

**SELMA-KINGSBURG-FOWLER  
COUNTY SANITATION DISTRICT**

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**REPORT ON AUDITED  
FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

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**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2010 AND 2009**

**Prepared by:**

Michael S. Fong  
Chief Accountant

# SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT

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March 8, 2011

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Selma-Kingsburg-Fowler County Sanitation District  
Kingsburg, California

We have audited the accompanying statements of net assets of Selma-Kingsburg-Fowler County Sanitation District (the District) as of June 30, 2010 and 2009, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. 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 and the State Controller's Minimum Audit Requirements for California Special Districts. 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 statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Selma-Kingsburg-Fowler County Sanitation District, as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's office and state regulations governing special districts.

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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary Activity Summaries as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These Activity Summaries have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Sampson, Sampson and Partners, LLP*

**SELMA-KINGSBURG-FOWLER  
COUNTY SANITATION DISTRICT  
Management's Discussion and Analysis (MD&A)  
June 30, 2010**

**INTRODUCTION**

This discussion and analysis of Selma-Kingsburg-Fowler County Sanitation District (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2010. It should be read in conjunction with the District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999; and GASB Statement No. 37, *Basic Financial Statement – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001.

**FINANCIAL HIGHLIGHTS**

- Total net assets were \$39,553,248, \$38,123,043 and \$37,591,431 at June 30, 2010, June 30, 2009 and 2008 respectively. The amount at June 30, 2010 includes investment in capital assets, primarily property, plant and equipment, with a net book value of \$22,909,646.
- For the year ending June 30, 2010, overall revenues were \$8,221,736, which exceeded overall expenditures of \$6,791,531 by \$1,430,205. For the year ending June 30, 2009, overall revenues were \$7,379,559, which exceeded overall expenditures of \$6,847,947 by \$531,612. For the year ending June 30, 2008, overall revenues were \$7,404,282, which exceeded overall expenditures of \$6,384,512 by \$1,014,770. These are on the accrual basis and therefore include depreciation and capitalization of new assets.
- The District expended \$3,360,949 on Property Plant & Equipment during the current year.
- The District transferred \$800,000 and \$600,000 in 2010 and 2009 respectively from the Operation and Maintenance sub-fund to the District sub-fund for future refurbishment or replacement of capital facilities in the treatment plant or interceptor systems.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of three parts – Management's Discussion and Analysis (this section), the Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Net Assets, and supplementary information. The three sections together provide a comprehensive overview of the District. The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

**The Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Net Assets**

The Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Net Assets report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses, and Changes in Net Assets regardless of when cash is received or paid. These two statements report the District's net assets and how they have changed. Net assets, the difference between the assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets may be an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as, community growth rates, and condition of facilities.

## FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

### Net Assets

The District's combined net assets were \$39,553,248, \$38,123,043 and \$37,591,431 at June 30, 2010, 2009 and 2008 respectively as shown below in Table 1.

**Table 1**  
**Net Assets**

	Governmental Activities			Total Percentage Change
	2010	2009	2008	2010-2009
<b>Assets</b>				
Cash - Unrestricted	\$ 11,479,775	\$ 12,227,172	\$ 12,402,644	-6.20
Cash – Restricted	5,402,100	5,561,683	4,299,203	-2.90
Accounts Receivable	647,835	469,107	350,963	38.10
Interest Receivable	96,888	100,543	172,233	-3.70
Capital Assets, Net	22,909,646	20,635,163	21,257,285	11.10
Deferred Connection Fees	30,581	32,058	32,375	-4.60
Deferred Accounts Receivable	152,895	152,895	152,895	
<b>TOTAL ASSETS</b>	<b>40,719,720</b>	<b>39,178,621</b>	<b>38,667,598</b>	<b>3.93</b>
<b>Liabilities</b>				
Accounts Payable	229,865	130,265	264,153	76.46
Franchise Fees Payable	268,883	265,952	249,576	1.10
Accrued Compensated Absences	478,899	563,651	562,438	-15.04
Net OPEB Obligation	188,825	95,710		
<b>TOTAL LIABILITIES</b>	<b>1,166,472</b>	<b>1,055,578</b>	<b>1,076,167</b>	<b>10.51</b>
<b>Net Assets</b>				
Investment in Capital Assets	22,909,646	20,635,163	21,257,285	11.10
Restricted	5,402,100	5,561,683	4,299,203	-2.87
Unrestricted	11,241,502	11,926,197	12,034,943	-5.74
<b>TOTAL NET ASSETS</b>	<b>\$39,553,248</b>	<b>\$38,123,043</b>	<b>\$37,591,431</b>	<b>3.75</b>

### Changes in Net Assets

The District's total revenues were \$8,221,736, \$7,379,559 and \$7,404,282 for the years ended June 30, 2010, 2009 and 2008 respectively. The largest source of revenue was domestic/commercial user fees, which accounted for 48.4%, 55.7% and 51.6% of total revenues for the years ended June 30, 2010, 2009 and 2008 respectively.

The District's total expenses were \$6,791,531, \$6,847,947 and \$6,389,512 at June 30, 2010, 2009 and 2008 respectively. The largest area of expense was for sewage treatment, which includes personnel services, electricity and plant capital improvements, at \$3,765,930, \$3,746,394 and \$3,670,671 which were 55.5%, 54.7% and 57.4% of total expenses for the years ended June 30, 2010, 2009 and 2008 respectively.

The District's total net assets increased \$1,430,205, \$531,612 and \$1,014,770 during the fiscal years ending June 30, 2010, 2009 and 2008, respectively, as shown in Table 2.

**Table 2  
Changes in Net Assets**

	Governmental Activities			Total Percentage Change
	2010	2009	2008	2010-2009
Revenues				
Operating Revenues:				
Industrial	\$ 2,954,720	\$ 2,344,249	\$2,129,418	26.04
Domestic/Commercial	3,976,708	4,106,946	3,818,908	-3.20
Miscellaneous	153,667	99,521	46,587	54.41
<b>TOTAL REVENUES</b>	<u>7,085,095</u>	<u>6,550,716</u>	<u>5,994,913</u>	<u>8.16</u>
Operating Expenses				
Administration & General	1,530,750	1,788,425	1,624,695	-14.41
Sewage Collection	1,494,851	1,313,128	1,094,146	13.84
Sewage Treatment	3,765,930	3,746,394	3,670,671	0.52
<b>TOTAL EXPENSES</b>	<u>6,791,531</u>	<u>6,847,947</u>	<u>6,389,512</u>	<u>-0.83</u>
<b>TOTAL NON-OPERATING REVENUE</b>	<u>1,136,641</u>	<u>828,843</u>	<u>1,409,369</u>	<u>37.14</u>
<b>INCREASE IN NET ASSETS</b>	<u>\$1,430,205</u>	<u>\$ 531,612</u>	<u>\$1,014,770</u>	

#### **CASH ANALYSIS OF THE DISTRICT'S FUNCTIONS**

The District reports as a single proprietary fund. The District provides separate cash activity summaries for each of its six functions, although they are not each funds in a fund-accounting sense. The summaries are presented as Supplementary Activity Summaries Numbers 1 through 6 herein.

#### **Budgetary Highlights**

Over the course of the year, the District revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved by the Board May 14, 2009. A schedule of the District's original and final budget amounts compared with actual revenues and expenses is provided in the Supplementary Activity Summaries Numbers 1 through 6 herein.

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

##### **Capital Assets**

At June 30, 2010, 2009 and 2008, the District had invested (Net Book Value) \$22,909,646, \$20,635,163 and \$21,257,285 respectively, in a broad range of capital assets, including land, buildings, sewage collection, sewage treatment, sewage disposal facilities, equipment and vehicles. More detailed information about the District's capital assets is presented in the notes to the financial statements.

## **Long-Term Debt**

At year-end, the District had no long-term debt.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health:

- ❑ Electricity is a major component of District operating expenses. Energy costs remain unpredictable and Fuel costs are unstable.
- ❑ Medical insurance costs have risen an average of 12.45% per year over the last two years, affecting personnel services costs.
- ❑ Environmental regulations necessary to protect the ground water in California's central valley are becoming more stringent, with consequent increases in costs to rate-payers.
- ❑ The District has come under additional regulation for the sewer collection systems it operates in its member Cities. The State Water Board has mandated a comprehensive program of evaluation, maintenance, reporting, refurbishment and funding. The District already fulfills many of the items required in the program and the costs already are a part of its fees and charges. However, additional costs will be incurred by the District in complying with this new mandate which may cause fees and charges to increase.
- ❑ Refurbishment & Replacement of aging District facilities and equipment is of paramount importance. In order to minimize future borrowing, appropriate funding needs to be included in rate-setting decisions.
- ❑ Depending on the growth rates of the member Cities, the District must be prepared to plan for a treatment plant expansion to accommodate those growth rates.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's residents, rate-payers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact General Manager Ben Muñoz, Jr., at 559-897-6500. The District's website address is [www.skfcsd.org](http://www.skfcsd.org).

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2010 AND 2009**

	2010	2009
<u>Assets</u>		
Current Assets:		
Cash (Note 2):		
Unrestricted	\$ 11,479,775	\$ 12,227,172
Restricted (Note 5)	5,402,100	5,561,683
Accounts Receivable	647,835	469,107
Interest Receivable	96,888	100,543
Total Current Assets	17,626,598	18,358,505
Capital Assets (Note 3):		
Land	3,569,165	3,569,165
Property Rights	11,475	11,475
Other Properties	154,307	154,307
Sewage Collections Facilities	8,987,690	8,987,690
Sewage Treatment Facilities	18,357,561	18,357,561
Sewage Disposal Facilities	3,099,425	3,099,425
General Administrative	5,549,288	5,549,288
Capital Projects in Progress	3,650,240	114,683
	43,379,151	39,843,594
Accumulated Depreciation	(20,469,505)	(19,208,431)
Total capital assets, net	22,909,646	20,635,163
Deferred Connection Fee Receivable	30,581	32,058
Deferred Accounts Receivable	152,895	152,895
Total Deferred Receivable	183,476	184,953
Total Assets	40,719,720	39,178,621
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Accounts Payable	229,865	130,265
Franchise Fees Payable - Cities:		
Selma	107,300	106,102
Kingsburg	73,544	71,131
Fowler	88,039	88,719
Accrued Salaries and Compensated Absences-due within one year	105,033	143,019
Total Current Liabilities	603,781	539,236
Noncurrent Liabilities:		
Net OPEB Obligation	188,825	95,710
Compensated absences-due in more than one year	373,866	420,632
Total Noncurrent Liabilities	562,691	516,342
Total Liabilities	1,166,472	1,055,578
Net Assets:		
Investment in Capital Assets	22,909,646	20,635,163
Restricted	5,402,100	5,561,683
Unrestricted	11,241,502	11,926,197
Total Net Assets	\$ 39,553,248	\$ 38,123,043

The notes to the financial statements are an integral part of this statement.

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Operating Revenue:		
Industrial	\$ 2,954,720	\$ 2,344,249
Domestic/Commercial	3,976,708	4,106,946
Miscellaneous	<u>153,667</u>	<u>99,521</u>
Total Operating Revenue	<u>7,085,095</u>	<u>6,550,716</u>
Operating Expenses:		
Administration and General	1,530,750	1,788,425
Sewage Collection	1,494,851	1,313,128
Sewage Treatment	<u>3,765,930</u>	<u>3,746,394</u>
Total Operating Expenses	<u>6,791,531</u>	<u>6,847,947</u>
Operating Gain (Loss)	293,564	(297,231)
Non-Operating Revenues:		
Interest Income	376,662	496,396
Connection/Annexation Fees	<u>759,979</u>	<u>332,447</u>
Total Non-Operating Revenues	<u>1,136,641</u>	<u>828,843</u>
Changes in Net Assets	1,430,205	531,612
Total Net Assets, Beginning of Year	<u>38,123,043</u>	<u>37,591,431</u>
Total Net Assets, End of Year	<u>\$39,553,248</u>	<u>\$38,123,043</u>

The notes to the financial statements are an integral part of this statement.

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
Cash flows from operating activities		
Cash receipts from customers for wastewater sales and service	\$ 6,907,844	\$ 6,432,889
Cash paid to vendors and suppliers for materials and services	(2,396,515)	(2,805,257)
Cash paid to employees for salaries and wages	<u>(3,023,048)</u>	<u>(2,925,374)</u>
Net cash provided by operating activities	<u>1,488,281</u>	<u>702,258</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,535,557)	(515,783)
Proceeds from connection/annexation fees	<u>759,979</u>	<u>332,447</u>
Net cash used by capital and related financing activities	<u>(2,775,578)</u>	<u>(183,336)</u>
Cash flows from investing activities:		
Interest and investment earnings	<u>380,317</u>	<u>568,086</u>
Net cash provided by investing activities	<u>380,317</u>	<u>568,086</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(906,980)	1,087,008
Cash and cash equivalents (unrestricted and restricted), beginning of year	<u>17,788,855</u>	<u>16,701,847</u>
Cash and cash equivalents (unrestricted and restricted), end of year	<u>\$16,881,875</u>	<u>\$17,788,855</u>
Reconciliation of cash and cash equivalents to statement of net assets:		
Unrestricted assets – cash and cash equivalents	\$11,479,775	\$12,227,172
Restricted assets – cash and cash equivalents	<u>5,402,100</u>	<u>5,561,683</u>
Total cash and cash equivalents	<u>\$16,881,875</u>	<u>\$17,788,855</u>

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**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
**STATEMENTS OF CASH FLOWS, continued**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating gain (loss)	<u>\$ 293,564</u>	<u>\$(297,231)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,261,074	1,137,905
Changes in assets and liabilities:		
(Increase) Decrease in assets:		
Accounts receivable	(178,728)	(118,144)
Deferred connection fees	1,477	317
Increase (Decrease) in liabilities		
Accounts payable	99,600	(133,888)
Franchise fees payable	2,931	16,376
Accrued expenses	(84,752)	1,213
OPEB liability	<u>93,115</u>	<u>95,710</u>
Total adjustments	<u>1,194,717</u>	<u>999,489</u>
Net cash provided by operating activities	<u>\$1,488,281</u>	<u>\$ 702,258</u>

The notes to the financial statements are an integral part of this statement.

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

Selma-Kingsburg-Fowler County Sanitation District (the District) was formed on February 16, 1971, by action of the Fresno County Board of Supervisors through authority of the provisions of the California Health and Safety Code County Sanitation Districts Act. The governing Board of Directors was established by statute and by the Board of Supervisors to be comprised of the Chairman of the Board of Supervisors, the District 4 Supervisor and the mayors of the three cities of Selma, Kingsburg, and Fowler. The District was established to serve as a regional sewer treatment authority for the three cities and the Golden State Boulevard Industrial Corridor. The District is entirely located within the County of Fresno.

Basis of Accounting

The District reports as a proprietary fund which accounts for its activities using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budget

Annual budgets are drafted, reviewed through the public hearing process, and adopted by resolution of the District Board of Directors. The annual budget is the District's fiscal plan for operation and maintenance of the District, capital expenditures for equipment and facilities and the revenues in support of the plan. Amendments to the adopted budget require Board action and budgeting control is maintained at department levels.

Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments (including cash held by the County Treasury) with a maturity of three months or less to be cash equivalents.

Receivables

The District uses the reserve method of accounting for bad debts. The District does not have a reserve established since the amount calculated for the reserve was determined to be immaterial at June 30, 2010 and 2009.

Property, Plant, and Equipment

Property, buildings, and equipment are recorded on the basis of cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 15 to 50 years for sewage collection, treatment, disposal facilities and buildings. The useful lives for equipment range from 3 to 25 years. Expenditures for maintenance, repairs, renewals, and related to the three cities collection systems are charged to expenses as incurred, while expenditures for improvements over \$8,000 are capitalized.

The District records and capitalizes the construction costs for sewage collection, treatment and disposal facilities, which are constructed by the District and to which title is retained by the District.

Depreciation expense charged to income was \$1,261,074 and \$1,137,905 for the years ended June 30, 2010 and 2009 respectively.

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS, continued

JUNE 30, 2010 AND 2009

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District.

One hundred percent of accumulated sick leave benefits are recognized as liabilities of the District. This portion is vested for all full-time employees who have been with the District for more than three months. Payment will be made in accordance with Employee Handbook section D-4a.2, whether at 0%, 50% or 100%.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Prior year data reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2010 and 2009 are classified in the accompanying financial statements as follows:

Bank deposit accounts are insured up to \$250,000 per institution by the Federal Depository Insurance Corporation (FDIC). All of the District's cash balances held by financial institutions is fully insured or collateralized.

Cash and investments as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Cash on Hand	\$ 700	\$ 700
Deposits with Financial Institutions	42,741	37,573
Deposits with County Treasury	<u>16,838,434</u>	<u>17,750,582</u>
Total Cash and Investments	<u>\$ 16,881,875</u>	<u>\$ 17,788,855</u>

Cash in County Treasury

Within the guidelines of Government Code Section 53601, the District maintains substantially all of its cash in the Fresno County Treasury as part of the common investment pool. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
 NOTES TO THE FINANCIAL STATEMENTS, continued  
 JUNE 30, 2010 AND 2009

Investments Authorized by the California Government Code

The District does not have an investment policy independent of what is allowed under the California Government Code.

The table below identifies the investment types that are authorized for the District by the California Government Code. The Table also identifies certain provisions of the Code that addresses interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

The Fresno County Treasury Investment Pool Statement of Investment Policy is more stringent than the California Government Code. As of June 30, 2010, the Investment Pool portfolio complied with its Statement of Investment Policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments contained in the Fresno County Treasury Investment Pool is 583 days. 13.9% of the Treasury Investment Pool portfolio matures within 30 days, 21.5% matures within 90 days, and 21.5% within 180 days.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Fresno County Treasury Investment Pool does not have a rating provided by a nationally recognized statistical rating organization. However, the assets of the portfolio held by the pool as of June 30, 2010, had an average dollar weighted quality rating of "AAA."

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS, continued  
JUNE 30, 2010 AND 2009

Concentration of Credit Risk

There are no investments in any one issuer that represents 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that financial institution secure deposits made by the state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental 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 laws also allows financial institutions to secure district deposits by pledging the first trust deed mortgage notes having a value of 150% of the secured public deposits.

Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Fresno County Treasury Investment Pool).

Investments in Fresno County Treasury Investment Pool

The District is a voluntary participant in the Fresno County Treasury Investment Pool that is regulated by the California Government Code under the oversight of the Auditor-Controller/Treasurer-tax Collector of Fresno County. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the Treasury Investment Pool for the entire Treasury Investment Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Treasury Investment Pool, which are recorded on an amortized cost basis.

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
 NOTES TO THE FINANCIAL STATEMENTS, continued  
 JUNE 30, 2010 AND 2009

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for the year were as follows:

	Balance 2009	Additions/ Transfers	Deletions/ Transfers	Balance 2010
Non-depreciable assets:				
Land	\$ 3,569,165	\$	\$	\$ 3,569,165
Property Rights	11,475			11,475
Other Properties	154,307			154,307
Capital Projects in Progress	114,683	3,535,557		3,650,240
Total non-depreciable assets	3,849,630	3,535,557		7,385,187
Depreciable assets:				
Sewage Collection Facilities	8,987,690			8,987,690
Sewage Treatment Facilities	18,357,561			18,357,561
Sewage Disposal Facilities	3,099,425			3,099,425
General Administrative	5,549,288			5,549,288
Total depreciable assets	35,993,964			35,993,964
Accumulated depreciation and amortization:				
Sewage Collection Facilities	(5,301,507)	(300,233)		(5,601,740)
Sewage Treatment Facilities	(10,321,656)	(729,087)		(11,050,743)
Sewage Disposal Facilities	(1,866,060)	(90,389)		(1,956,449)
General Administrative	(1,719,208)	(141,365)		(1,860,573)
Total accumulated depreciation and amortization	(19,208,431)	(1,261,074)		(20,469,505)
Total depreciable assets, net	16,785,533	(1,261,074)		15,524,459
Total capital assets, net	\$ 20,635,163	\$ 2,274,483	\$	\$ 22,909,646

In 2009-10, major capital asset addition during the year included was the Construction in Progress Project for the refurbishment and expansion of Aeration Improvement project (AB-3).

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS, continued  
JUNE 30, 2010 AND 2009

NOTE 3 - CAPITAL ASSETS - (Continued)

Changes in capital assets for the year 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2009</u>
Non-depreciable assets:				
Land	\$ 3,569,165	\$	\$	\$ 3,569,165
Property Rights	11,475			11,475
Other Properties	154,307			154,307
Capital Projects in Progress	<u>3,450,537</u>	<u>                    </u>	<u>(3,335,854)</u>	<u>114,683</u>
Total non-depreciable assets	<u>7,185,484</u>	<u>                    </u>	<u>(3,335,854)</u>	<u>3,849,630</u>
Depreciable assets:				
Sewage Collection Facilities	8,987,690			8,987,690
Sewage Treatment Facilities	14,505,924	3,851,637		18,357,561
Sewage Disposal Facilities	3,099,425			3,099,425
General Administrative	<u>5,549,288</u>	<u>                    </u>	<u>                    </u>	<u>5,549,288</u>
Total depreciable assets	<u>32,142,327</u>	<u>3,851,637</u>	<u>                    </u>	<u>35,993,964</u>
Accumulated depreciation and amortization:				
Sewage Collection Facilities	(4,977,805)	(323,702)		(5,301,507)
Sewage Treatment Facilities	(9,741,592)	(580,064)		(10,321,656)
Sewage Disposal Facilities	(1,773,286)	(92,774)		(1,866,060)
General Administrative	<u>(1,577,843)</u>	<u>(141,365)</u>	<u>                    </u>	<u>(1,719,208)</u>
Total accumulated depreciation and amortization	<u>(18,070,526)</u>	<u>(1,137,905)</u>	<u>                    </u>	<u>(19,208,431)</u>
Total depreciable assets, net	<u>14,071,801</u>	<u>2,713,732</u>	<u>                    </u>	<u>16,785,533</u>
Total capital assets, net	<u>\$ 21,257,285</u>	<u>\$ 2,713,732</u>	<u>\$(3,335,854)</u>	<u>\$ 20,635,163</u>

In 2009, major capital asset addition during the year included was the construction in Progress Project number 2 procurement and installation capitalization costing \$3,116,376 and the installation of the 42" Influent Line Refurbishment project cost, \$735,261.

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS, continued

JUNE 30, 2010 AND 2009

**NOTE 4 - RETIREMENT PLAN COMMITMENTS**

California Public Employees= Retirement System (CalPERS)

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their accounts. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for the fiscal years 2009-10 and 2008-09 were 14.53% and 14.34% of annual covered payroll, respectively. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2010 and 2009 were \$423,122 and \$427,500 respectively, and equal 100% of the required contributions for each year.

**REQUIRED SUPPLEMENTARY INFORMATION (Risk Pool)**

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Unfunded Valuation Date	Accrued Liabilities	Actuarial Value of Assets	Actuarial Unfunded Liability [(A) - (B)]	Funded Ratio	Annual Covered Payroll	Liability as a % of Payroll
6/30/03	\$2,596,966,545	\$2,372,879,034	\$224,087,511	91.4%	\$725,020,458	30.9%
6/30/04	\$2,746,095,668	\$2,460,944,656	\$285,151,012	89.6%	\$743,394,970	38.3%
6/30/05	\$2,891,460,651	\$2,588,713,000	\$302,747,651	89.5%	\$755,046,679	40.1%
6/30/06	\$2,754,396,608	\$2,492,226,176	\$262,170,432	90.5%	\$699,897,835	37.5%
6/30/07	\$2,611,746,790	\$2,391,434,447	\$220,312,343	91.5%	\$665,522,859	33.1%
6/30/08	\$2,780,280,768	\$2,547,323,278	\$232,957,490	91.6%	\$688,606,681	33.8%
6/30/09	\$3,104,798,222	\$2,758,511,104	\$346,287,118	88.9%	\$742,981,488	46.6%

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
 NOTES TO THE FINANCIAL STATEMENTS, continued  
 JUNE 30, 2010 AND 2009

**NOTE 5 - RESTRICTED AND DESIGNATED ASSETS**

Restricted and designated net assets are comprised of Cash in County Treasury at June 30:

	2010	2009
Designated for refurbishment or replacement of member city-owned collection and pumping facilities:		
Selma	\$ 2,301,752	\$ 2,077,886
Kingsburg	2,111,388	1,964,692
Fowler	1,032,383	939,947
Designated for refurbishment or replacement of district treatment plant or interceptor facilities	2,368,679	3,882,528
Restricted for expansion or capacity increase of district treatment plant or interceptor facilities	5,402,100	5,561,683
	<u>\$13,216,302</u>	<u>\$14,426,736</u>

Designated assets are unrestricted. The Board of Directors has specified certain intended sources and uses for the designated assets, which are at the discretion of the Board.

**NOTE 6 - JOINT VENTURES**

The District participates in joint ventures for workers' compensation, liability and property insurance under a joint powers agreement (JPA) with the California Sanitation Risk Management Authority (CSRMA). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

CSRMA arranges for and provides insurance for the members who participate in four different insurance pools. 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 member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the CSRMA. Any surpluses or deficits are charged to income or expense in the period they are made.

**NOTE 7 - POST-EMPLOYMENT HEALTH CARE BENEFITS**

Plan Description

During the year ended June 30, 2009, the District implemented GASB Statement No. 45, *Accounting and Financial Reporting for Post-employment Benefits other than Pensions*. This statement establishes uniform financial reporting standards for employers providing post-employment benefits. The provision of this statement are applied on a prospective basis.

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**  
 NOTES TO THE FINANCIAL STATEMENTS, continued  
 JUNE 30, 2010 AND 2009

Employees are eligible for post-retirement medical benefits upon the later of reaching age 50 or 5 years of eligible PERS service. The District does not provide dependent coverage under its current retiree plan. Eligible retirees may enroll in any plan available through the CalPERS Medical Program. The District pays up to the maximum employer contribution which is recalculated annually.

Funding Policy

Currently, the District funds retiree healthcare benefits on a pay-as-you-go basis. The District recognizes expenditures for retiree medical benefits as they become due. For 2009/10, the District paid \$56,188 for benefits of 13 retirees.

Annual OPEB and Net OPEB Obligation

The District's annual other post-employment benefits (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount which was determined as part of the August 1, 2008 actuarial valuation performed in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC is subject to change with each actuarial valuation performed no less than every three years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan:

Annual required contributions (ARC) and annual OPEB cost	\$149,303
Contributions made by the District	<u>(56,188)</u>
Increase in Net OPEB Obligation	93,115
Net OPEB obligations, beginning of year	<u>95,710</u>
Net OPEB obligations, end of year	188,825

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008/2009 and 2009/2010 were as follows:

Fiscal Year	ARC	Contributions	Percentage Contributed	Net OPEB Obligation
2008-2009	\$146,671	\$50,961	34.75%	\$95,710
2009-2010	\$149,303	\$56,188	37.63%	93,115

**SELMA-KINGSBURG-FOWLER COUNTY SANITATION DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS, continued

JUNE 30, 2010 AND 2009

Note: Disclosure of annual OPEB cost, percentage contributed, and net OPEB obligation, if any, is required for the current fiscal year and each of the two preceding fiscal years. The year ended June 30, 2009 is the first year of implementation of reporting post-employment benefits in accordance with GASB Statement No. 45. Accordingly, three-year data is not available and will be shown when such data becomes available.

*Funded Status and 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. Examples include assumptions about future employment, mortality and the health cost trend. 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 in the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

The schedule of funding progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll</u>
August 1, 2008		\$1,683,294	\$1,683,294	-	\$2,070,927

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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The August 1, 2008, actuarial valuations used the Entry Age Cost Method. Under this method, the projected benefits of each individual included in the valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age. The portion of the present value of future benefits allocated to a valuation year is the Normal Cost. The portion allocated to all prior years is the Actuarial Accrued Liability. The actuarial assumptions included a discount rate of 7.75% and a 3% inflation rate. Health care cost trend rates were estimated at 4%. The remaining amortization period at June 30, 2010 was 28 years.

## **Supplementary Activity Summaries**

**Summary No. 1 - O&M**  
**Selma-Kingsburg-Fowler County Sanitation District**  
**Function #1 (Operation and Maintenance) - Activity Summary**  
**For the Year Ended June 30, 2010**

	<u>Original Approved Budget</u>	<u>Final Approved Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Percent of Final Approved Budget</u>
<b><u>Beginning Fiscal Year Cash Balance</u></b>	\$ 3,000,000	\$ 3,000,000	\$ 3,654,025		
<b><u>Revenue</u></b>					
Residential, Commercial and Institutional Service Charges	3,812,239	3,812,239	3,823,509	11,270	100.30%
Industrial Service Charges	2,475,903	2,475,903	2,752,477	276,574	111.17%
Misc Other Revenue	130,000	130,000	153,666	23,666	118.20%
Misc Revenue - Selma	0	0	0	0	N/A
Interest Earnings	65,000	65,000	73,994	8,994	113.84%
Mgt & Engr Costs Transfer from Function #2 Expansion	37,980	37,980	0	(37,980)	0.00%
Mgt & Engr Costs Transfer from Function #2 R&R	88,620	88,620	0	(88,620)	0.00%
Sale of Fixed Assets	0	0	0	0.00	0.00%
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Revenue</b>	6,609,742	6,609,742	6,803,646	193,904	102.93%
<b><u>Expenditures</u></b>					
Salaries and Employee Benefits	3,249,338	3,249,338	2,929,934	319,404	90.17%
Utilities	1,000,000	1,000,000	1,215,511	(215,511)	121.55%
Services and Supplies (Non-Utilities)	1,495,950	1,495,950	1,100,574	395,376	73.57%
Cities' Franchise Payments	257,000	257,000	265,952	(8,952)	103.48%
Transfer to Function #2 Refurbishment & Replacement	807,451	807,451	800,000	7,451	0.00%
<b>Subtotal Expenditures</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	6,809,739	6,809,739	6,311,971	497,768	92.69%
Depreciation	0	0	0	0	N/A
<b>Total Expenditures</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	6,809,739	6,809,739	6,311,971	497,768	92.69%
<b>Accrual to Cash Adjustments</b>			<hr/>	(376,656)	
<b>Ending Fiscal Year Cash Balance</b>	<hr/>	<hr/>	<hr/>		
	2,800,003	2,800,003	3,665,573		
<b>Net Change in Cash Balance</b>	<hr/>	<hr/>	<hr/>		
	\$ (199,997)	\$ (199,997)	\$ 11,548		

**Note: The expenses in this activity summary reflect expenses in the budget year and are prior to any capitalization.**

Summary No. 4-Collection System R&R (Selma)  
 Selma-Kingsburg-Fowler County Sanitation District  
 Function #3 (District Collection System Capital Refurbishment Replacement) - Activity Summary  
 For the Year ended June 30, 2010

	<u>Original Approved Budget</u>	<u>Final Approved Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Percent of Final Approved Budget</u>
<b><u>Beginning Fiscal Year Cash Balance</u></b>	\$ 2,000,000	\$ 2,000,000	\$ 2,027,148		
<b><u>Revenue</u></b>					
User Fees	181,628	181,628	179,203	(2,425)	98.66%
Interest Earnings	27,000	27,000	45,366	18,366	168.02%
<b>Total Revenue</b>	<u>208,628</u>	<u>208,628</u>	<u>224,569</u>	<u>15,941</u>	<u>107.64%</u>
<b><u>Expenditures</u></b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>
<b>Total Expenditures</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>
<b>Accrual to Cash Adjustments</b>			<u>50,034</u>		
<b>Ending Fiscal Year Cash Balance</b>	<u>2,208,628</u>	<u>2,208,628</u>	<u>2,301,751</u>		
<b>Net Change in Cash Balance</b>	<u>\$ 208,628</u>	<u>\$ 208,628</u>	<u>\$ 274,603</u>		

**Note: The expenses in this activity summary reflect expenses in the budget year and are prior to any capitalization.**

**Summary No. 6 - Collection System R&R (Fowler)**  
**Selma-Kingsburg-Fowler County Sanitation District**  
**Function #3 (District Collection System Capital Refurbishment & Replacement) - Activity Summary**  
**For the Year ended June 30, 2010**

	<u>Original Approved Budget</u>	<u>Final Approved Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Percent of Final Approved Budget</u>
<b><u>Beginning Fiscal Year Cash Balance</u></b>	\$ 900,000	\$ 900,000	\$ 921,443		
<b><u>Revenue</u></b>					
User Fees	72,454	72,454	73,224	770	101.06%
Interest Earnings	21,000	21,000	20,562	(438)	97.92%
<b>Total Revenue</b>	<u>93,454</u>	<u>93,454</u>	<u>93,786</u>	<u>332</u>	<u>100.36%</u>
<b><u>Expenditures</u></b>					
<b>Total Expenditures</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>N/A</u>
<b>Accrual to Cash Adjustments</b>			<u>17,154</u>		
<b>Ending Fiscal Year Cash Balance</b>	<u>993,454</u>	<u>993,454</u>	<u>1,032,383</u>		
<b>Net Change in Cash Balance</b>	<u>\$ 93,454</u>	<u>\$ 93,454</u>	<u>\$ 110,940</u>		

**Note: The expenses in this activity summary reflect expenses in the budget year and are prior to any capitalization.**