

SAUSALITO-MARIN CITY SANITARY DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2009

CONTENTS

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

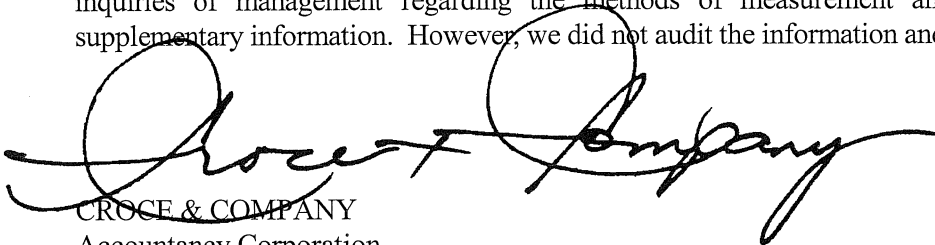
To the Board of Directors
Sausalito-Marin City Sanitary District

We have audited the accompanying basic financial statements of **Sausalito-Marin City Sanitary District** (the District) as of and for the year ended June 30, 2009 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, 2009, 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 5 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
March 29, 2010

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis

June 30, 2009

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, 2009. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 6.

Overview of the Financial Statements

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

Proprietary Fund Financial Statements

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

Notes to the Financial Statements

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

Financial Highlights

- Total assets of the District exceeded total liabilities at the close of the fiscal year by \$24,149,830 (net assets).
- Net assets of the District increased by \$774,167 during the current fiscal year.
- Operating revenues increased by \$958,531.
- Operating expenses increased by \$711,256.
- Property taxes decreased by \$62,466 (\$566,564 vs. \$504,098) and investment income decreased by \$46,062 (\$160,080 vs. \$114,018) in comparison to the prior year.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2009

- Revenue from the Tamalpais Community Services District (TCSD) service contract totaled \$1,084,249, which is an increase of \$247,620 over the prior year.
- Revenue from the City of Sausalito Pump Station O&M contract totaled \$83,299, which is an increase of \$43,592 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 \$24,149,830 at June 30, 2009. The District's investment in capital assets at June 30, 2009 represents the largest portion of fund equity (80%). The District's net assets increased by \$774,167 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,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u>
Assets				
Current assets	\$ 5,934,505	\$ 6,381,957	\$ (447,452)	(7.0)%
Capital assets, net	<u>22,118,781</u>	<u>20,580,507</u>	<u>1,538,274</u>	7.5
Total assets	<u>28,053,286</u>	<u>26,962,464</u>	<u>1,090,822</u>	4.0
Liabilities				
Current liabilities	1,106,107	686,071	420,036	61.2
Long-term debt	<u>2,797,349</u>	<u>2,900,730</u>	<u>(103,381)</u>	(3.6)
Total liabilities	<u>3,903,456</u>	<u>3,586,801</u>	<u>316,655</u>	8.8
Net assets				
Invested in capital assets, net	19,218,051	17,580,507	1,637,544	9.3
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>304,779</u>	<u>1,168,156</u>	<u>(863,377)</u>	(73.9)
Total net assets	<u>\$ 24,149,830</u>	<u>\$ 23,375,663</u>	<u>\$ 774,167</u>	3.3%

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2009

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 2009</u>	<u>Fiscal 2008</u>	<u>Increase (Decrease)</u>	<u>%</u>
Operating revenues	\$ 4,461,877	\$ 3,503,346	\$ 958,531	27.4%
Operating expenses	<u>4,183,833</u>	<u>3,472,577</u>	<u>711,256</u>	20.5
Operating income (loss)	278,044	30,769	247,275	803.7
Non-operating revenues	<u>496,123</u>	<u>726,644</u>	<u>(230,521)</u>	(31.7)
Net income	<u>\$ 774,167</u>	<u>\$ 757,413</u>	<u>\$ 16,754</u>	2.2%

Total operating revenue of \$4,461,877 increased by \$958,531 for the current year and operating expenses of \$4,183,833 increased by \$711,256, providing an increase of net operating income of \$247,275 when compared to the prior year. The District's net income increased by \$16,754 from the prior year.

The increase in operating revenue for fiscal year ended June 30, 2009 was due to an increase in the District's sewer service charges. Rates were increased from \$298 to \$388 for City of Sausalito residents and from \$348 to \$438.66 for unincorporated area residents. The increase generated revenue to help fund the District's capital improvement program and escalation of operating fund expenses due to inflation and new initiatives. Financial plans prepared in 2008 indicated that at least two more rate increases of similar amounts may be needed to generate sufficient revenue to meet capital and operating fund requirements over the next ten years.

The increase in operating expenses for the fiscal year ended June 30, 2009 was largely due to the following factors:

- Employee Transition Planning: The District continued to implement its transition plan in preparation for the turnover of staff due to retirements. Three new operators-in-training were hired to work under the tutelage of experienced staff who are expected to retire over the next several years. This was done to pass on plant and collection system operations and maintenance knowledge to the new employees and to ensure a well-trained work force. In addition to the operator positions, an administrative assistant was hired to help with increased administrative workload.
- Response to Regulatory Actions: Consulting services expenses were greater in FY 2008/09 due to the retention of consultants to assist the District in responding to two regulatory compliance orders. The first order was the USEPA Administrative Compliance Order that was issued to the District, the City of Sausalito and Tamalpais Community Services District to reduce sanitary sewer

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2009

- overflows in each agency's respective collection system. The order requires the preparation of comprehensive written plans to implement controls to reduce dry and wet weather sanitary sewer overflows from collection systems. The plans include an overflow response plan, sewer cleaning and root control plan, fats, oils and grease control plan, sewer inspection and assessment plan and a capacity assessment and assurance plan.

The second order was a Clean-up and Abatement Order that was issued to the District by the Regional Water Board in response to a partially treated wastewater spill from the District's treatment plant. Consulting services were needed to assist the District in conducting a comprehensive assessment of the environmental impacts of the spill and preparing technical reports in compliance with the order.

- Treatment Plant and Collection System Maintenance and Repairs: Maintenance and repair expenses were greater in 2008/09 due to increased workload in the areas of collection system cleaning and root control, sewer repair/replacement, and electrical and instrumentation rehabilitation and upgrade. In addition, collection system smoke testing was conducted to help identify the location of defects in public and private sewer lines and yard drains that are illegally connected to the sanitary sewer system.
- Private Lateral Repair Replacement Grant Program: The District incurred expenses to implement a private lateral repair/rehabilitation grant program, which provided financial assistance to District residents for repair of private laterals. The program was established as a Supplemental Environmental Project and approved by the Regional Water Board. The program promotes the rehabilitation of private sewer laterals, which contribute to inflow and infiltration that can lead to wet weather overflows.

The major capital expense components for the fiscal year ended June 30, 2009 were the following:

- Sludge Dewatering Improvements Project: The Sludge Dewatering Improvements Project was completed in FY 2008/09. The project consisted of the replacement of an 18-year-old belt filter sludge press with a new sludge screw press and construction of sludge pumping, polymer, electrical, and structural improvements. In addition, older chemical lines, which run from the chemical storage facilities on Fort Baker Road to the treatment plant, were replaced with new lines in secondary containment carrier pipes, equipped with leak detectors. A new hypochlorite day tank and pump dosing system was installed to replace the existing gravity fed, chemical injector system.
- Locust Street Pump Station Improvements Project: The Locust Street Pump Station Improvement Project consists of the replacement of a 50-year old underground pump structure with a new submersible pump station. The District is pursuing acquisition of easements from a private property owner in order to site electrical and standby power switch gear and controls. Preliminary engineering on the project is underway.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Management's Discussion and Analysis (Continued)

June 30, 2009

- Wet Weather Conveyance and Treatment Evaluation Study: The Wet Weather Conveyance and Treatment Evaluation Study evaluated wet weather wastewater flow and assessed the capacity of the District's conveyance system and treatment plant to handle the peak flows. System-wide improvement alternatives were developed to eliminate hydraulic bottlenecks and reduce the frequency and volume of blending bypass events, which, while currently permitted by regulatory agencies, may not be allowed in the future wastewater discharge permits. (Blending is the practice of mixing primary treated wastewater effluent with secondary treated wastewater effluent prior to disinfection and discharge during major rainstorms.) The conveyance and treatment plant improvements may include construction of an underground equalization storage basin, which would temporarily store high flows and re-convey the wastewater back into the conveyance system once the storm has passed, collection system rehabilitation by the City of Sausalito, Tamalpais Community Services District and the District, and the upgrade of secondary treatment capacity through construction of a new high rate clarifier at the treatment plant. The District completed a site and geotechnical evaluation study to identify the feasible sites where construction of an underground flow equalization basin could take place.
- Sodium Bisulfite Building Improvements Project: The project consists of demolishing the existing Sodium Bisulfite building, and constructing a new, larger building, including new tanks, piping, controls, fire detection, and alarm system. The project is expected to be substantially complete in FY 2010/11.
- Plant Headworks Project: The Plant Headworks Project consists of the construction of a preliminary treatment facility at the plant. Preliminary treatment consists of influent screening and grit removal. In addition, the project will include the installation of a plant influent filtration facility, which will provide needed redundancy for the single primary sedimentation basin at the plant. The new Headworks facility is planned to be constructed in the area presently occupied by the Sludge Dewatering Building. The project will improve plant performance and reliability, and decrease operation and maintenance costs. The District has selected an engineering consultant to conduct preliminary engineering for the project. This first phase of the project is scheduled to be completed in FY 2009/10. It will take several years to design, obtain permits and construct the Headworks project.

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, 2009

Assets

Current assets

Cash and cash equivalents	\$ 3,968,182
Cash and cash equivalents – restricted	1,608,120
Accounts receivable	313,281
Interest receivable	20,249
Prepaid expenses	<u>24,673</u>
Total current assets	<u>5,934,505</u>

Capital assets, net of accumulated depreciation

22,118,781

Total assets

\$ 28,053,286

Liabilities and Net Assets

Current liabilities (payable from current assets)

Accounts payable	\$ 519,834
Accrued vacation	101,987
Accrued payroll	38,279
Regional Water Quality Control Board liability	342,626
Current maturities of long-term debt	<u>103,381</u>
Total current liabilities	<u>1,106,107</u>

Long-term debt

2,797,349

Net assets

Invested in capital assets, net of related debt	19,218,051
Reserved for future capital improvements	2,485,000
Reserved for operations	1,810,000
Reserved for renewal and replacement	332,000
Unrestricted	<u>304,779</u>
Total net assets	<u>24,149,830</u>

Total liabilities and net assets

\$ 28,053,286

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, 2009

Operating revenues

Sewer service charges	\$ 3,150,282
TCSD service contract	1,084,249
Marin City sewer fees	95,327
Connection fees	42,398
Other revenue	<u>89,621</u>
Total operating revenue	<u>4,461,877</u>

Operating expenses

Salaries	1,040,027
Depreciation	776,665
Permits and fees	337,827
Repairs	321,767
Employee retirement	303,418
Employee benefits	248,091
Consulting services	206,807
Power	205,628
Chemicals	186,147
Monitoring and laboratory	90,552
Supplies	78,198
Payroll taxes	72,123
Legal and accounting	60,908
Solids disposal	38,434
Safety	37,474
Insurance	29,228
Directors' expenses	27,200
Vehicle maintenance	19,562
Conference and training	19,236
Other	19,112
Workers' compensation	18,814
Telephone	14,066
Assessment roll fee	13,105
Fuel	9,754
Water	5,521
Office	<u>4,169</u>
Total operating expenses	<u>4,183,833</u>

Operating income 278,044

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

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

For the year ended June 30, 2009

Nonoperating revenues (expenses)	
Property taxes	504,098
Investment income	114,018
Interest expense	<u>(121,993)</u>
Total nonoperating revenues	<u>496,123</u>
Change in net assets	774,167
Net assets, beginning of year	<u>23,375,663</u>
Net assets, end of year	<u>\$ 24,149,830</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, 2009

Cash flows from operating activities	
Cash received from customers	\$ 4,361,230
Cash paid to employees	(1,021,662)
Cash paid to suppliers	<u>(1,963,566)</u>
Net cash provided by operating activities	<u>1,376,002</u>
Cash flows from noncapital financing activities	
Property taxes	<u>504,098</u>
Net cash provided by noncapital financing activities	<u>504,098</u>
Cash flows from capital and related financing activities	
Purchases of capital assets	(2,314,939)
Payments on long-term debt	<u>(99,270)</u>
Net cash used in capital and related financing activities	<u>(2,414,209)</u>
Cash flows from investing activities	
Interest received	128,670
Interest paid	<u>(121,993)</u>
Net cash provided by investing activities	<u>6,677</u>
Net decrease in cash and cash equivalents	(527,432)
Cash and cash equivalents, beginning of year	<u>6,103,734</u>
Cash and cash equivalents, end of year (including \$1,608,120 for capital acquisitions reported as restricted cash and cash equivalents)	<u>\$ 5,576,302</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 278,044
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	776,665
Changes in operating assets and liabilities	
Accounts receivable	(100,647)
Prepaid expenses	6,015
Accounts payable	157,864
Accrued vacation	9,410
Accrued payroll	8,955
Regional Water Quality Control Board liability	<u>239,696</u>
Net cash provided by operating activities	<u>\$ 1,376,002</u>

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

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2009

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

Basis of accounting

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The District's operating revenues include all revenues derived from sewage services. Operating expenses include all costs related to sewage services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fund accounting

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

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2009

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, 2009

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, 2008 and were payable in two installments on November 1, 2008 and February 1, 2009. 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, 2009

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, 2009, 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)	\$ 152,304	\$ 199,533	
Savings – Public Money Market Fund	<u>15,078</u>	<u>16,877</u>	
	<u>167,382</u>	<u>\$ 216,410</u>	
<u>Investment in external investment pools</u>			
California Local Agency Investment Fund	<u>5,408,717</u>		<u>\$ 5,408,717</u>
			<u>\$ 5,408,717</u>
<u>Petty cash</u>	<u>203</u>		
	<u>\$ 5,576,302</u>		

As of June 30, 2009, the District did not have any deposits that were uninsured and uncollateralized.

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2009

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 \$5,408,717. 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 \$50,743,268,381 of which 14.71% is invested in medium-term and short-term structured notes and asset-backed securities. Included in LAIF's investment portfolio are United States Treasury and federal agency securities, International Bank for Reconstruction and Development federal agency floating rate debentures, bank notes, certificates of deposit, commercial paper, corporate floaters and bonds, time deposits and California Assembly Bill 55 and State of California General Fund Loans. Participants equity in LAIF is determined by the dollar amount of the participant's deposits, adjusted for withdrawals and distributed investment income.

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

The District does not maintain a formal investment policy.

Note C – Capital Assets

Capital asset activity for the year ended June 30, 2009 is as follows:

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2009</u>
Nondepreciable capital assets				
Construction in progress	\$ 762,176	\$ 795,275	\$ (24,702)	\$ 1,532,749
Net nondepreciable capital assets	<u>762,176</u>	<u>795,275</u>	<u>(24,702)</u>	<u>1,532,749</u>

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2009

Note C – Capital Assets (Continued)

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2009</u>
Depreciable capital assets				
Original conveyance and treatment facilities	\$ 2,456,434	\$ -	\$ -	\$ 2,456,434
Secondary treatment plant	12,818,057	18,750	-	12,836,807
General equipment, facility upgrade and renewal	6,296,221	1,394,984	-	7,691,205
Conveyance system upgrade and renewal	5,764,466	58,715	-	5,823,181
Collection system upgrade and renewal	102,313	54,959	-	157,272
Office equipment	<u>23,975</u>	<u>16,958</u>	<u>-</u>	<u>40,933</u>
Total depreciable capital assets	27,461,466	1,544,366	-	29,005,832
Less accumulated depreciation	<u>(7,643,135)</u>	<u>(776,665)</u>	<u>-</u>	<u>(8,419,800)</u>
Total depreciable capital assets, net	<u>19,818,331</u>	<u>767,701</u>	<u>-</u>	<u>20,586,032</u>
Net capital assets	<u>\$ 20,580,507</u>	<u>\$ 1,562,976</u>	<u>\$ (24,702)</u>	<u>\$ 22,118,781</u>

Note D – Long-Term Liabilities

Long-term liabilities outstanding as of June 30, 2009 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>\$ 2,900,730</u>	<u>\$ 103,381</u>

The following is a summary of long-term liability issuances and transactions during the year ended June 30, 2009:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2009</u>
Note payable – City National Bank	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ 99,270</u>	<u>\$ 2,900,730</u>

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2009

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 year's debt service on the loan.

Summary of long-term liabilities service requirements

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	121,604	99,658	221,262
2015-2019	687,875	418,437	1,106,312
2020-2024	842,635	263,677	1,106,312
2025-2028	<u>808,682</u>	<u>76,366</u>	<u>885,048</u>
Total requirements	<u>\$ 2,900,730</u>	<u>\$ 1,303,253</u>	<u>\$ 4,203,983</u>

Note E – Defined Benefit Pension Plan

Plan description

The Sausalito-Marín City Sanitary District has a defined benefit pension plan, the Miscellaneous Plan of the Sausalito-Marín 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, 2009

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, 2009 was 24.141% 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, 2009, the District’s annual pension cost was \$246,933 and the District actually contributed \$246,933. The required contribution for the year ended June 30, 2009 was determined as part of the actuarial valuation as of June 30, 2006 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, 2009.

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

Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
6/30/07	\$ 148,066	100%	\$ 0
6/30/08	208,365	100	0
6/30/09	246,933	100	0

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2009

Note E – 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
6/30/04	\$ 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, 2009 were \$70,239. 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, 2009 were \$6,222.

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, 2009

Note G – Risk Management (Continued)

The latest audited financial information for the CSRMA is for the fiscal year ended June 30, 2008 and the condensed financial information of the CSRMA is as follows:

Total assets	\$ 26,583,469
Total liabilities	<u>15,298,475</u>
Net assets	<u>\$ 11,284,994</u>
Total revenues	\$ 7,694,333
Total expenses	<u>10,806,732</u>
Change in net assets	<u>\$ (3,112,399)</u>

The entity did not have long-term debt outstanding at June 30, 2008. 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, 2009:

<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	5,000
Public Entity Property Insurance	26,175,004

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2009

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, 2009, 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

(Continued)

SAUSALITO-MARIN CITY SANITARY DISTRICT

Notes to Financial Statements

June 30, 2009

Note J – Regional Water Quality Control Board Liability (Continued)

violation will be assessed at \$3,000 each. On May 21, 2007, the RWQCB assessed \$204,000 in mandatory minimum penalties to the District. The District recorded a liability for \$204,000 as of June 30, 2007. The remaining liability as of June 30, 2009 is \$84,626. In addition, during February 2009, the District incurred a sewage spill. Accordingly, the RWQCB assessed the District \$258,000 in penalties due to the spill. As of June 30, 2009, the combined total amount of liability outstanding is \$342,626.