the fiscal year ended June 30, 2008 were the following:

- Wastewater Treatment Plant Improvements Project –The Plant Improvement Project consisted of a number of process enhancements, including improvements to the primary digester, sludge handling facilities, and fixed film reactors. The project was completed in FY 2007/08 and successfully achieved the project objective, which was to enable the plant to consistently comply with all of its wastewater discharge requirements.

(Continued)

## SAUSALITO-MARIN CITY SANITARY DISTRICT

### Management's Discussion and Analysis (Continued)

June 30, 2008

- Sludge Dewatering Improvements Project – The Sludge Dewatering Improvements project consists of the replacement of an 18 year old belt filter press with a new sludge screw press. Included in the project was sludge pumping, electrical, and structural improvements to locate the screw press on the elevated platform between the gravity sludge thickener and secondary digester. In addition, older chemical lines, which run downhill from the chemical storage facilities on Fort Baker Road to the treatment plant were replaced with new lines in secondary containment carrier pipes, which are equipped with leak detectors. A new hypochlorite day tank and pump dosing system will be installed to replace the existing gravity fed, chemical injector system. Final design of the project was completed in FY 2007/08 and construction is scheduled to be complete in FY 2008/09.
- 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 will be relocated from the Bridgeway right of way to make room for a planned bike path by the City of Sausalito. The District is pursuing acquisition of an easement on private property adjacent to the pump station site in order to site the electrical and emergency generator equipment. Design of the project will proceed once property acquisition is complete.
- Wet Weather Conveyance and Treatment Evaluation Study: The Wet Weather Conveyance and Treatment Evaluation study evaluated peak wet weather wastewater flows and storm recurrence frequencies and assessed the capacity of District's conveyance system and the treatment plant to handle the flows. System-wide improvement alternatives were developed to eliminate hydraulic bottlenecks and to eliminate the treatment practice known as blending, which, while currently permitted by regulatory agencies, is under increased scrutiny and may not be permitted in the future. (Blending is the practice of mixing primary treated wastewater effluent with secondary treated wastewater effluent prior to being disinfected and discharged during major rainstorms.) The conveyance and treatment plant improvements might include an underground equalization storage basin(s), which would temporarily store high flows and re-convey the wastewater back into conveyance system once the storm has passed, collection system rehabilitation by the City of Sausalito, Tamalpais Community Services District and the District's and a new high rate clarifier at the treatment plant. The District held a number of community meetings to present the report findings and to receive community input. The Board of Directors has authorized a follow-up study to explore where best to site an underground flow equalization storage tank in northern Sausalito and in Tamalpais Valley.
- Chemical Storage Improvements Project The project consisted of expanding and upgrading chemical storage facilities, including new tanks, piping, controls, and fire detection and alarm system for both sodium hypochlorite and ferric chloride. The project was completed in FY 2007/08.

(Continued)

## SAUSALITO-MARIN CITY SANITARY DISTRICT

### Management's Discussion and Analysis (Continued)

June 30, 2008

- Supervisory Control and Data Acquisition System (SCADA) – The plant's computerized SCADA system continued to be upgraded and expanded in FY 2007/08.

#### 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, 2008

### Assets

#### Current assets

Cash and cash equivalents	\$ 3,103,734
Cash and cash equivalents – restricted	3,000,000
Accounts receivable	212,634
Interest receivable	34,901
Prepaid expenses	<u>30,688</u>
Total current assets	<u>6,381,957</u>

#### Capital assets, net of accumulated depreciation

20,580,507

Total assets

\$ 26,962,464

### Liabilities and Net Assets

#### Current liabilities (payable from current assets)

Accounts payable	\$ 361,970
Accrued vacation	92,577
Accrued payroll	29,324
Regional Water Quality Control Board liability	102,930
Current maturities of long-term debt	<u>99,270</u>
Total current liabilities	<u>686,071</u>

#### Long-term debt

2,900,730

#### Net assets

Invested in capital assets, net of related debt	17,580,507
Reserved for future capital improvements	2,485,000
Reserved for operations	1,810,000
Reserved for renewal and replacement	332,000
Unrestricted	<u>1,168,156</u>
Total net assets	<u>23,375,663</u>

Total liabilities and net assets

\$ 26,962,464

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, 2008

### Operating revenues

Sewer service charges	\$ 2,529,646
TCSD service contract	836,629
Marin City sewer fees	94,361
Other revenue	<u>42,710</u>
Total operating revenue	<u>3,503,346</u>

### Operating expenses

Salaries	911,295
Depreciation	659,286
Employee retirement	257,744
Power	222,959
Employee benefits	222,337
Repairs	211,389
Permits and fees	191,537
Chemicals	165,605
Consulting services	151,808
Supplies	67,924
Payroll taxes	66,267
Legal and accounting	63,795
Monitoring and laboratory	52,162
Other	34,433
Insurance	26,180
Directors' expenses	24,480
Solids disposal	23,003
Vehicle maintenance	18,318
Safety	16,050
Workers' compensation	15,778
Telephone	14,635
Conference and training	14,532
Assessment roll fee	12,956
Fuel	12,699
Water	10,259
Office	<u>5,146</u>
Total operating expenses	<u>3,472,577</u>
Operating income	<u>30,769</u>

(Continued)

**SAUSALITO-MARIN CITY SANITARY DISTRICT**

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

For the year ended June 30, 2008

<b>Nonoperating revenues</b>	
Property taxes	566,564
Investment income	<u>160,080</u>
Total nonoperating revenues	<u>726,644</u>
 <b>Change in net assets</b>	 757,413
 <b>Net assets, beginning of year</b>	 <u>22,618,250</u>
 <b>Net assets, end of year</b>	 <u>\$ 23,375,663</u>

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

# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Statement of Cash Flows

For the year ended June 30, 2008

<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 3,387,865
Cash paid to employees	(877,269)
Cash paid to suppliers	<u>(1,925,980)</u>
Net cash provided by operating activities	<u>584,616</u>
<b>Cash flows from noncapital financing activities</b>	
Property taxes	<u>566,564</u>
Net cash provided by noncapital financing activities	<u>566,564</u>
<b>Cash flows from capital and related financing activities</b>	
Purchases of capital assets	(3,309,072)
Borrowings on long-term debt	<u>3,000,000</u>
Net cash used in capital and related financing activities	<u>(309,072)</u>
<b>Cash flows from investing activities</b>	
Interest received	<u>194,565</u>
Net cash provided by investing activities	<u>194,565</u>
<b>Net increase in cash and cash equivalents</b>	1,036,673
<b>Cash and cash equivalents, beginning of year</b>	<u>5,067,061</u>
<b>Cash and cash equivalents, end of year (including \$3,000,000 for capital acquisitions reported as restricted cash and cash equivalents)</b>	<u>\$ 6,103,734</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 30,769
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	659,286
Changes in operating assets and liabilities	
Accounts receivable	(115,481)
Prepaid expenses	(1,279)
Accounts payable	78,365
Accrued vacation	23,499
Accrued payroll	10,527
Regional Water Quality Control Board liability	<u>(101,070)</u>
Net cash provided by operating activities	<u>\$ 584,616</u>

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

# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Notes to Financial Statements

June 30, 2008

### Note A – Summary of Significant Accounting Policies

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

#### Description of reporting entity

The Sausalito-Marin City Sanitary District is a political subdivision of the State of California, located in Marin County, California. The District is 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, 2008

### Note A – Summary of Significant Accounting Policies (Continued)

#### Budgetary accounting

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

#### Cash and cash equivalents

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

#### Accounts receivable

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

#### Capital assets

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

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

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

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

#### Long-lived assets

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

(Continued)

# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Notes to Financial Statements

June 30, 2008

### Note A – Summary of Significant Accounting Policies (Continued)

#### Net assets

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

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

#### Property taxes

Property taxes were levied July 1, 2007 and were payable in two installments on November 1, 2007 and February 1, 2008. The County of Marin bills and collects property taxes on behalf of the District. Property tax revenues are recognized as revenue when received.

#### Estimates

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

#### New accounting pronouncements

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

(Continued)

# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Notes to Financial Statements

June 30, 2008

### Note A – Summary of Significant Accounting Policies (Continued)

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, 2008, consist of the following:

	<u>Carrying amount</u>	<u>Bank balance</u>	<u>Fair value</u>
<u>Deposits in commercial accounts</u>			
Checking – Insured (FDIC)	\$ 68,968	\$ 107,447	
Savings – Public Money Market Fund	<u>13,053</u>	<u>69,995</u>	
	<u>82,021</u>	<u>\$ 177,442</u>	
<u>Investment in external investment pools</u>			
California Local Agency Investment Fund	<u>6,021,506</u>		<u>\$ 6,021,506</u>
			<u>\$ 6,021,506</u>
<u>Petty cash</u>	<u>207</u>		
	<u>\$ 6,103,734</u>		

As of June 30, 2008, \$7,447 of the District's bank deposits were uninsured and uncollateralized.

(Continued)



# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Notes to Financial Statements

June 30, 2008

### Note B – Cash and Cash Equivalents (Continued)

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 is 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 \$6,021,506. Investments in LAIF are invested in accordance with the investment policy of the State Treasurer for LAIF accounts (see State Treasurer's investment policy for LAIF accounts and separately issued financial reports for LAIF at <http://www.treasurer.ca.gov/pmia-laif/>). The total amount invested by all public agencies in LAIF is \$69,955,386,488 of which 14.72% 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.

### Note C – Capital Assets

Capital asset activity for the year ended June 30, 2008 is as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Nondepreciable capital assets				
Construction in progress	\$ 178,936	\$ 583,240	\$ -	\$ 762,176
Net nondepreciable capital assets	<u>178,936</u>	<u>583,240</u>	<u>-</u>	<u>762,176</u>

(Continued)

# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Notes to Financial Statements

June 30, 2008

### Note C – Capital Assets (Continued)

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2008</u>
Depreciable capital assets				
Original conveyance and treatment facilities	\$ 2,456,434	\$ -	\$ -	\$ 2,456,434
Secondary treatment plant	12,378,402	439,655	-	12,818,057
General equipment, facility upgrade and renewal	4,154,025	2,142,196	-	6,296,221
Conveyance system upgrade and renewal	5,620,485	143,981	-	5,764,466
Collection system upgrade and renewal	102,313	-	-	102,313
Office equipment	<u>23,975</u>	<u>-</u>	<u>-</u>	<u>23,975</u>
Total depreciable capital assets	24,735,634	2,725,832	-	27,461,466
Less accumulated depreciation	<u>(6,983,849)</u>	<u>(659,286)</u>	<u>-</u>	<u>(7,643,135)</u>
Total depreciable capital assets, net	<u>17,751,785</u>	<u>2,066,546</u>	<u>-</u>	<u>19,818,331</u>
Net capital assets	<u>\$ 17,930,721</u>	<u>\$ 2,649,786</u>	<u>\$ -</u>	<u>\$ 20,580,507</u>

### Note D – Long-Term Liabilities

Long-term liabilities outstanding as of June 30, 2008 consist of the following:

	<u>Interest rate</u>	<u>Maturity date</u>	<u>Amounts authorized and issued</u>	<u>Outstanding</u>	<u>Due within one year</u>
Note payable – City National Bank	4.10%	May 8, 2028	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 99,270</u>

The following is a summary of long-term liability issuances and transactions during the year ended June 30, 2008:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>
Note payable – City National Bank	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>

(Continued)

# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Notes to Financial Statements

June 30, 2008

### Note D – Long-Term Liabilities (Continued)

#### 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 years debt service on the loan.

#### Summary of long-term liabilities service requirements

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 99,270	\$ 121,993	\$ 221,263
2010	103,381	117,881	221,262
2011	107,663	113,599	221,262
2012	112,123	109,140	221,263
2013	116,767	104,495	221,262
2014-2018	660,516	445,796	1,106,312
2019-2023	809,121	297,191	1,106,312
2024-2028	<u>991,159</u>	<u>115,153</u>	<u>1,106,312</u>
Total requirements	<u>\$ 3,000,000</u>	<u>\$ 1,425,248</u>	<u>\$ 4,425,248</u>

### Note E – 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

(Continued)

# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Notes to Financial Statements

June 30, 2008

### Note E – Defined Benefit Pension Plan (Continued)

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.

#### 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, 2008 was 23.763% 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, 2008, the District's annual pension cost was \$208,365 and the District actually contributed \$208,365. The required contribution for the year ended June 30, 2008 was determined as part of the actuarial valuation as of June 30, 2005 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, 2008.

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

Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
6/30/06	\$ 136,860	100%	\$ 0
6/30/07	148,066	100	0
6/30/08	208,365	100	0

(Continued)

# SAUSALITO-MARIN CITY SANITARY DISTRICT

## Notes to Financial Statements

June 30, 2008

### Note E – Defined Benefit Pension Plan (Continued)

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

<u>Actuarial date</u>	<u>Entry age normal accrued liability</u>	<u>Actuarial value of assets</u>	<u>Unfunded/ (Overfunded) liability</u>	<u>Funded status</u>	<u>Annual covered payroll</u>	<u>Unfunded actuarial accrued liability (excess assets) as a % of payroll</u>
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
6/30/06	1,280,157	1,069,547	210,610	83.6	304,898	69.1

### Note F – 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, 2008 were \$78,623. 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, 2008 were \$4,402.

### Note G – 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, 2008

### Note G – Risk Management (Continued)

The latest audited financial information for the CSRMA is for the fiscal year ended June 30, 2007 and the condensed financial information of the CSRMA is as follows:

Total assets	\$ 27,922,837
Total liabilities	<u>13,525,444</u>
Net assets	<u>\$ 14,397,393</u>
Total revenues	\$ 8,144,475
Total expenses	<u>7,978,904</u>
Change in net assets	<u>\$ 165,571</u>

The entity did not have long-term debt outstanding at June 30, 2007. 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, 2008:

<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, 2008

### Note G – 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	Statutory
Employer's liability	
Self-insured retention	750,000
Excess liability – National Union Fire Insurance Company	1,000,000

### Note H – 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, 2008, the members of the District's Board of Directors were as follows:

<u>Directors</u>	<u>Term expires</u>
William Berkman	November 2009
Donald Beers	November 2010
Ann Arnott	November 2009
Raymond Gergus	November 2009
Norman Wohlschlaeger	November 2010

### Note I – 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 J – Regional Water Quality Control Board Liability

The Regional Water Quality Control Board (RWQCB) imposes mandatory penalties for violations of effluent limits as contained in the District's National Pollutant Discharge Elimination System permit. The District has incurred violations over the last several years and each qualifying violation will be assessed at \$3,000 each. On May 21, 2007, the RWQCB assessed \$204,000 in mandatory minimum penalties to the District. The District recorded a liability for \$204,000 as of June 30, 2007. The liability as of June 30, 2008 is \$102,930.