

SAUSALITO-MARIN CITY SANITARY DISTRICT

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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SAUSALITO-MARIN CITY SANITARY DISTRICT

BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sausalito-Marín City Sanitary District

We have audited the accompanying basic financial statements of Sausalito-Marín City Sanitary District, as of June 30, 2011 and for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Sausalito-Marín City Sanitary District's June 30, 2010 financial statements, in which the prior auditor's report dated November 22, 2010 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 basic financial statements present fairly in all material respects, the respective financial position of Sausalito-Marín City Sanitary District as of June 30, 2011, the respective changes in financial position and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Sausalito-Marín City Sanitary District. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maze & Associates

December 22, 2011

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**Sausalito-Marín City Sanitary District
Management Discussion and Analysis
June 30, 2011**

As Manager of the Sausalito-Marín 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, 2011. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 8.

Overview of the Financial Statements

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

Proprietary Fund Financial Statements

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 11 of this report.

Financial Highlights

- Total assets of the District exceeded total liabilities at the close of the fiscal year by \$29,952,328 (fund equity).
- Fund equity of the District increased by net income of \$1,445,282 during the current fiscal year.
- Operating revenues increased by \$460,097.
- Operating expenses decreased by \$161,080.
- The District's long term debt decreased by \$112,124 from \$2,689,686 to \$2,577,562.
- Property taxes were marginally lower (\$502,616 vs. \$524,835) and investment earnings decreased (\$22,876 vs. \$31,132) in comparison to the prior year.
- Revenue from the Tamalpais Community Services District service contract was flat (\$1,284,356 vs. \$1,250,809), which is a decrease of \$33,547 from 2009/10 revenues.
- Revenue from the City of Sausalito Pump Station O&M contract totaled \$81,185, which is a decrease of \$11,669 over 2009/10 revenues.

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 \$26,445,410 at June 30, 2011. The District's investment in capital assets at June 30, 2011 represents the largest portion of fund equity (91%). The District's fund equity increased by \$1.07 million during the fiscal year; (see Table 1 below). Assets were reallocated among the future capital improvements, Operations, and Renewal and Replacement Funds pursuant to the District's reserve policy, which was developed in FY 2003/04.

Table 1
FUND EQUITY

	June 30, 2011	June 30, 2010	Increase (Decrease)	%
Current assets	\$ 5,974,100	\$ 5,690,095	\$ 284,005	4.8%
Capital assets	23,950,712	22,711,710	1,239,002	5.2%
Other assets	27,516	27,516	-	0.0%
Total assets	29,952,328	28,429,321	1,523,007	5.1%
Total current liabilities	829,628	718,989	110,639	13.3%
Fund equity:				
Invested in capital assets, net	21,261,027	19,914,361	1,346,666	6.3%
Restricted:				
Future capital improvements	2,485,000	2,485,000	-	0.0%
Operations	1,810,000	1,810,000	-	0.0%
Renewal and replacements	332,000	332,000	-	0.0%
Unrestricted	557,383	458,767	98,616	17.7%
Total fund equity	\$ 26,445,410	\$ 25,000,128	\$ 1,445,282	5.8%

Table 2

Results of Operations/Statement of Revenues, Expenses and Changes in Fund Equity

	Fiscal 2011	Fiscal 2010	(Decrease)	%
Operating revenues	\$ 5,155,260	\$ 4,695,163	\$ 460,097	8.9%
Operating expenses	4,121,871	4,282,951	(161,080)	-3.9%
Operating income (loss)	1,033,389	412,212	621,177	60.1%
Nonoperating revenues	411,893	438,086	(26,193)	-6.4%
Net income	\$ 1,445,282	\$ 850,298	\$ 594,984	41.2%

Total operating revenue increased by \$460,097 to \$5.16 million for the current year and operating expenses of \$4.12 million decreased by \$161,080, providing an increase of net operating income of \$0.62 million when compared to the prior year. The increase was primarily due to a 20% increase in sewer service charge rates as well as 3.8% decrease in Operating expenses. The District's net income increased by \$621,177 from the prior year.

Table 3
Liabilities

	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>	<u>Increase (Decrease)</u>	<u>%</u>
Current Liabilities	\$ 829,628	\$ 718,989	\$ 110,639	13.3%
Noncurrent Liabilities				
Long Term Debt	2,577,562	2,689,686	\$ (112,124)	-4.4%
Accrued OPEB's ¹	99,728	20,518	79,210	79.4%
Total Noncurrent liabilities	<u>2,677,290</u>	<u>2,710,204</u>	<u>(32,914)</u>	<u>-1.2%</u>
Total Liabilities	<u>\$ 3,506,918</u>	<u>\$ 3,429,193</u>	<u>\$ 77,725</u>	<u>2.2%</u>

¹ Other Post Employment Benefits

Total liabilities increased from \$3.43 million to \$3.51 million, which included pay down of the 2008 City National Bank loan and addition of OPEB liabilities, which the District began reporting in 2009/10 in accordance with Governmental Accounting Standards Board requirements.

Operating Fund

Major changes in operating expenses in fiscal year ending June 30, 2011 compared to fiscal year ending June 30, 2010 include the following:

- **Employee Staffing Transition:** Approximately \$333,000 of decreased employee salary and benefit expense was realized with the retirement of four long tenured employees and the completion of the District's transition plan. The transition plan provided for the hiring of four new employees in Fiscal Year 2008/09 ahead of the anticipated retirements to provide for succession training.
- **Retirement:** Retirement expenses increased by about \$102,000 as a result of governmental accounting standard changes that require the recording of post employment medical health benefit liability and expenses. In addition, FY 2009/10 capitalized employee salary and benefit expenses were allocated entirely to retirement in lieu of divided between salary and retirement.
- **Monitoring:** Monitoring expenses increased as a result of contracting out additional laboratory services that, heretofore, were performed by the Laboratory Director and plant operators. The change allowed the Laboratory Director to 1) perform in the capacity of resident operator in connection with the District's after hour alarm and emergency response program and 2) provide additional administrative and regulatory compliance resource.
- **Insurance:** Insurance expenses increased relative to prior fiscal year expense as a result of under-reported FY 2009/10 pooled liability insurance expenses. The under reported expense was included in the current fiscal year statement of expenses.
- **Permits and Fees:** A \$46,000 reduction in Permit and Fees expense was realized as a result the completion of the Lateral Repair/Replacement Grant Supplemental Environmental Project.

Capital Fund

The District incurred \$2.36 million in major capital project expenses during the fiscal year ending June 30, 2011. The following major improvement project work was completed:

- Locust Street Pump Station Improvements Project: The Locust Street Pump Station Improvement Project consists of the replacement of a 50-year old pump station with a modern, new submersible pump station. The District awarded the construction contract to lowest responsible contractor in June 2011. The District received a low interest State Revolving Loan for the project in August 2011. Completion of the project is scheduled in April 2012.
- Sodium Bisulfite Building and Additional Plant Improvements Project: The project consisted of demolishing the existing Sodium Bisulfite Building and constructing a new, larger building, including new tanks, piping, controls, and fire detection and alarm system. The project was substantially complete and placed in serviced in February 2011.
- Marin City Collection System Repair and Rehabilitation: The project consists of the renewal of approximately 10,500 linear feet of sewers in Marin City and 900 linear feet of 24-inch gravity sewer interceptor in Bridgeway from Napa Street to Locust Street. The project will improve the reliability of the collection system, reduce inflow and infiltration, and decrease maintenance costs. The project is scheduled to be completed by the fall of FY 2012/13.
- Temporary Pump Station and FFR Valve Replacement Project: The project consisted of the construction of a temporary pump station to bypass primary effluent flow around the Primary Effluent Box, upstream gravity sewer leading to and including the Fix Film Reactor supply Pump Station. This permitted access to the facilities so that repair and rehabilitation work could be accomplished as described in the following project.
- Primary Effluent Box, Recycle Box, Pipe Rehabilitation and Valve Replacement Project: The Primary Effluent Box and Recycle Box have been in been in continuous service since 1952 and the FFR Supply Pump Station has been in continuous service since 1986. In the intervening time, the concrete walls of the Primary Effluent Box and Recycle Stream Box have deteriorated due to the effects of hydrogen sulfide corrosion. Corrosion was determined to be near the depth of the reinforcing steel and accelerated rebar corrosion was anticipated without repairs. The design of the project was completed in June 2011 and the project is scheduled to be bid in July 2011. Construction is scheduled to be completed by December 2011.
- Headworks and Primary and Secondary Treatment improvements Project: The project involves upgrades to the wastewater treatment plant to improve reliability, operational flexibility and minimize plant maintenance. In addition, it would reduce wet weather blending events and address site constraints, including plant and truck loading access and administrative space constraints. Planning and preliminary engineering design work on the project was substantially completed in June 2011.

- Pump Station Reliability Improvements Project: The District entered into a purchase order contract for the procurement of a 7.5 MGD, diesel engine driven, portable pump, which would be located at Main Street Pump Station to provide firm pumping capacity during wet weather and emergencies. The District completed design of improvements at Main Street and at three other pump stations to improve pump station reliability. Construction of the improvements is scheduled in FY 2012/13.

Other

The District began work on a new Wastewater Collection, Treatment, and Disposal Agreement between Tamalpais Community Services District and the District. The new agreement is intended to provide an updated expense reimbursement schedule and provisions for long term service and financial commitment in connection with the renewal and upgrade of District conveyance and treatment infrastructure.

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, Sausalito, CA 94965, or telephone (415) 332-0244.

SAUSALITO-MARIN CITY SANITARY DISTRICT
BALANCE SHEET
AT JUNE 30, 2011
WITH COMPARATIVE AMOUNTS AT JUNE 30, 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents (Note 2)	\$5,169,459	\$4,533,536
Cash and cash equivalents - restricted (Note 2)	12,018	1,020,637
Accounts receivable	751,303	88,124
Interest receivable	5,826	6,787
Prepaid insurance	<u>35,494</u>	<u>41,011</u>
Total Current Assets	<u>5,974,100</u>	<u>5,690,095</u>
Capital assets, net of accumulated depreciation (Note 4)	<u>23,950,712</u>	<u>22,711,710</u>
Other Assets		
Note receivable (Note 3)	<u>27,516</u>	<u>27,516</u>
Total Assets	<u><u>\$29,952,328</u></u>	<u><u>\$28,429,321</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$607,369	\$256,614
Accrued compensation time and vacation (Note 1L)	62,829	97,884
Accrued payroll	3,007	53,202
River watch liability (Note 13)	40,000	
Regional Water Quality Control Board liability (Note 12)	4,300	203,626
Current maturities of long-term debt (Note 5)	<u>112,123</u>	<u>107,663</u>
Total Current Liabilities	<u>829,628</u>	<u>718,989</u>
Noncurrent Liabilities		
Long-term debt (Note 5)	2,577,562	2,689,686
Accrued other post-employment benefits (Note 9)	<u>99,728</u>	<u>20,518</u>
Total Noncurrent Liabilities	<u>2,677,290</u>	<u>2,710,204</u>
Total Liabilities	<u>3,506,918</u>	<u>3,429,193</u>
Net Assets (Note 1. I.)		
Invested in capital assets, net of related debt	21,261,027	19,914,361
For future capital improvements	2,485,000	2,485,000
For operations	1,810,000	1,810,000
For renewal and replacement	332,000	332,000
Unrestricted	<u>557,383</u>	<u>458,767</u>
Total Net Assets	<u>26,445,410</u>	<u>25,000,128</u>
Total Liabilities and Net Assets	<u><u>\$29,952,328</u></u>	<u><u>\$28,429,321</u></u>

See accompanying notes to financial statements

SAUSALITO-MARIN CITY SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Sewer service charges	\$3,594,694	\$3,176,511
TCS D service contract	1,284,356	1,250,809
Marin City sewer fees	156,942	95,299
Other revenue	107,008	92,854
Connection fees	<u>12,260</u>	<u>79,690</u>
Total Operating Revenues	<u>5,155,260</u>	<u>4,695,163</u>
OPERATING EXPENSES		
Salaries	960,532	1,248,013
Depreciation (Note 4)	1,117,492	907,990
Repairs	235,295	351,216
Employee benefits	283,424	328,833
Employee retirement	374,647	272,914
Power	204,846	220,481
Chemicals	190,506	180,581
Permits and fees	78,070	124,489
Consulting services	81,646	94,873
Payroll taxes	80,877	74,558
Supplies	77,149	66,955
Monitoring and laboratory	32,913	66,311
Other	31,048	61,333
Legal and accounting	98,116	58,399
Safety	44,413	48,935
Solid disposal	40,474	32,915
Directors' expenses	21,440	26,080
Insurance	48,214	22,180
Vehicle maintenance	12,309	18,133
Workers' compensation	35,445	17,545
Telephone	17,716	14,953
Conference and training	19,108	11,086
Assessment roll fee	14,025	10,712
Fuel	9,372	9,186
Office	7,084	7,636
Water	<u>5,710</u>	<u>6,644</u>
Total Operating Expenses	<u>4,121,871</u>	<u>4,282,951</u>
Operating income	<u>1,033,389</u>	<u>412,212</u>
Nonoperating revenues (expenses)		
Property taxes	502,616	524,835
Investment income	22,876	31,132
Interest expense	<u>(113,599)</u>	<u>(117,881)</u>
Total nonoperating revenue, net	<u>411,893</u>	<u>438,086</u>
CHANGES IN NET ASSETS	1,445,282	850,298
NET ASSETS AT BEGINNING OF YEAR	<u>25,000,128</u>	<u>24,149,830</u>
NET ASSETS AT END OF YEAR	<u><u>\$26,445,410</u></u>	<u><u>\$25,000,128</u></u>

See accompanying notes to financial statements

SAUSALITO-MARIN CITY SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$4,492,081	\$4,920,320
Cash paid to employees	(1,624,643)	(1,216,675)
Cash paid to supplies	(1,188,830)	(2,545,506)
	<u>1,678,608</u>	<u>1,158,139</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	502,616	524,835
Advances on note receivable		(27,516)
	<u>502,616</u>	<u>497,319</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(2,356,494)	(1,500,919)
Payments on long-term debt	(107,664)	(103,381)
Interest paid on long-term debt	(113,599)	(117,881)
	<u>(2,577,757)</u>	<u>(1,722,181)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	23,837	44,594
	<u>23,837</u>	<u>44,594</u>
NET CASH FLOWS	(372,696)	(22,129)
Cash and cash equivalents at beginning of year	<u>5,554,173</u>	<u>5,576,302</u>
Cash and cash equivalents at end of year	<u><u>\$5,181,477</u></u>	<u><u>\$5,554,173</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$1,033,389	\$412,212
Adjustment to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	1,117,492	907,990
Changes in operating assets and liabilities		
Accounts receivable	(663,179)	225,157
Prepaid expenses	5,517	(16,338)
Accounts payable	350,755	(263,220)
Accrued vacation	(35,055)	(4,103)
Accrued payroll	(50,195)	14,923
River watch liability	40,000	
Regional water Quality Control Board liability	(199,326)	(139,000)
Accrued other post-employment benefits	79,210	20,518
	<u>1,678,608</u>	<u>1,158,139</u>
Net cash provided by operating activities	<u><u>\$1,678,608</u></u>	<u><u>\$1,158,139</u></u>

See accompanying notes to financial statements

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 – 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.

A. Description of reporting entity

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

B. Basis of accounting

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

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

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

C. Fund accounting

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

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary accounting

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

E. Cash and cash equivalents

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

F. Accounts receivable

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

G. Capital assets

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

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

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

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

H. Long-lived assets

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

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Net assets

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

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

J. Property taxes

Property taxes were levied July 1, 2010 and were payable in two installments on November 1, 2010 and February 1, 2011. The County of Marin bills and collects property taxes on behalf of the District. Property tax revenues are recognized as revenue when received.

K. Estimates and assumptions

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

L. Compensated absences

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

Beginning Balance	\$97,844
Additions	3,985
Payments	<u>(39,000)</u>
Ending Balance	<u><u>\$62,829</u></u>

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the District as of June 30, 2011, consist of the following:

	Carrying amount	Bank balance	Fair value
<i>Deposits in commercial accounts</i>			
Checking - Insured (FDIC)	\$28,242	\$114,404	
Savings - Public Money Market Fund	197,349	197,349	
	225,591	\$311,753	
 <i>Investment in investment pool</i>			
California Local Agency Investment Fund	4,955,686		\$4,955,686
	4,955,686		\$4,955,686
 <i>Petty cash</i>			
	200		
<i>Total Cash and Cash Equivalents</i>	\$5,181,477		

As of June 30, 2011, \$61,753 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

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

A. Investment in State Investment Pool

Although the District did not participate in any securities lending transactions or enter into any reverse repurchase agreements during the year, the District does have an investment in the California Local Agency Investment Fund (LAIF) in the amount of \$4,955,686. 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 \$66,352,783,817. Included in LAIF's investment portfolio are United States Treasury and federal agency securities, International Bank for Reconstruction and Development federal agency floating rate debentures, bank notes, certificates of deposit, commercial paper, corporate floaters and bonds, time deposits and California Assembly Bill 55 and State of California General Fund Loans. Participants equity in LAIF is determined by the dollar amount of the participant's deposits, adjusted for withdrawals and distributed investment income. At June 30, 2011 these investments matured in an average of 237 days.

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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

The District does not maintain a formal investment policy.

NOTE 3 – NOTE RECEIVABLE

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013.

After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to Sausalito-Marín City Sanitary District was \$27,516.

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

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Retirements	Adjustments & Transfers	Balance June 30, 2011
Nondepreciable capital assets					
Construction in progress	\$1,547,445	\$1,498,715		(\$645,944)	\$2,400,216
Net nondepreciable capital assets	1,547,445	1,498,715		(645,944)	2,400,216
Depreciable capital assets					
Original conveyance and treatment facilities	2,456,434				2,456,434
Secondary treatment plant	12,836,807				12,836,807
General equipment, facility upgrade and renewal	8,996,314	756,865	(\$399,620)	617,192	9,970,751
Conveyance system upgrade and renewal	5,896,554	67,286		28,752	5,992,592
Collection system upgrade	265,013	20,953	(102,313)		183,653
Office equipment	40,933	12,675			53,608
Total depreciable capital assets	30,492,055	857,779	(501,933)	645,944	31,493,845
Less accumulated depreciation	(9,327,790)	(1,117,492)	501,933		(9,943,349)
Total depreciable capital assets, net	21,164,265	(259,713)		645,944	21,550,496
Net capital assets	\$22,711,710	\$1,239,002			\$23,950,712

NOTE 5 – LONG-TERM LIABILITIES

Long-term liabilities outstanding as of June 30, 2011 consist of the following:

	Original Issue Amount	Balance June 30, 2010	Retirements	Balance June 30, 2011	Amount due within one year
Note payable - City National Bank 4.10%, due 5/8/28	\$3,000,000	\$2,797,349	\$107,664	\$2,689,685	\$112,123
Total Long-Term Debt		\$2,797,349	\$107,664	\$2,689,685	\$112,123

A. Note payable - City National Bank

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

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 – LONG-TERM LIABILITIES (Continued)

B. 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>
2012	\$112,123	\$109,140	\$221,263
2013	116,767	104,496	221,263
2014	121,604	99,659	221,263
2015	126,641	94,622	221,263
2016	131,886	89,377	221,263
2017-2021	746,037	360,273	1,106,310
2022-2026	913,884	192,427	1,106,311
2027-2028	420,743	21,782	442,525
Total requirements	<u>\$2,689,685</u>	<u>\$1,071,776</u>	<u>\$3,761,461</u>

NOTE 6 – DEFINED BENEFIT PENSION PLAN

A. 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 California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (or other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

B. Funding policy

The Plan provides for the contribution by active plan members of 8% of their annual covered salary. The employer has elected to make this contribution for the employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year ended June 30, 2011 was 24.1% 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.

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)

C. Annual pension cost

For the year ended June 30, 2011, the District's annual pension cost was \$269,826 and the District actually contributed \$269,826. The required contribution for the year ended June 30, 2011 was determined as part of the actuarial valuation as of June 30, 2010 using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases depending on age, service and type of employment ranging from 3.55% to 14.45%; (c) 3.00% inflation and (d) payroll growth of 3.25%. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a 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, 2011.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	\$246,933	100%	\$0
6/30/2010	368,986	100%	0
6/30/2011	269,826	100%	0

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

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

NOTE 7 – DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The deferred compensation plan is available to all full-time employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, death, or unforeseeable emergency. Total employee contributions to the plan during the year ended June 30, 2011 were \$64,142. 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, 2011 were \$11,149.

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 – RISK MANAGEMENT

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

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

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

The latest audited financial information for the CSRMA is for the fiscal year ended June 30, 2010 and the condensed financial information of the CSRMA is as follows:

Total assets	\$30,183,457
Total liabilities	<u>16,996,072</u>
Net assets	<u>\$13,187,385</u>
Total revenues	\$10,635,989
Total expenses	<u>11,926,934</u>
Change in net assets	<u>(\$1,290,945)</u>

The entity did not have long-term debt outstanding at June 30, 2010. 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, 2011:

Coverage	Limits	Deductibles
General Liability, Errors and Omissions, and Employment Practices Liability (CSRMA pooled program)	\$15,550,000	\$42,500
Excess General Liability (Ironshore Specialty Insurance Company)	25,500,000	None
Public Entity Physical Damage (Beazley Insurance Company)	170,905	2,000
Special Form Property (Public Entity Program Insurance Program)	27,403,120	5,000
Workers' Compensation (CSRMA pooled program)	750,000	None
Excess Workers' Compensation (Safety National Casualty Corporation)	Statutory	None

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. Plan description

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

B. Funding policy

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

C. Annual OPEB cost

The following table presents the components of the District's annual OPEB cost, amounts actually contributed of \$96,790 to the Plan, and changes in net OPEB obligation for the year ended June 30, 2011:

Annual required contribution (ARC)	\$176,000
Annual OPEB expense	176,000
Contributions made:	
Retired employees post employment medical benefit payments	(96,790)
Increase in net OPEB obligation	79,210
Net OPEB obligation, beginning of year	20,518
Net OPEB obligation, end of year	\$99,728

D. Funded status of the plan

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

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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

E. Schedule of funding progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress for the year ended June 30, 2011 (the transition year) follows:

Actuarial Valuation Date	Actuarial Accrued Liability (A)	Actuarial Value of Assets (B)	Actuarial Accrued Liability (UAAL) (A) – (B)	Funded Status (B) / (A)	Annual Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(A) – (B) / (C)]
7/1/2010	\$2,279,000	\$0	\$2,279,000	0.0%	\$1,248,013	182.6%

F. Transition year trend information

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

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

G. Actuarial methods and assumptions

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

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

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 – GOVERNING BOARD

The powers of the District are exercised by a Board of Directors consisting of five directors, each elected or a term of four years by the qualified electors within the District. As of June 30, 2011, the members of the District's Board of Directors were as follows:

	<u>Term Expires</u>
Ann Arnott, President	November 2013
Raymond Gergus, Vice President	November 2013
Donald Beers, Director	November 2011
William F. H. Ring, Director	November 2011
Norman Wohlschlaeger, Director	November 2011

NOTE 11 – CONTINGENCIES AND COMMITMENTS

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

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

NOTE 12 – REGIONAL WATER QUALITY CONTROL BOARD LIABILITY

The Regional Water Quality Control Board (RWQCB) imposes mandatory penalties for violations of effluent limits as contained in the District's National Pollutant Discharge Elimination System permit. The District has incurred violations over the last several years and each qualifying violation will be assessed at \$3,000 each. 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, 2011 is \$0.

In addition, during February 2009, the District incurred a sewage spill. Accordingly, the RWQCB assessed the District \$258,000 in penalties due to the spill. The remaining liability as of June 30, 2011 is \$4,300.

NOTE 13 – RIVER WATCH LIABILITY

The District entered into a Settlement and Release of Claims Agreement on July 31, 2008 with Northern California River Watch, a 501(c)(3) non-profit public benefit corporation to resolve allegations that the District violated Section 505 of the Federal Water Pollution Control Act. As part of the settlement, the District agreed to provide funding in the amount of \$40,000 for a supplemental environmental project relating to a storm water pollution study or grant or reduced cost programs for lateral replacements. The District has recorded a liability in the amount of \$40,000 for the supplemental environmental project. As of June 30, 2011, the liability outstanding is \$40,000.

**SAUSALITO-MARIN CITY SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 14 – SUBSEQUENT EVENT

The District entered into a loan contract with the State of California (State Water Resources Control Board) on August 15, 2011, for the purpose of financing the Locust Street Pump Station Improvements project. The loan amount totals \$2,298,373 with a stated interest rate of 2.6% per annum. Principal and interest payments will be due annually beginning on May 15, 2013 through the fiscal year 2032.

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