

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2011**

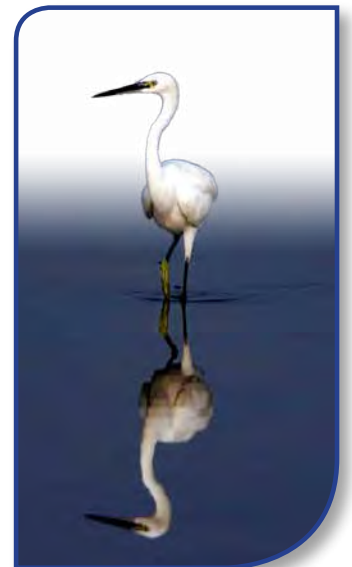


**Fairfield-Suisun Sewer District
Fairfield, CA**

Comprehensive Annual Financial Report

For the Year Ended June 30, 2011

Prepared by Finance Department
Fairfield-Suisun Sewer District
Fairfield, CA



FAIRFIELD-SUISUN SEWER DISTRICT
Comprehensive Annual Financial Report
For the Year Ended June 30, 2011

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Introductory Section





FAIRFIELD-SUISUN SEWER DISTRICT

1010 CHADBOURNE ROAD • FAIRFIELD, CALIFORNIA 94534 • (707) 429-8930 • WWW.FSSD.COM
GREGORY G. BAATRUP, GENERAL MANAGER

October 4, 2011

Board of Directors
Fairfield-Suisun Sewer District
Fairfield, California

Subject: Comprehensive Annual Financial Report
For the Year Ended June 30, 2011

It is a pleasure to submit the Fairfield-Suisun Sewer District's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. Responsibility for both the accuracy of presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of District operations. Included are all disclosures necessary to enable the reader to gain the maximum understanding of the District's financial activities.

The CAFR is presented in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). GAAP requires management to provide a narrative introduction, overview, and analysis, in the form of a Management's Discussion and Analysis (MD&A), to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the independent auditor's report in the financial section.

The Reporting Entity

The Fairfield-Suisun Sewer District (District) is a special district which serves all territory within the cities of Fairfield and Suisun City. It was formed by an act of the California State Legislature on May 5, 1951. The act defined the District's boundaries as the boundaries of the cities. Any territory annexed to either city is also annexed to the District, and in general no property can be served by the District if it is not in either city.

In September of 2002, the District amended its enabling act language, under AB776, to authorize the acceptance of sewage emanating from buildings that lie outside the District's boundaries for developed parcels that were connected to the District's sewage treatment system before March 1, 2002. The District's change in enabling act language also allows

for a contract with Solano County, or other public entities, for the disposal of sewage emanating from buildings outside the District if the District determines that the contract furthers the protection of public health and safety and is in the best interest of the District.

The District has broad powers to finance, construct, and operate systems for the treatment, collection and disposal of sewage and stormwater and recycled water systems within the District jurisdiction. Its 10-member Board of Directors consists of the members of the city councils of the two cities. The Board president is elected by the Board from among its members. The District's day-to-day operations are managed by the General Manager, who reports directly to the Board of Directors.

Factors Affecting Financial Condition

Local Economic Condition and Outlook

The District is headquartered in Fairfield, California and serves the cities of Fairfield and Suisun City, contiguous cities in Solano County, California. The cities are located along Interstate 80, midway between San Francisco and Sacramento, the state capital. The cities lie in a large valley surrounded by rolling hills. Fairfield is the Solano County seat and houses most county government activities while Suisun City is one of California's oldest cities. Suisun City sits approximately 15 feet above sea level, and a network of sloughs, navigable by small boats, extends from the city to San Francisco Bay.

The area is noted for its moderate climate. It is protected from ocean fog by a low range of hills and is cooled by prevailing sea breezes during the summer. Good visibility and a climate free from extremes were among the factors that influenced the location of Travis Air Force Base in Fairfield. Favorable climate and affordable housing have been some of the factors in the area's past residential growth.

Major employers located within the District boundaries include Travis Air Force Base, Anheuser-Busch Brewery, Jelly Belly, Super Stores, several other large manufacturers and industries, several shopping districts, and an auto mall. The current unfavorable economic condition has hit many of the local businesses hard, and are facing financial challenges. The area is also suffering from a high foreclosure rate and record high unemployment. However, both cities are staying optimistic and projecting recovery over the next five years, though on a slower pace.

Because the District's main source of revenue is service fees, this economic downturn has had a limited negative fiscal impact on the District. Fortunately, customers are still paying their sewer bills even with the high rate of unemployment. There has not been a significant rise on past due accounts or bad debts, and sewer revenue remains stable. Growth in the District's service area is expected to occur within the next 20 years; however, the real estate decline that started in 2007 and impacted capacity fee revenue is forecasted to continue through 2012/13.

Budget and Long-Term Financial Planning

The District is not legally required to adopt a budget or to present budgetary comparison information. In its commitment to fiscal responsibility, however, the District prepares an annual budget for the current fiscal year's financial activities, along with a ten-year financial plan. The proposed budget and financial plan is approved and adopted annually by the Board of Directors.

Budgetary control is maintained at the department level for administrative and operating expenses and at the project level for capital improvements. All new construction projects over \$30,000 are individually approved by the Board.

Major Initiatives

During fiscal year 2010/11, the District completed and/or initiated a number of significant projects, including the following:

Ultraviolet Disinfection Project:

In February 2009, the Board authorized a project to convert the District's current chlorine gas disinfection system to an ultraviolet (UV) disinfection system. UV light, when used for wastewater disinfection, produces no known chlorine disinfection by-products and does not pose the chemical safety and security concerns of chlorine gas. The project includes construction of new structures and existing chlorine contact tank modifications, purchase and installation of UV equipment, and associated electrical infrastructure. Design of the project was completed in February 2010, and construction started on May 2010, with expected completion date of October 2011. Total project costs are approximately \$11 million. The District is financing all eligible design and construction costs through a loan from the Clean Water State Revolving Fund program.

Gravity Belt Thickener:

The Dissolved Air Flotation Thickening (DAFT) equipment installed in the 1970s is being replaced with Gravity Belt Thickener (GBT) equipment. The thickening equipment reduces the water content of the sludge before digestion, which is necessary to insure effective and efficient digestion of sludge. The original DAFT equipment was showing signs of eminent failure and was scheduled for major rehabilitation. The GBT technology requires less energy and labor to operate and maintain and would result in significant savings. It also provided the unanticipated side benefit of increasing the digester gas production for the plant's cogeneration facility. Total project costs are approximately \$800,000.

Central/Suisun Forcemain Equalization Design:

The 2008 Sewer System Master Plan identified certain near-term capacity deficiencies during extreme storm events in the Suisun Conveyance system (Pump Station and Forcemain). The Master Plan also identified some excess capacity in the Central Conveyance System. If the Conveyance Systems are interconnected, some of the identified improvements in the Suisun Conveyance System can be deferred.

To assess the capacity needs of both systems, the District completed a hydraulic analysis of the Central and Suisun Conveyance Systems. From the analysis it was determined that the combined Central/Suisun Conveyance System is capacity deficient during high wet-weather flows by about 2 MGD for current requirements. The typical solution is to add pumps and pipelines, which are costly. An innovative idea was conceived that would increase the capacity while minimizing the construction costs. By redirecting some of the peak wet weather flow directly into the equalization lagoon, the pressure required to move the water to the plant is reduced, thereby increasing the capacity. Design services for this project was awarded in March 2011, with construction to start in early 2012. Total design costs are approximately \$300,000.

Internal Control Structure

The District's management is responsible for establishing and maintaining a system of internal accounting controls. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance regarding: 1) the safeguarding of assets against loss from an unauthorized use or disposition; and 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Cash Management

The Director of Administrative Services acts as District Treasurer. The Treasurer may issue and administer detailed investment instructions that conform to the provisions of the Investment Policy, as reviewed and adopted annually by the Board of Directors. The District's Investment Policy conforms to the California Government Code Section 53601. As of June 30, 2011, all surplus cash was invested with the State of California Local Agency Investment Fund (LAIF), and money market investment securities. In order of priority, the primary objectives of the District's investment activities are: safety of principal, liquidity, and return on investment.

Risk Management

The District is a member of the California Sanitation Risk Management Authority (CSRMA), a joint powers authority established for the operation of common risk management and loss prevention programs. CSRMA provides the District with coverage for workers compensation, general liability and property loss. Note 8, on page 26, provides additional information on the District's insurance coverage.

Independent Audit

California state statutes and bond covenants require an annual independent audit of the books of accounts and financial records of the District. The firm of Vavrinek, Trine, Day & Co., LLP was contracted to conduct this year's audit. Their unqualified opinion is included in the Financial Section of this report.

Awards and Recognition

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fairfield-Suisun Sewer District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This is the thirteenth straight year the District has received the award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily-readable and efficiently-organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.


Acknowledgments

In submitting this 2010/11 Comprehensive Annual Financial Report, sincere appreciation is expressed to Finance and Administrative staff members who provided information and participated in the preparation of this report. Recognition is also given to District management and the governing board for its continuing support for maintaining the highest standards of professionalism in the management of the District's finances.

Respectfully submitted,



Gregory Baatrup, P.E.
General Manager



Helen Gaumann, CPA
Director of Administrative Services

FAIRFIELD-SUISUN SEWER DISTRICT
Principal Officers for the Year Ended June 30, 2011

Board of Directors

Sam Derting, President

Chuck Timm, Vice President

Jane Day

Mike Hudson

Catherine Moy

John Mraz

Harry Price

Pete Sanchez

Michael Segala

Rick Vaccaro

Staff

Greg Baatrup, General Manager

Talyon Sortor, Assistant General Manager

Rita Arwine, Director of Business Affairs

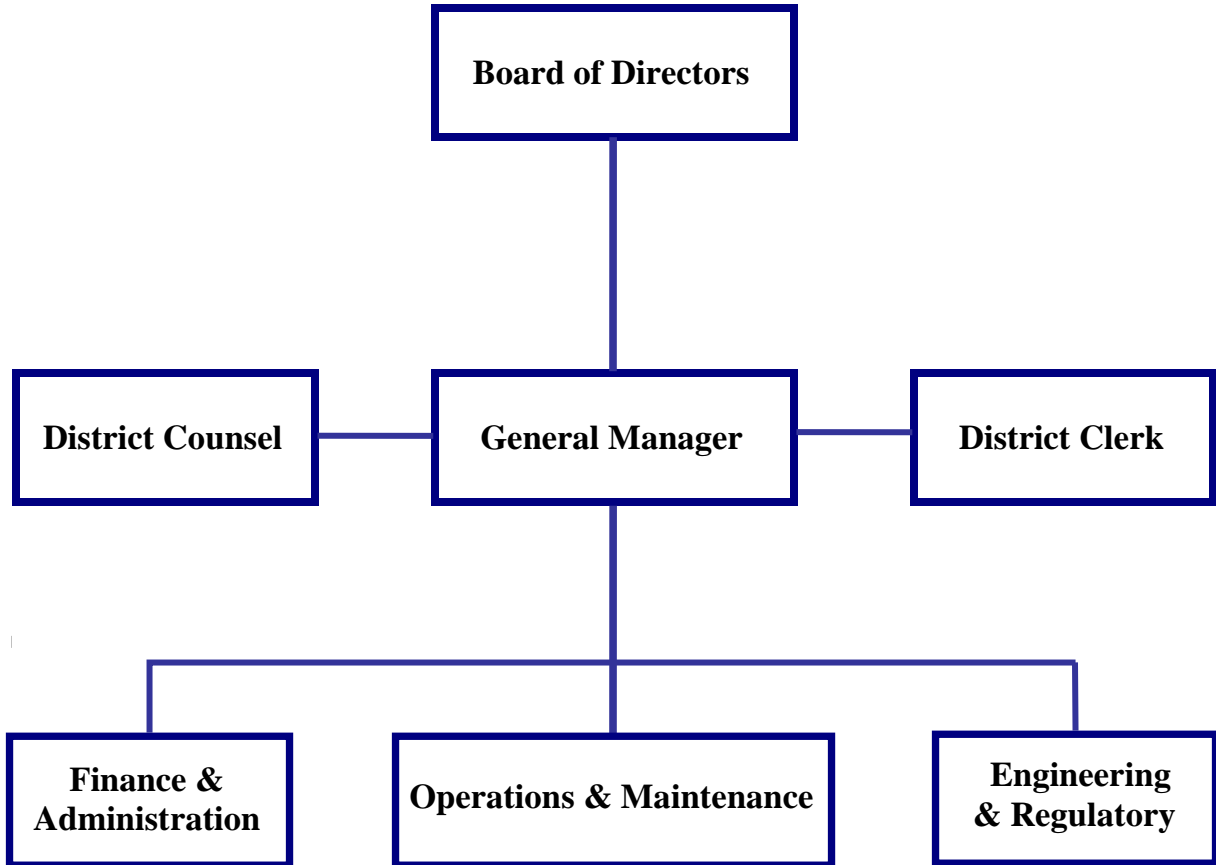
Richard Althouse, Director of Operations & Maintenance

Helen Gaumann, Director of Administrative Services

Mark Cornelius, District Counsel

Vana J. Lopez, District Clerk

FAIRFIELD-SUISUN SEWER DISTRICT
Organization



Certificate of Achievement for Excellence in Financial Reporting

Presented to
Fairfield-Suisun Sewer District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

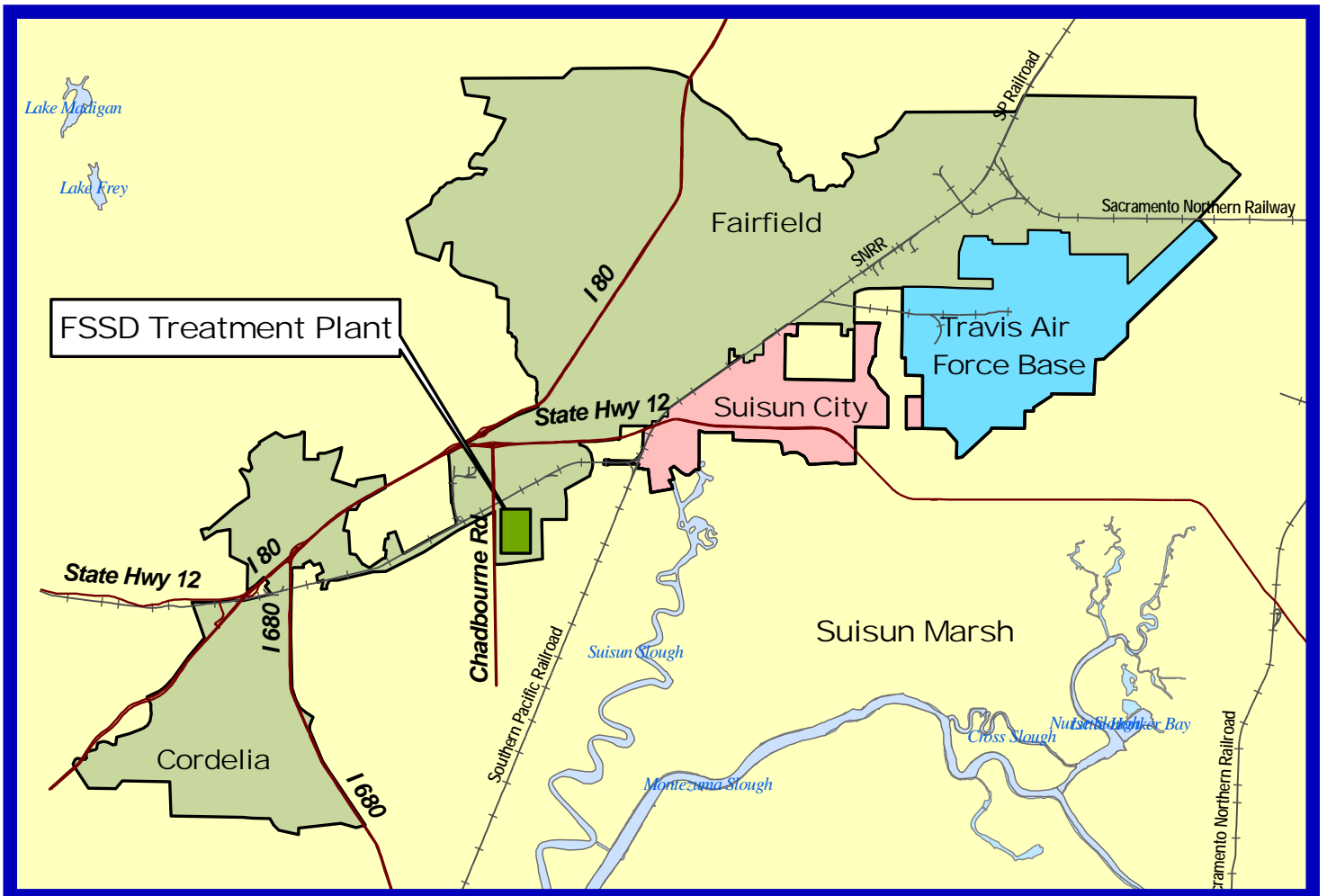
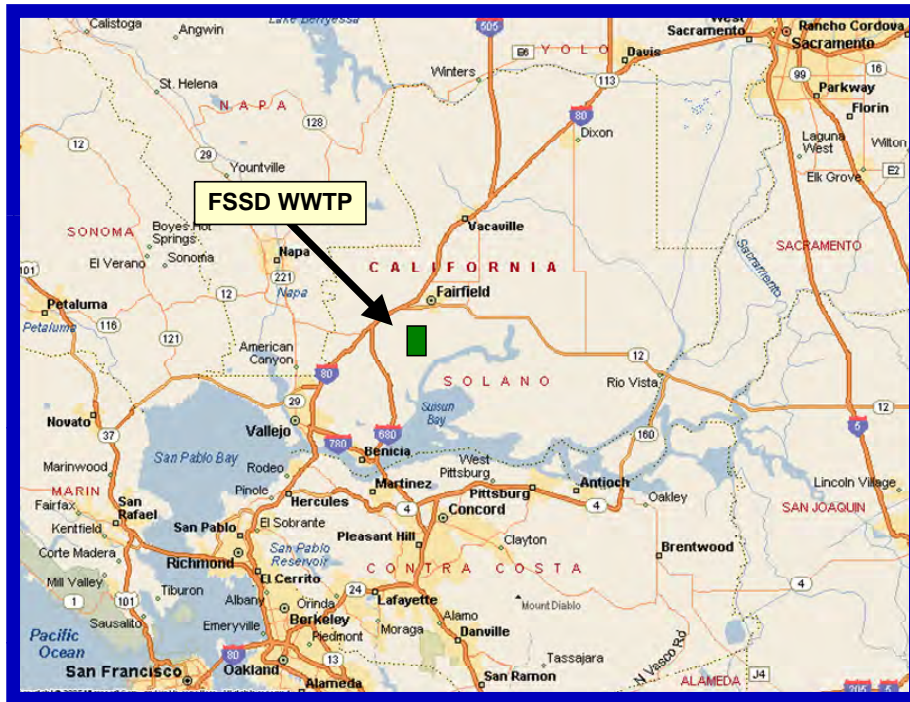


President

Executive Director

FAIRFIELD-SUISUN SEWER DISTRICT

Location Map



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Financial Section





VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fairfield-Suisun Sewer District
Fairfield, California

We have audited the accompanying basic financial statements of the Fairfield-Suisun Sewer District as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fairfield-Suisun Sewer District as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other postemployment benefits schedule of funding progress on pages 3 through 9 and page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairfield-Suisun Sewer District's basic financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
October 4, 2011

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PLEASANTON • RANCHO CUCAMONGA • PALO ALTO • SACRAMENTO

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FAIRFIELD-SUISUN SEWER DISTRICT

Management's Discussion and Analysis

This section of the District's Comprehensive Annual Financial Report presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements and accompanying notes, which follow this section.

Required Financial Statements

The financial statements report information about the District, using accounting methods similar to those used by private-sector companies. These statements offer short- and long-term financial information about its activities.

The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amount of investment in resources (assets) and obligations (liabilities). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine its profitability, credit worthiness, and whether the District has successfully recovered all of its costs through its sewer fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments made during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital investing activities.

Financial Highlights and Analysis

This discussion is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of the Statements of Net Assets, Statements of Revenues and Expenses and Changes in Net Assets, Statements of Cash Flows, and Notes to Financial Statements.

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's financial position remains consistently solid. The decline in net assets is due mainly to the draw down of reserves to fund the last phase of the planned major maintenance and expansion projects, as projected in the District's Master Plan and Long-Term Financial Plans. Expansion projects are now completed, so the District is anticipating building the reserves back up for future projects.

FAIRFIELD-SUISUN SEWER DISTRICT

Management's Discussion and Analysis

The following is the District's Condensed Statement of Net Assets for fiscal year ended June 30, 2011 as compared to fiscal years ended June 30, 2010 and 2009:

(\$000)	Fiscal Year Ended June 30,		Increase	Percent	June 30,	Increase	Percent
	2011	2010	(Decrease)	Increase		(Decrease)	Increase
			11 Over 10	(Decrease)	2009	10 Over 09	(Decrease)
Current and other assets	\$ 12,015	\$ 12,668	\$ (653)	-5.2%	\$ 19,833	\$ (7,165)	-36.1%
Capital assets	95,614	93,127	2,487	2.7%	90,658	2,469	2.7%
Total assets	<u>107,629</u>	<u>105,795</u>	<u>1,834</u>	1.7%	<u>110,491</u>	<u>(4,696)</u>	-4.3%
Long-term liabilities	17,448	12,968	4,480	34.5%	15,233	(2,265)	-14.9%
Other liabilities	4,691	5,131	(440)	-8.6%	4,939	192	3.9%
Total liabilities	<u>22,139</u>	<u>18,099</u>	<u>4,040</u>	22.3%	<u>20,172</u>	<u>(2,073)</u>	-10.3%
Net assets:							
Invested in capital assets, net of related debt	77,298	80,274	(2,976)	-3.7%	73,851	6,423	8.7%
Restricted							
Restricted for capital projects	1,685	2,051	(366)	-17.8%	7,683	(5,632)	-73.3%
Restricted for debt service	1,368	1,380	(12)	-0.9%	2,962	(1,582)	-53.4%
Restricted for major maintenance	1,724	2,007	(283)	-14.1%	2,285	(278)	-12.2%
Unrestricted	<u>3,415</u>	<u>1,984</u>	<u>1,431</u>	72.1%	<u>3,538</u>	<u>(1,554)</u>	-43.9%
Total net assets	<u>\$ 85,490</u>	<u>\$ 87,696</u>	<u>\$ (2,206)</u>	-2.5%	<u>\$ 90,319</u>	<u>\$ (2,623)</u>	-2.9%

The variance analysis above consistently reflects the drawing down from capacity fee reserves to fund the plant expansion projects. The final phase of the plant expansion was completed at the beginning of this fiscal year.

- The District's net assets were \$85 million and \$88 million at the end of fiscal years 2010/11 and 2009/10, respectively.
- *Current and other assets* decreased by 5% and 36% in fiscal years ended 2010/11 and 2009/10, respectively, as District reserves were drawn down to fund expansion-related capital projects. Now that capital projects are completed, we are projecting the trend to reverse, as we once again, begin to build the capacity fee reserves for future capital project needs.
- *Long-term liabilities* increased by 35% in in fiscal year 2010/11. This represents proceeds received from the California State Water Resources Board under the Clean Water State Revolving Fund (SRF) program for the financing of the ultraviolet disinfection project. Total loan received under this program this fiscal year was approximately \$7 million. In contrast, *Long-term liabilities* in fiscal year 2009/10

FAIRFIELD-SUISUN SEWER DISTRICT

Management's Discussion and Analysis

decreased by 15% due to the refunding of the 2001 Sewer Revenue Refunding Bonds in May 2010, to avail of lower interest rates.

- The restricted net assets represent resources that are subject to external restrictions on how they may be used. *Restricted for capital projects*, which represents unspent portion of capacity fees collected, decreased by approximately 18% and 73% in fiscal years ended 2010/11 and 2009/10, respectively. These decreases are consistent with the drawing down on the capital reserves to fund expansion-related capital projects.

The *restricted for debt service* is a bond covenant requirement, which the District is required to maintain through the life of the bonds.

The *unrestricted net assets* may be used to meet the District's ongoing obligations to ratepayers and creditors. The increase in *unrestricted net assets* was due mainly to the State Revolving Fund loan obtained to finance a capital asset.

FAIRFIELD-SUISUN SEWER DISTRICT

Management's Discussion and Analysis

The following is the District's condensed statement of revenues, expenses and changes in net assets for the fiscal year ended June 30, 2011 as compared to fiscal years ended June 30, 2010 and 2009:

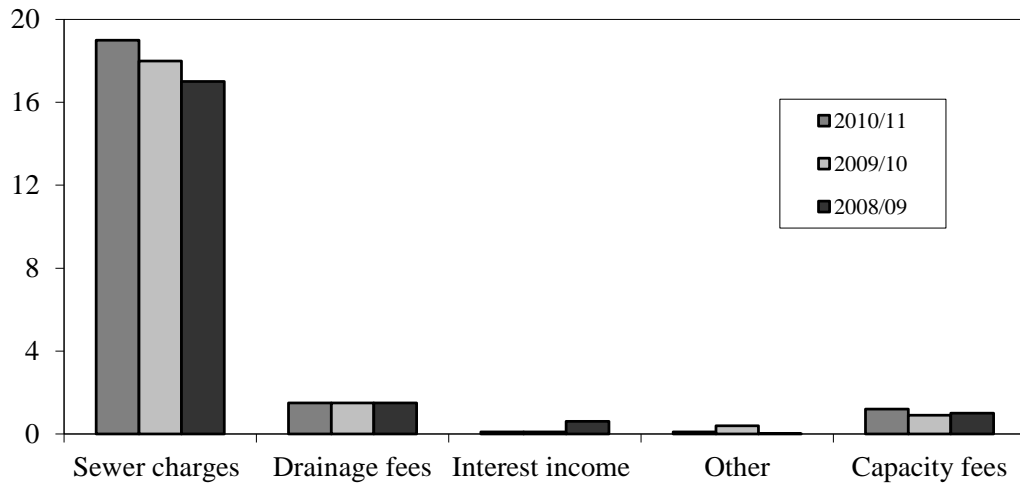
(\$000)	Fiscal Year Ended June 30,		Increase	Percent	June 30	Increase	Percent
	2011	2010	(Decrease)	Increase		(Decrease)	Increase
			11 Over 10	(Decrease)	2009	10 Over 09	(Decrease)
Revenues:							
Sewer service charges	\$ 18,895	\$ 18,014	\$ 881	4.9%	\$ 16,960	\$ 1,054	6.2%
Drainage fees	1,455	1,468	(13)	-0.9%	1,462	6	0.4%
Interest income	72	157	(85)	-54.1%	589	(432)	-73.3%
Other	97	316	(219)	-69.3%	39	277	710.3%
Total revenues	<u>20,519</u>	<u>19,955</u>	<u>564</u>	2.8%	<u>19,050</u>	<u>905</u>	4.8%
Expenses:							
Business operations	12,274	12,351	(77)	-0.6%	11,603	748	6.4%
Sewer line maintenance	2,663	2,384	279	11.7%	2,503	(119)	-4.8%
General and administrative	1,711	1,821	(110)	-6.0%	1,985	(164)	-8.3%
Billing and collection	459	446	13	2.9%	476	(30)	-6.3%
Interest expense	403	767	(364)	-47.5%	833	(66)	-7.9%
Depreciation	6,438	5,799	639	11.0%	4,600	1,199	26.1%
Total expenses	<u>23,948</u>	<u>23,568</u>	<u>380</u>	1.6%	<u>22,000</u>	<u>1,568</u>	7.1%
Income (loss) before capital contributions	(3,429)	(3,613)	184	-5.1%	(2,950)	(663)	22.5%
Add: Capacity fees	1,223	990	233	23.5%	979	11	1.1%
Change in net assets	(2,206)	(2,623)	417	-15.9%	(1,971)	(652)	33.1%
Net assets - beginning of period	<u>87,696</u>	<u>90,319</u>	<u>(1,971)</u>	-2.2%	<u>92,290</u>	<u>(1,971)</u>	-2.1%
Net assets - end of period	<u>\$ 85,490</u>	<u>\$ 87,696</u>	<u>\$ (2,206)</u>	-2.5%	<u>\$ 90,319</u>	<u>\$ (2,623)</u>	-2.9%

- The slight increase in service fees collected is consistent with the residential customers' annual rate increases. The sharp decline in interest income is due to a significantly smaller investment portfolio and drop in interest rates. *Other income* is a combination of miscellaneous non-recurring revenue and fair value adjustment on investments.
- Total expenses remained relatively the same in fiscal year 2010/11. *Business operations* decreased in fiscal year 2010/11 due mainly to the reduction in electricity cost as the solar and wind projects are in full operation. The increase in *sewer line maintenance* cost was due to the bi-annual sewer line repair project undertaken in fiscal year 2010/11. The reduction in *general and administrative* costs was a result of some organizational changes during fiscal year 2010/11. The decrease in *interest expense* was due to smaller portfolio and lower interest rates.

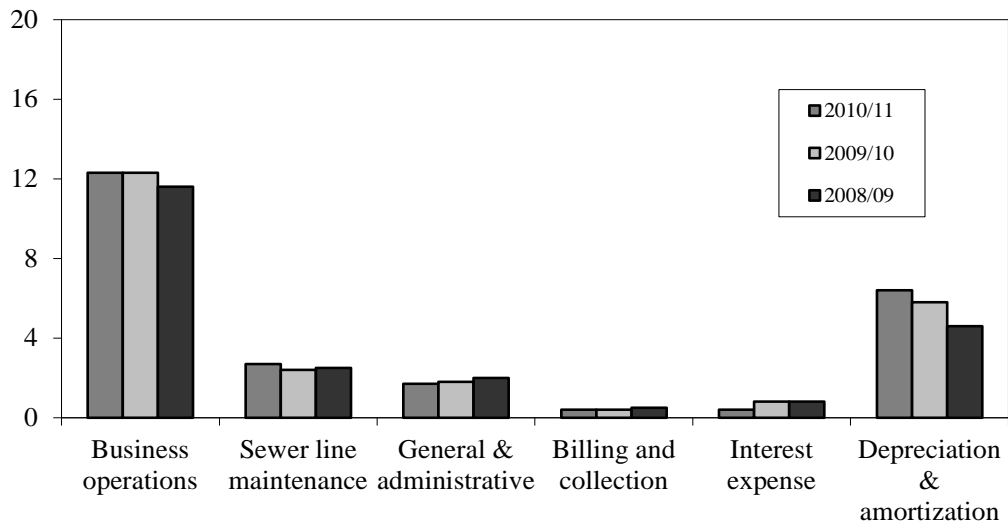
FAIRFIELD-SUISUN SEWER DISTRICT

Management's Discussion and Analysis

Sources of All Revenues for Fiscal Years 2010/11, 2009/10 and 2008/09
(\$000)



Classification of All Expenses for Fiscal Years 2010/11, 2009/10 and 2008/09
(\$000)



FAIRFIELD-SUISUN SEWER DISTRICT

Management's Discussion and Analysis

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, is \$95.6 million as of June 30, 2011 and \$93.1 million as of June 30, 2010. This investment in capital assets includes land and improvements, construction in progress, buildings and improvements, vehicles and equipment, trunk lines, pump stations, and treatment plant facilities. The \$2.5 million net increase in capital assets is the difference between \$8.9 million addition to the construction in progress and depreciable assets, less \$6.4 million in depreciation.

Additional information on the District's capital assets can be found in Note 5, page 23.

Debt Administration

In May 2010 the District refunded its outstanding bond debt in order to take advantage of lower interest rates. As of June 30, 2011 the District has an outstanding revenue bond debt of \$10.9 million. The District has a rating of "A+" from Standard and Poor's Corporation, which demonstrates its strong capacity to meet its financial obligations.

The District continues to expand, upgrade and improve the quality of its sewage collection and treatment systems to keep current with environmental regulations and the needs of its service area. To the extent possible, the District attempts to fund capital projects through "pay-as-you-go" financing. Community growth pays for itself so that, upon buildout, major debt service burdens will not be shifted to ratepayers. Reserves are earmarked for future major maintenance and capital projects.

Additional information on the District's long-term debt can be found in Note 6, pages 24-25.

FAIRFIELD-SUISUN SEWER DISTRICT

Management's Discussion and Analysis

General Enterprise Functions

The District maintains a proactive, entrepreneurial style of organization that encourages efficiencies. District ratepayers have for many years enjoyed the lowest sewer service rates among surrounding communities, despite the fact that the District receives no property tax revenues.

Using This Annual Report

This annual report consists of two parts: Management's Discussion and Analysis, and Basic Financial Statements. The Basic Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Helen Gaumann, Director of Administrative Services, at 1010 Chadbourne Road, Fairfield, CA 94534-9700.

FAIRFIELD-SUISUN SEWER DISTRICT

Statement of Net Assets

June 30, 2011 and 2010

(page 1 of 2)

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and investments (Note 3)	\$ 6,810,591	\$ 7,746,517
Accounts receivable, net	3,504,143	3,163,170
Interest receivable	4,819	4,766
Other	155,320	165,422
Total current assets	<u>10,474,873</u>	<u>11,079,875</u>
Noncurrent assets:		
Restricted assets (Note 4):		
Cash and investments with fiscal agent	<u>1,368,375</u>	<u>1,379,970</u>
Total restricted assets	<u>1,368,375</u>	<u>1,379,970</u>
Unamortized bond issuance costs	<u>172,343</u>	<u>208,002</u>
Capital assets (Note 5):		
Non-depreciable assets	12,995,118	22,150,301
Depreciable assets, net of depreciation	<u>82,618,779</u>	<u>70,976,527</u>
Total capital assets	<u>95,613,897</u>	<u>93,126,828</u>
Total noncurrent assets	<u>97,154,615</u>	<u>94,714,800</u>
Total assets	<u>107,629,488</u>	<u>105,794,675</u>

The accompanying notes are an integral part of these financial statements.

FAIRFIELD-SUISUN SEWER DISTRICT

Statements of Net Assets

June 30, 2011 and 2010

(page 2 of 2)

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of revenue bonds (Note 6)	2,090,000	2,005,000
Accounts payable	1,712,303	2,563,510
Current portion of compensated absences payable	516,860	487,762
Current portion of SRF loan (Note 6)	315,778	-
Accrued interest payable	55,765	74,928
Total current liabilities	<u>4,690,706</u>	<u>5,131,200</u>
Long-term liabilities:		
Revenue bonds (Note 6)	8,885,000	10,975,000
Less: Unamortized discount and loss on refinancing	(602,465)	(727,113)
Add: Unamortized premium on refunding	497,173	600,037
State Revolving Fund loan (Note 6)	7,129,876	1,073,624
Compensated absences payable (Note 6)	129,215	121,941
Net other postemployment benefits obligation (Note 11)	1,409,000	924,100
Total long-term liabilities	<u>17,447,799</u>	<u>12,967,589</u>
Total liabilities	<u>22,138,505</u>	<u>18,098,789</u>
Net assets		
Invested in capital assets, net of related debt	77,298,534	80,273,904
Restricted:		
Restricted for capital projects (Note 4)	1,685,448	2,051,181
Restricted for debt service (Note 4)	1,368,375	1,379,970
Restricted for major maintenance (Note 4)	1,724,000	2,007,000
Unrestricted	3,414,626	1,983,831
Total net assets	<u>\$ 85,490,983</u>	<u>\$ 87,695,886</u>

The accompanying notes are an integral part of these financial statements.

FAIRFIELD-SUISUN SEWER DISTRICT
Statements of Revenue, Expense and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Sewer service charges	\$ 18,894,915	\$ 18,014,176
Drainage fees	1,454,574	1,467,904
Other	1,618	9,558
	<u>20,351,107</u>	<u>19,491,638</u>
Operating expenses:		
Business operations	12,274,171	12,350,882
Depreciation and amortization	6,437,880	5,798,862
Sewer line maintenance (Note 7)	2,662,722	2,384,373
General and administrative	1,710,678	1,821,312
Billing and collection (Note 7)	458,838	445,842
	<u>23,544,289</u>	<u>22,801,271</u>
Operating loss	<u>(3,193,182)</u>	<u>(3,309,633)</u>
Nonoperating revenues (expenses):		
Interest income	72,481	157,162
Net increase (decrease) in fair value of investment	(11,217)	(32,649)
Interest expense	(402,990)	(767,165)
Other	107,353	338,784
	<u>(234,373)</u>	<u>(303,868)</u>
Net loss before capital contributions	(3,427,555)	(3,613,501)
Capacity fees	<u>1,222,652</u>	<u>990,084</u>
Change in net assets	(2,204,903)	(2,623,417)
Net assets - beginning of period	<u>87,695,886</u>	<u>90,319,303</u>
Net assets - end of period	<u>\$ 85,490,983</u>	<u>\$ 87,695,886</u>

The accompanying notes are an integral part of these financial statements.

FAIRFIELD-SUISUN SEWER DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010
(page 1 of 2)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers	\$ 19,410,332	\$ 19,127,531
Payments to suppliers & vendors	(9,020,895)	(9,012,421)
Payments for employees salaries & benefits	(7,810,677)	(7,222,040)
Other receipts	108,971	341,868
	<u>2,687,731</u>	<u>3,234,938</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(8,867,507)	(7,664,450)
Capacity fees	1,214,897	1,100,813
CA State Revolving Fund Loan	6,372,030	1,073,624
Interest paid	(422,153)	(830,684)
Net proceeds from revenue bonds refunding	-	13,220,598
Principal payment of the revenue bonds	(2,005,000)	(17,120,000)
Net cash used for capital and related financing activities	<u>(3,707,733)</u>	<u>(10,220,099)</u>
Cash flows from investing activities:		
Interest received on investments	72,481	240,492
Net decrease in cash and cash equivalents	(947,521)	(6,744,669)
Cash and cash equivalents, beginning of period	<u>9,126,487</u>	<u>15,871,156</u>
Cash and cash equivalents, end of period	<u>\$ 8,178,966</u>	<u>\$ 9,126,487</u>

The accompanying notes are an integral part of these financial statements.

FAIRFIELD-SUISUN SEWER DISTRICT

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

(page 2 of 2)

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (3,193,182)	\$ (3,309,633)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation and amortization expense	6,437,880	5,798,862
Other postemployment benefit expense	484,900	469,600
Miscellaneous non operating income	107,353	341,868
Changes in assets and liabilities:		
(Increase) decrease in receivables, net	(344,487)	94,334
(Increase) decrease in other assets	10,102	(75,908)
Decrease in accounts payable	(851,207)	(155,929)
Increase in compensated absences	36,372	71,744
Net cash provided by operating activities	<u>\$ 2,687,731</u>	<u>\$ 3,234,938</u>
Noncash investing, capital, and financing activities:		
Increase (decrease) in fair value of investments	<u>\$ 21,432</u>	<u>\$ 7,619</u>

The accompanying notes are an integral part of these financial statements.

FAIRFIELD-SUISUN SEWER DISTRICT

Notes to Financial Statements

June 30, 2011

1. Organization

The Fairfield-Suisun Sewer District (District) is a special district consisting of all territory within the cities of Fairfield and Suisun City (the Cities). The District has broad powers to finance, construct and operate sewage collection and disposal and reclaimed water systems, and maintain storm drainage infrastructure within the District jurisdiction. The District's governing board consists entirely of members from the City Councils of both cities.

A. Wastewater

The District operates a single sewage treatment plant, which was completed in 1976. It also owns and operates 70 miles of trunk sewers and 13 wastewater pump stations. The day-to-day operations and maintenance of the treatment plant and collection system is performed by District staff. All construction management of capital expansion and most major maintenance projects are also performed by District staff.

B. Drainage Maintenance

Pursuant to an agreement entered into in March 1988 with the cities of Fairfield and Suisun City, the District collects drainage fees to be used as supplemental funding to maintain the regional and local drainage facilities within the District's jurisdiction, including those constructed by the U.S. Army Corps of Engineers as part of the Fairfield Vicinity Streams Project.

Drainage fees, as established by the governing board, are collected on the Solano County tax roll pursuant to an agreement with Solano County. Total fees collected in fiscal years ended June 30, 2011 and 2010 were \$1,454,574 and \$1,467,904, respectively.

2. Summary of Significant Accounting Policies

The Financial Reporting Entity—The District complies with GASB 14, "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable. Other organizations may also be designated as component units, particularly if the nature and significance of their relationship with a primary government are such that the organizations' exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

Basis of Accounting—The District is accounted for as a single enterprise fund. An enterprise fund is a proprietary fund type used to account for operations that are financed

FAIRFIELD-SUISUN SEWER DISTRICT

Notes to Financial Statements

June 30, 2011

and operated in a manner similar to private business enterprises. The District's intent is that the costs of providing services to customers on a continuing basis be financed or recovered primarily through sewer service charges.

The District applies all applicable pronouncements of the Government Accounting Standards Board (GASB) as well as any applicable pronouncement of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The District uses the accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are earned, and expenses are recognized when incurred. Operating revenues and expenses result from the ongoing principal operation of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses are related to financing and investing type activities and result from nonexchange transactions or ancillary services. Unbilled utility service receivables are recorded at year end. As required for enterprise funds, the District uses a flow of economic resources measurement focus.

When an expense is incurred for purposes in which both restricted and unrestricted net assets are available, it is the District's policy to first apply unrestricted resources.

Budget—Although not legally required of enterprise funds, the District management takes pride in the preparation and Board adoption of an annual budget and 10-year long-term financial plan. The 10-year long-term financial plan is updated annually in conjunction with the District's Master Plan and the cities' growth projections. This process has been instrumental in the District's ability to build reserves for future needs and has allowed the District to fund most major expansion projects from reserves, and consequently keep debt low.

Cash and Investments—Funds are invested in accordance with Section 53601 of the Government Code of the State of California and the District's established investment policy. All monies not required for immediate expenditure are invested to earn maximum yield consistent with safety and liquidity. All investments are kept in the custody of the District or a qualified safekeeping institution. A quarterly report is made to the Board of Directors showing a description of the investments, maturity date, par value, carry value, market value, current yield, and estimated annual income. Investments are adjusted to fair value when material as required by Government Accounting Standards Board Statement 31.

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

Under the provisions of the District's investment policy and in accordance with the Government Code of the State of California, the District may invest in the following types of investments:

- Obligations of the U.S. Treasury
- Warrants, Treasury Notes, or Bonds issued by the State of California
- Negotiable Certificates of Deposit issued by federally or state chartered banks or associations
- Agencies and instrumentalities
- Prime commercial paper of U.S. corporations
- Bankers Acceptances with maturities not to exceed 180 days
- Medium-term notes issued by U.S. corporations
- Local Agency Investment Fund (LAIF) operated by the Treasurer's Office of the State of California
- Any other investment security authorized under the provisions of California Government Code Section 53601

Cash with fiscal agent is the amount deposited for the 2010 Refunding Revenue Bonds debt service reserve.

Statement of Cash Flows—For purposes of the statement of cash flows, the District considers all cash and investments and all cash with fiscal agents with original maturity of three months or less as cash and cash equivalents.

Property, Plant and Equipment—Property, plant and equipment is stated at cost less accumulated depreciation. The District capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least 5 years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are expensed as incurred. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gain or loss from disposition is credited or charged to revenues.

Depreciation is provided on the straight-line method over the following estimated useful lives:

Trunk lines/pump stations and treatment plant	23 years
Buildings and improvements	25 years
Vehicles and equipment	5 to 10 years

FAIRFIELD-SUISUN SEWER DISTRICT

Notes to Financial Statements

June 30, 2011

Construction in Progress—The District constructs assets for its own use in plant operations. The costs associated with these projects are accumulated in a construction in progress account while the project is being developed. Once the project is complete, the entire cost of the constructed asset is transferred to the capital assets account and depreciated over the estimated life of the asset.

Bond Discounts and Issuance Costs—Bond discounts, issuance and refinancing costs are amortized over the life of the bonds using the straight-line method of amortization.

Compensated Absences—District employees are granted compensated absences in varying amounts based on years of service. Compensated absences payable represents the District's liability for earned but unused compensated absences at year-end.

Operating Revenues and Expenses—Operating revenues of the District consist mainly of charges to customers for sewer service. Operating revenues are used to finance the cost of operations, including cost of delivering and providing services and facility maintenance. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Capacity Fees—Capacity fees, which represent a one-time fee for capacity in the sewer system, are legally restricted for growth-related projects.

Use of Estimates—Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Subsequent Events—Management has considered subsequent events through October 4, 2011, the date which the financial statements were available to be issued.

3. Cash and Investments

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution.

The District invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the District

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

employs the Trust Department of a bank as the custodian of certain District-managed investments, regardless of their form.

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of District debt instruments.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash and investments		
Held by District	\$ 6,408,538	\$ 7,070,965
Held by escrow agent	402,053	675,552
Restricted investments		
Held by fiscal agent	<u>1,368,375</u>	<u>1,379,970</u>
Total cash and investments	<u>\$ 8,178,966</u>	<u>\$ 9,126,487</u>

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

C. Authorized Investments

Investments authorized by the California Government Code and the District's Investment Policy for all District investments including debt service reserve are the following:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	N/A	None	N/A
U.S. Agency Securities	5 years	N/A	None	N/A
State of California Obligations	5 years	N/A	None	N/A
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A	25%	10%
Medium Term Corporate Notes	5 years	A	30%	N/A
Mortgage Pass-Through Securities	5 years	AA	20%	N/A
Repurchase Agreements	1 year	N/A	20%	N/A
Reverse Repurchase Agreements	92 days	N/A	20%	N/A
Negotiable Certificates of Deposit	5 years	N/A	30%	N/A
California Local Agency Investment Fund	Upon Demand	N/A	None	N/A
		Top Ranking of 2 NRSRO		
Mutual Funds	N/A	(A)	20%	10%
		Top Ranking of 2 NRSRO		
Money Market Mutual Funds	N/A	(A)	20%	N/A

(A) Nationally Recognized Statistical Rating Organization

The District does not enter into range notes, inverse floaters, mortgage-derived interest-only strips, or any security that could result in zero interest accrual if held to maturity. At June 30, 2011, the District's investments were in compliance with the above provisions.

FAIRFIELD-SUISUN SEWER DISTRICT

Notes to Financial Statements

June 30, 2011

D. Interest Rate Risk

Interest rate risk is the risk of potential fair value losses from future changes in prevailing market interest rates. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its investments in accordance with its investment policy and the California Government Code, which limits investment maturities to five years or less unless authorized by the District Board for a specific purpose.

Information about the sensitivity of the fair values of the District's investments (including investments held by trustees) to market interest rate fluctuations is provided by the following table:

	June 30, 2011		June 30, 2010	
	Fair Value	Weighted Ave. Years to Maturity	Fair Value	Weighted Ave. Years to Maturity
U.S. Treasuries/Money Market	\$ 6,372,494	0.01	\$ 7,014,028	0.01
CA Local Agency Investment Fund	19,295	0.65	19,197	0.00
<i>Held by Trustees:</i>				
U.S. Government Agencies	1,355,818	0.80	1,367,035	0.02
Money Market	12,557	0.00	12,935	0.00
Total Investments	\$ 7,760,164		\$ 8,413,195	

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

E. Credit Risk

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 following table shows the District's investments and their related credit rating.

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

	June 30, 2011		June 30, 2010	
	Fair Value	Credit Rating	Fair Value	Credit Rating
<i>Held by District</i>				
U.S. Treasuries/Money Market	\$ 6,372,494	N/A	\$ 7,014,028	N/A
<i>Held by Trustees:</i>				
Federal National Mortgage Assoc.	1,355,818	Aaa	1,367,035	Aaa
Money Market	12,557	N/A	12,935	N/A
<i>Not rated:</i>				
CA Local Agency Investment Fund	19,295	N/A	19,197	N/A
	<u>\$ 7,760,164</u>		<u>\$ 8,413,195</u>	

F. Concentration of Credit Risk

GASB 40 requires disclosure of concentrations of investments greater than 5%. At June 30, 2011, the District has the following investment other than the external investment pool:

Issuer	Investment Type	Maturity Date	Fair Value
Federal National Mortgage Association	Agency Bond	4/20/2012	\$ 1,355,818

4. Restricted Net Assets

Restricted net assets at June 30, 2011, consist of the following:

Restricted for capital projects	\$ 1,685,448
Restricted for debt service	1,368,375
Restricted for major maintenance	1,724,000
	<u>\$ 4,777,823</u>

The reserve for capital projects is the unspent portion of capacity fees, which are legally restricted for growth-related projects.

The debt service reserve is the maximum annual debt service on the 2010 Sewer Revenue Refunding Bonds, as required by the bond indenture.

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

As a condition of the original grant to finance the construction of the sewage treatment plant, the Environmental Protection Agency requires that wastewater funds be set aside for major maintenance. Additions to and charges against these restricted assets are recorded as transfers from or to unrestricted net assets and are made at the discretion of the governing board.

5. Capital Assets

Changes in capital assets consisted of the following:

Asset Category	June 30, 2009	Additions	Transfers	June 30, 2010	Additions	Transfers	June 30, 2011
Non-depreciable assets:							
Construction in progress	\$ 12,453,842	\$ 7,992,137	\$ (1,088,581)	\$ 19,357,398	\$ 8,645,970	\$ (17,801,153)	\$ 10,202,215
Land and improvements	2,792,903	-	-	2,792,903	-	-	2,792,903
Total non-depreciable assets	<u>15,246,745</u>	<u>7,992,137</u>	<u>(1,088,581)</u>	<u>22,150,301</u>	<u>8,645,970</u>	<u>(17,801,153)</u>	<u>12,995,118</u>
Depreciable assets:							
Buildings and improvements	10,271,220	31,234	-	10,302,454	167,145	-	10,469,599
Vehicles and equipment	2,455,245	8,277	262,565	2,726,087	54,392	-	2,780,479
Trunk lines/ pump station	46,425,351	-	-	46,425,351	-	-	46,425,351
Treatment plant	61,337,670	142,211	826,016	62,305,897	-	17,801,153	80,107,050
Total depreciable assets	<u>120,489,486</u>	<u>181,722</u>	<u>1,088,581</u>	<u>121,759,789</u>	<u>221,537</u>	<u>17,801,153</u>	<u>139,782,479</u>
Less: Accumulated depreciation							
Buildings and improvements	(5,992,273)	(460,759)	-	(6,453,032)	(463,341)	-	(6,916,373)
Vehicles and equipment	(1,067,987)	(286,286)	-	(1,354,273)	(280,725)	-	(1,634,998)
Trunk lines/pump station	(22,981,410)	(2,025,919)	-	(25,007,329)	(2,025,919)	-	(27,033,248)
Treatment plant	(15,036,504)	(2,932,124)	-	(17,968,628)	(3,610,453)	-	(21,579,081)
Total accumulated depreciation	<u>(45,078,174)</u>	<u>(5,705,088)</u>	<u>-</u>	<u>(50,783,262)</u>	<u>(6,380,438)</u>	<u>-</u>	<u>(57,163,700)</u>
Net capital assets	<u>75,411,312</u>	<u>(5,523,366)</u>	<u>1,088,581</u>	<u>70,976,527</u>	<u>(6,158,901)</u>	<u>17,801,153</u>	<u>82,618,779</u>
Total capital assets	<u>\$ 90,658,057</u>	<u>\$ 2,468,771</u>	<u>\$ -</u>	<u>\$ 93,126,828</u>	<u>\$ 2,487,069</u>	<u>\$ -</u>	<u>\$ 95,613,897</u>

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

6. Long-Term Liabilities

The following summarizes changes in long-term liabilities during the year:

Description	June 30, 2010	Additions	Maturities	June 30, 2011	Current Portion
2010 Sewer Revenue Refunding Bonds	\$ 12,980,000	\$ -	\$ 2,005,000	\$ 10,975,000	\$ 2,090,000
State Revolving Fund Loan	1,073,624	6,372,030	-	7,445,654	315,778
Compensated Absences	609,703	739,145	702,773	646,075	516,860
Long-term liabilities	<u>\$ 14,663,327</u>	<u>\$ 7,111,175</u>	<u>\$ 2,707,773</u>	<u>\$ 19,066,729</u>	<u>\$ 2,922,638</u>

Description	June 30, 2009	Additions	Maturities	June 30, 2010	Current Portion
Sewer Revenue Refunding Bonds, 2001 Series A	\$ 17,120,000		\$ 17,120,000	\$ -	\$ -
2010 Sewer Revenue Refunding Bonds		12,980,000		12,980,000	2,005,000
State Revolving Fund Loan		1,073,624	-	1,073,624	-
Compensated Absences	537,959	71,744		609,703	487,762
Long-term liabilities	<u>\$ 17,657,959</u>	<u>\$ 14,125,368</u>	<u>\$ 17,120,000</u>	<u>\$ 14,663,327</u>	<u>\$ 2,492,762</u>

A. Sewer Revenue Refunding Bonds, 2001 Series A

On May 1, 2001, the District issued \$21,370,000 of Sewer Revenue Refunding Bonds, Series A for a current refunding of \$23,165,000 of the 1991 Series A Refunding bonds. Principal payments were due annually on May 1, and interest payments were due semi-annually on May 1 and November 1, with interest rates from 4% to 5.375%. These bonds were redeemed on May 1, 2010. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets.

B. 2010 Sewer Revenue Refunding Bonds

On April 6, 2010, the District issued \$12,980,000 of 2010 Sewer Revenue Refunding Bonds for a current refunding of \$17,120,000 of the Sewer Revenue Refunding Bonds, 2001 Series A. The refunding was undertaken to take advantage of lower interest rates and to reduce future debt service payments. Principal payments are due annually on May 1, and interest payments are due semi-annually on May 1 and November 1, with interest rates from 1.1% to 4.0%. The reacquisition price exceeded the net carrying amount of the old debt by approximately \$750,000. This amount is amortized over the new debt's life, which was not extended beyond 2016. The transaction also resulted in economic gain of approximately \$300,000 and a reduction of approximately \$5.5 million in future debt service payments.

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

Future debt service payments on the 2010 Revenue Refunding bonds are as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,090,000	\$ 334,590	\$ 2,424,590
2013	2,115,000	311,600	2,426,600
2014	2,175,000	248,150	2,423,150
2015	2,265,000	161,150	2,426,150
2016	2,330,000	93,200	2,423,200
	<u>\$ 10,975,000</u>	<u>\$ 1,148,690</u>	<u>\$ 12,123,690</u>

C. State Revolving Fund Loan

On January 20, 2010 the District entered into a loan agreement with the California State Water Resources Control Board under the Clean Water State Revolving Fund loan program for financing of the Ultraviolet Disinfection Project. The District was approved for a loan amount of up to \$11,100,000, with an interest rate at 2.9%, payable over 20 years. Principal and interest payments, which are due semi-annually on May 1 and November 1, will commence the month following the completion of the project, which is projected to be October 2011.

The liability recognized as of June 30, 2011 was limited to the total of actual reimbursements received to date, which was \$7,445,654. Actual amortization will be presented once project is completed and final loan amount is determined.

Future debt service payments on the SRF loan are projected as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 315,778	\$ 426,475	\$ 742,253
2013	432,624	309,628	742,252
2014	445,262	296,991	742,253
2015	458,268	283,985	742,253
2016	471,655	270,599	742,254
2017-21	2,573,157	1,138,112	3,711,269
2022-26	2,971,574	739,693	3,711,267
2027-31	3,431,682	279,584	3,711,266
	<u>\$ 11,100,000</u>	<u>\$ 3,745,067</u>	<u>\$ 14,845,067</u>

Both the 2010 Sewer Revenue Refunding Bonds and the SRF loan are secured by all District operating revenues. Among other restrictions, a debt service reserve of

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

approximately \$1.4 million is held by a Trustee in a separate account distinct from all other District accounts.

D. Compensated Absences

Compensated Absences activity during the fiscal year was as follows:

	June 30, 2010	Additions	Reductions	June 30, 2011	Due Within One Year
Compensated Absences	\$ 609,703	\$ 739,145	\$ (702,773)	\$ 646,075	\$ 516,860

7. Related Party Transactions

The District had existing financial transactions with the cities of Fairfield and Suisun City during fiscal year 2010/11. Sewer line maintenance represents amounts paid to the Cities for the maintenance of its sewer lines smaller than 12” in diameter. Sewer service charges and sewer capacity fees are collected by the Cities and are remitted to the District, net of billing and collection fees.

These transactions are described below.

Sewer line maintenance	\$2,662,722
Billing and collection	458,838
Total	\$3,121,560

8. Insurance

The District is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To mitigate these risks the District joined together with other entities to form the California Sanitation Risk Management Authority (CSRMA), a public-entity risk pool currently operating as a common risk management and insurance program for member entities. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The District pays an annual premium to CSRMA for its legal liability, property damage, workers compensation insurance and automobile coverage.

CSRMA is governed by a Board composed of one representative from each member agency. The Board also controls the operations of CSRMA, including selection of management and approval of operating budgets. Each member shares surpluses and deficiencies proportionate to its participation in CSRMA.

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2010 (most recent information available):

Total assets	\$ 30,183,456
Total liabilities	\$ 16,996,071
Net assets	\$ 13,187,385
Total revenues	\$ 10,635,989
Total expenses	\$ 11,926,934

The District has not incurred a claim that exceeded its insurance coverage limits in any of the last three years.

A summary of the insurance policies in force as of June 30, 2011 can be found in the Statistical Section of this report.

9. Deferred Compensation

The District offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code Section 457 and 401(a). These plans permit a pre-tax deferral of a portion of salary until future years. The deferred compensation is not available to employees until separation, retirement, death, or an unforeseeable emergency.

All employees are eligible to participate in the 457 plan. In addition, professional and management employees are eligible to participate in the 401(a) plan. The District contributes a specified amount to the 457 plan and specified percentages to the 401(a) plan. The District's contributions to the deferred compensation plans were \$317,816 and \$321,943 for fiscal years ended June 30, 2011 and June 30, 2010, respectively.

The assets and related income of the plans are assets of a trust to which the District has no obligation other than to make payments on behalf of its employees.

10. Retirement Plan

A. CalPERS Plan Description

All qualified full-time and part-time District employees are eligible to participate in a pension plan offered by California Public Employees Retirement System (CalPERS) a cost-sharing multiple employer defined benefit pension plan. CalPERS provides retirement, disability, and death benefits to eligible plan members and beneficiaries. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on compensation, years of credited service, and retirement age.

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

B. Funding Policy

Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The Plan's provisions and benefits in effect at June 30, 2011 are summarized as follows:

Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	60
Monthly benefits, as a % of annual salary	3%
Required employee contribution rates	8.000%
Required employer contribution rates	15.798%

A credited service year is one year of full time employment. The District currently pay the employees' contributions as well as its own. The District makes contributions necessary to fund CalPERS on an actuarial basis as determined by CalPERS and its Board of Administration.

CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The District does not have a net pension obligation since it pays these actuarially required contributions bi-weekly.

C. Annual Pension Cost

Actuarially required contributions are as follows:

Fiscal Year	Contributions	Pension
Ended	Required	Assets
June 30	Contribution	(Liabilities)
2009	\$ 1,327,809	\$ -
2010	1,393,278	-
2011	1,347,048	-

The District made the above contributions as required. The required contributions were determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method.

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

A state law effective fiscal year 2005/06 makes pooling mandatory for all public agencies with less than 100 active employees. To account for the differences between the funded status of the pool and the funded status of the individual plans, CalPERS created side funds for each employer. As of June 30, 2011 the District's side fund amount is equal to its June 30, 2009 (most recent valuation date) unfunded liability of \$957,362. The side fund is credited, on an annual basis, with the actual investment return assumption. The rate is currently set at 7.75%. The side fund is also subject to amortization on an annual basis. The employer contribution rate for future years will be equal to the risk pool's rate plus the amortization of the individual side fund and an adjustment to phase out the difference between the risk pool's normal cost and the individual employer's normal cost at the time of joining the pool.

Copies of CalPERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

11. Other Postemployment Benefits (OPEB)

Plan Description

The District provides postemployment healthcare benefit for all its retired employees and their covered dependents as approved by District Resolution Number 03-36. The California Public Employee Retirement System (CalPERS) administers this benefit through an agent multiple-employer, defined benefit plan. All District retirees who attain age 50 with at least 5 years service are eligible for this benefit. Coverage discontinues either at the request of the retiree or at the death of those covered. CalPERS requires that retirees enroll in Medicare at age 65. Plan benefits were established in accordance with Board policy, and authority to amend this benefit rests with the District Board. As of June 30, 2011, the District's contribution for each retired employee is equal to 85% of their selected plan premium, up to \$813 per month. The District contribution will continue to increase by the lesser of 5% or \$100 each year until it reaches one hundred percent of employee selected plan premiums. As of June 30, 2011, five retirees receive this benefit. The District's actual OPEB contribution for current retirees for fiscal year ended June 30, 2011 was \$38,500.

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

Funding Policy and Actuarial Assumptions

The Plan is to be fully funded by employer contributions with no requirement for matching or employee contributions. The District is required to recognize the annual required contribution (ARC), an amount actuarially determined using the Projected Unit Credit Method, as permitted by GASB Statement Number 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize (closed basis) unfunded actuarial liabilities, if any, over a period not to exceed thirty years. The ARC is subject to change with each actuarial valuation date performed no later than every three years. The current ARC rate is 10.03% of covered payroll.

The most recent valuation was performed on January 1, 2009. Projections of benefits for financial reporting purposes are based on the types of benefits provided under the substantive plan at the time of valuation. The actuarial assumptions included (a) 5% rate of return on investments, (b) 3% projected payroll increase, and (c) health inflation increases as follows: 7% in 2010, 6% in 2011, and 5% for 2012 and later. The actuarial calculations reflect a long-term perspective. However, actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimate are made about the future. The schedule of funding progress, presented as supplementary information following the notes to the financial statements, will present multiyear information, when available, to show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The following table shows the component of the District's annual OPEB costs for the year and changes to Net OPEB obligation:

Annual required contribution	\$ 480,300
Interest on net OPEB obligation	43,100
Annual OPEB cost	<u>523,400</u>
Contributions made	<u>(38,500)</u>
Increase in net OPEB obligation	484,900
Net OPEB obligation - beginning of period	<u>924,100</u>
Net OPEB obligation - end of period	<u><u>\$ 1,409,000</u></u>

Annual OPEB Cost and Net OPEB Obligation is as follows:

FAIRFIELD-SUISUN SEWER DISTRICT
Notes to Financial Statements
June 30, 2011

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 480,300	5.4%	\$ 454,500
6/30/2010	501,500	6.4%	924,100
6/30/2011	523,400	7.4%	1,409,000

Funding Status

The District's actuarial accrued liability representing the present value of future benefits, included in the actuarial study dated January 1, 2009, amounted to \$1,692,400 and was unfunded since no assets had been transferred to an irrevocable trust. The ARC, as actuarially determined using the Projected Unit Method, is included in these financial statements and no separate financial statements are issued for the OPEB plan.

The funding status of the plan as of January 1, 2009, the most recent actuarial valuation was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,692,400
Actuarial Value of Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 1,692,400</u>
Funded Ratio	0.0%
Covered Payroll	\$ 5,200,000
UAAL as a percentage of payroll	32.5%

The District's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 27 years.

12. Commitments and Contingencies

The District has numerous ongoing capital projects that involve long-term construction contracts with progress payments on a percentage-of-completion basis. Construction commitments related to these contracts are approximately \$2,238,257 and \$9,831,759 as of June 30, 2011 and June 30, 2010, respectively.

FAIRFIELD-SUISUN SEWER DISTRICT

Notes to Financial Statements

June 30, 2011

13. New Pronouncements

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. Statement 54 is effective beginning with fiscal year ended June 30, 2011. This Statement does not apply to the District and, therefore, has no impact on the District’s financial statements.

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Implementation of this Statement will have no significant impact on the District’s financial statements.

GASB Statement No. 59 - *Financial Instruments Omnibus*. For periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this Statement had no significant impact on the District’s financial statements.

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements*. For financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. Implementation of this Statement will have no significant impact on the District’s financial statements.

FAIRFIELD-SUISUN SEWER DISTRICT

Notes to Financial Statements

June 30, 2011

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus*—an amendment of GASB Statements No. 14 and No. 34. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. Implementation of this Statement will have no significant impact on the District’s financial statements.

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. Implementation of this Statement will have no significant impact on the District’s financial statements.

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Implementation of this Statement will have no significant impact on the District’s financial statements.

GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions*—an amendment of GASB Statement No. 53. The provisions of Statement 64 are effective for financial statements for periods beginning after June 15, 2011, with earlier application encouraged. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of this Statement will have no significant impact on the District’s financial statements.

FAIRFIELD-SUISUN SEWER DISTRICT
Required Supplementary Information
June 30, 2011

Postemployment Benefits

Schedule of Funding Progress

The table below presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) - Projected Unit Credit (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
1/1/2009	\$ 1,692,400	-	\$ 1,692,400	0.0%	\$ 5,200,000	32.5%

Additional funding progress will be presented when data is available.

Statistical Section



FAIRFIELD-SUISUN SEWER DISTRICT
Statistical Section

Contents	Page
Financial Trends	35-39
<p>These schedules contain trend information to help the reader understand how the District's financial operation and performance have changed over time.</p>	
Revenue Capacity	40-41
<p>These schedules contain information to help the reader assess the District's most significant revenue source.</p>	
Debt Capacity	42-43
<p>These schedules contain information to help the reader assess the District's current level of outstanding debt obligation and its ability to issue additional debt in the future. The District has no overlapping bonded debt.</p>	
Operating Information	44-46
<p>These schedules contain data to help the reader understand how the information in the District's financial report relates to the services it provides.</p>	
Economic and Demographic Information	47-50
<p>These schedules offer economic and demographic indicators to help the reader understand the environment within which the District's financial activities take place.</p>	

FAIRFIELD-SUISUN SEWER DISTRICT
Financial Trends

Schedule 1
Condensed Statements of Net Assets
Last Ten Fiscal Years (\$000)

	Fiscal Year Ended June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Current and other assets	\$ 12,015	\$ 12,668	\$ 19,833	\$ 34,712	\$ 58,885	\$ 60,830	\$ 59,546	\$ 55,057	\$ 53,079	\$ 54,906
Capital assets	95,614	93,127	90,658	80,817	59,991	54,608	55,272	56,206	52,825	48,544
Total assets	107,629	105,795	110,491	115,529	118,876	115,438	114,818	111,263	105,904	103,450
Long-term liabilities	17,764	12,968	15,233	17,967	20,064	21,675	23,264	24,719	26,025	26,241
Other liabilities	4,375	5,131	4,939	5,272	5,039	3,538	3,039	2,881	2,888	5,690
Total liabilities	22,139	18,099	20,172	23,239	25,103	25,213	26,303	27,600	28,913	31,931
Net assets:										
Invested in capital assets, net of related debt	77,298	80,274	73,851	63,390	42,378	36,347	35,719	33,966	31,583	25,309
Restricted										
Restricted for capital projects	1,685	2,051	7,683	21,103	38,621	43,457	41,131	35,375	32,454	34,995
Restricted for debt service	1,368	1,380	2,962	2,962	2,847	2,846	2,846	2,829	2,987	2,930
Restricted for major maintenance	1,724	2,007	2,285	2,048	5,525	3,688	6,124	6,658	5,984	6,269
Unrestricted	3,415	1,984	3,538	2,787	4,402	3,887	2,695	4,835	3,983	2,016
Total net assets	\$ 85,490	\$ 87,696	\$ 90,319	\$ 92,290	\$ 93,773	\$ 90,225	\$ 88,515	\$ 83,663	\$ 76,991	\$ 71,519

Source: District Audited Financial Statements

FAIRFIELD-SUISUN SEWER DISTRICT

Financial Trends

Schedule 2

Condensed Statements of Revenues, Expenses, and Changes in Net Assets Last Ten Fiscal Years (\$000)

	Fiscal Year Ended June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:										
Service charges	\$ 18,895	\$ 18,014	\$ 16,960	\$ 16,998	\$ 16,368	\$ 15,960	\$ 14,682	\$ 14,131	\$ 13,486	\$ 13,146
Drainage fees	1,455	1,468	1,462	1,470	1,410	1,375	1,352	1,330	1,291	1,248
Availability charges	-	-	-	-	-	-	144	287	287	1,765
Interest income	72	157	589	1,848	2,930	2,110	1,435	1,425	1,757	1,909
Other (1)	97	316	39	250	877	9	(103)	(563)	1,835	(195)
Capacity fees	1,223	990	979	943	3,767	5,383	8,014	8,763	5,131	7,528
Total revenues	21,742	20,945	20,029	21,509	25,352	24,837	25,524	25,373	23,787	25,401
Expenses:										
Business operations	12,068	12,351	11,603	11,999	11,413	12,835	10,897	9,399	9,106	8,771
Sewer line maintenance	2,663	2,384	2,503	2,362	2,088	1,983	1,884	1,491	1,452	1,360
General and administrative	1,711	1,821	1,985	3,073	3,065	2,989	2,639	2,849	2,886	2,419
Billing and collection	459	446	476	427	406	388	367	323	340	321
Interest expense	403	767	833	1,183	1,129	1,275	1,417	1,559	1,677	1,715
Depreciation	6,644	5,799	4,600	3,948	3,703	3,657	3,468	3,080	2,854	4,617
Total expenses	23,948	23,568	22,000	22,992	21,804	23,127	20,672	18,701	18,315	19,203
Change in net assets	(2,206)	(2,623)	(1,971)	(1,483)	3,548	1,710	4,852	6,672	5,472	6,198
Net assets - beginning of period	87,696	90,319	92,290	93,773	90,225	88,515	83,663	76,991	71,519	65,321
Net assets - end of period	\$ 85,490	\$ 87,696	\$ 90,319	\$ 92,290	\$ 93,773	\$ 90,225	\$ 88,515	\$ 83,663	\$ 76,991	\$ 71,519

(1) Includes net increase (decrease) in fair value of investments

Source: District Audited Financial Statements

FAIRFIELD-SUISUN SEWER DISTRICT

Financial Trends

Schedule 3 Net Assets by Component Last Ten Fiscal Years (\$000)

	Fiscal Year Ended June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Net assets:										
Invested in capital assets, net of related debt	\$ 77,298	\$ 80,274	\$ 73,851	\$ 63,390	\$ 42,378	\$ 36,347	\$ 35,719	\$ 33,966	\$ 31,583	\$ 25,309
Restricted	4,777	5,438	12,930	26,113	46,993	49,991	50,101	44,862	41,425	44,194
Unrestricted	3,415	1,984	3,538	2,787	4,402	3,887	2,695	4,835	3,983	2,016
Total net assets	\$ 85,490	\$ 87,696	\$ 90,319	\$ 92,290	\$ 93,773	\$ 90,225	\$ 88,515	\$ 83,663	\$ 76,991	\$ 71,519

Source: District Audited Financial Statements

FAIRFIELD-SUISUN SEWER DISTRICT
Financial Trends

Schedule 4
Expenses by Classification
Last Ten Fiscal Years
(Excludes capital expenditures)

Year Ended June 30,	Total	Business Operations	Sewer Line Maintenance	General & Administration	Billing & Collection	Depreciation & Amortization	Interest Expense
2002	\$ 19,203,601	\$ 8,772,171	\$ 1,359,706	\$ 2,419,215	\$ 320,871	\$ 4,617,155	\$ 1,714,483
2003	18,314,701	9,106,436	1,452,078	2,885,952	339,503	2,854,168	1,676,564
2004	18,701,043	9,399,263	1,491,490	2,848,893	322,536	3,080,286	1,558,575
2005	20,670,464	10,896,536	1,883,772	2,638,508	367,025	3,468,002	1,416,621
2006	23,126,947	12,835,770	1,983,094	2,988,918	387,642	3,656,589	1,274,934
2007	21,804,136	11,414,546	2,087,786	3,064,628	405,515	3,702,626	1,129,035
2008	22,991,990	11,999,416	2,361,619	3,073,299	426,940	3,947,470	1,183,246
2009	22,000,411	11,603,093	2,503,475	1,984,562	476,049	4,600,548	832,684
2010	23,568,436	12,350,882	2,384,373	1,821,312	445,842	5,798,862	767,165
2011	23,947,279	12,068,443	2,662,722	1,710,678	458,838	6,643,608	402,990

Source: District Audited Financial Statements

FAIRFIELD-SUISUN SEWER DISTRICT
Financial Trends

Schedule 5
Revenues by Source
Last Ten Fiscal Years

Year Ended		Sewer Service	Drainage	Availability	Interest		Capacity
June 30,	Total	Charges	Fees	Charges	Income	Other (1)	Fees
2002	\$ 25,401,948	\$ 13,145,406	\$ 1,248,315	\$ 1,765,251	\$ 1,908,746	\$ (193,870)	\$ 7,528,100
2003	23,786,624	13,485,521	1,291,358	286,996	1,756,492	1,834,923	5,131,334
2004	25,372,383	14,130,938	1,329,948	286,996	1,425,023	(563,498)	8,762,976
2005	25,523,910	14,681,930	1,352,551	143,498	1,435,039	(102,866)	8,013,758
2006	24,836,536	15,959,765	1,374,743	-	2,110,109	9,020	5,382,899
2007	25,351,889	16,367,598	1,410,300	-	2,930,218	877,003	3,766,770
2008	21,509,682	16,997,960	1,470,460	-	1,847,534	249,922	943,806
2009	20,029,267	16,960,299	1,462,322	-	588,560	38,899	979,187
2010	20,945,019	18,014,176	1,467,904	-	157,162	315,693	990,084
2011	21,742,376	18,894,915	1,454,574	-	72,481	97,754	1,222,652

(1) Includes net increase (decrease) in fair value of investments.

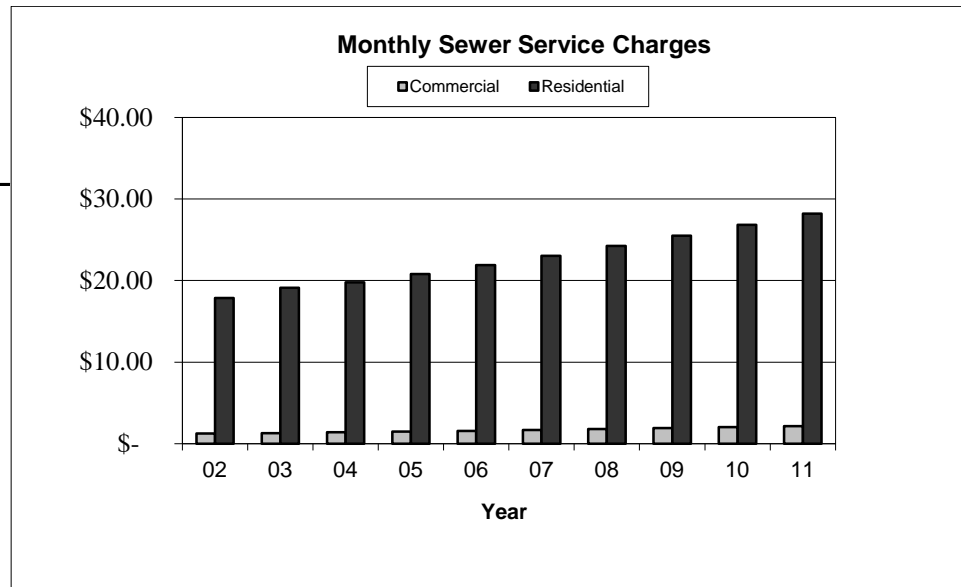
Source: District Audited Financial Statements

FAIRFIELD-SUISUN SEWER DISTRICT

Revenue Capacity

Schedule 6 Sewer Service Charges

Year	Residential (a)	Commercial (b)
2002	\$ 17.84	\$ 1.25
2003	19.11	1.29
2004	19.78	1.39
2005	20.81	1.48
2006	21.89	1.57
2007	23.03	1.67
2008	24.23	1.78
2009	25.49	1.89
2010	26.82	2.01
2011	28.21	2.14



- (a) Residential customers are billed a flat rate per month, per dwelling unit.
- (b) Commercial customers are billed based on water usage, per hundred cubic feet.

A cost of service and rate study is performed once every few years. The most recent rate study was conducted in 2004. Based on the rate study, sewer service charges increase annually by 5.2% for residential customers and by 6.3% for commercial customers. Sewer service charges are the primary revenue source for operations and the major maintenance/replacement reserve.

Source: District rate ordinance

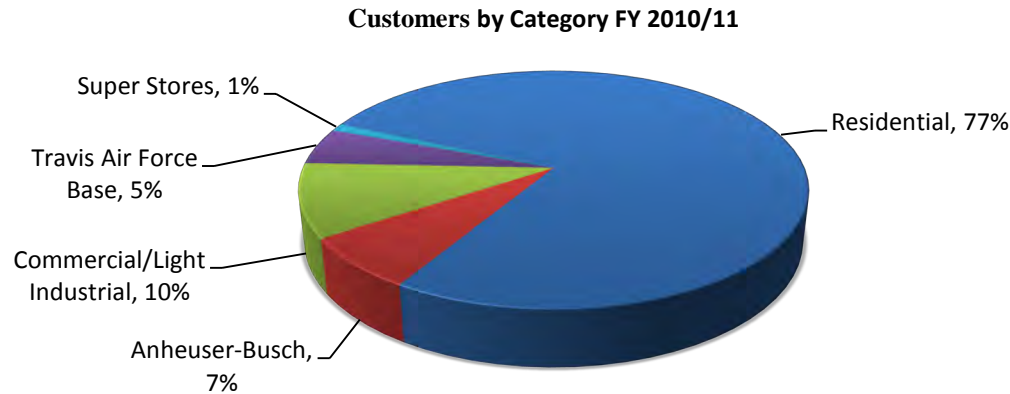
FAIRFIELD-SUISUN SEWER DISTRICT

Revenue Capacity

Schedule 7

Service Area Principal Customers and Percentage of Total Sewer Service Charges

		Fiscal Years Ended June 30,									
		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Total sewer service charges											
\$000		\$ 18,895	\$ 18,014	\$ 16,960	\$ 16,998	\$ 16,368	\$ 15,960	\$ 14,682	\$ 14,131	\$ 13,486	\$ 13,145
User	Type										
Anheuser-Busch	Brewery	6.71%	9.61%	9.18%	12.67%	14.29%	15.47%	14.02%	15.22%	16.45%	12.27%
Travis Air Force Base	Military Base	4.85%	5.69%	5.57%	5.48%	6.19%	7.11%	5.95%	5.44%	5.39%	7.45%
Super Stores	Dairy	0.88%	0.94%	0.86%	0.85%	0.79%	0.78%	0.87%	0.64%	1.00%	0.00%
Ball Metal Corporation	Manufacturing	0.48%	0.57%	0.58%	0.59%	0.51%	0.53%	0.50%	0.50%	0.58%	0.41%
Paradise Valley Estates	Housing	0.56%	0.51%	0.61%	0.54%	0.26%	0.51%	0.49%	0.47%	0.54%	0.00%
Pointe Fairfield Venture, LLC	Housing	0.50%	0.50%	0.58%	0.42%	0.47%	0.46%	0.44%	0.43%	0.49%	0.39%
Dover Woods Senior Apts.	Housing	0.34%	0.34%	0.34%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Solano County	Government	0.35%	0.38%	0.35%	0.35%	0.30%	0.35%	0.34%	0.33%	0.00%	0.22%
United Mobile Homeowners	Housing	0.35%	0.36%	0.42%	0.34%	0.28%	0.33%	0.31%	0.30%	0.34%	0.28%
Jelly Belly Candy Co.	Manufacturing	0.32%	0.33%	0.38%	0.39%	0.39%	0.29%	0.28%	0.26%	0.30%	0.24%
Engelhart	Manufacturing	0.31%	0.27%	0.28%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Pacific Estates	Housing	0.30%	0.28%	0.30%	0.00%	0.28%	0.00%	0.00%	0.00%	0.29%	0.00%
KMF Fairfield, LLC	Housing	0.30%	0.31%	0.31%	0.00%	0.00%	0.00%	0.27%	0.26%	0.00%	0.00%
Amcors Pet Packing	Manufacturing	0.48%	0.36%	0.41%	0.42%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
		16.26%	20.09%	19.76%	21.62%	23.76%	25.83%	23.47%	23.85%	25.38%	21.26%



Source: City of Fairfield and District Finance Offices

FAIRFIELD-SUISUN SEWER DISTRICT
Debt Capacity

Schedule 8
Pledged-Revenue Coverage
Last Ten Fiscal Years

Year Ended June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)	Debt Coverage % (4)
2002	25,401,948	12,871,963	12,529,985	2,963,464	423%
2003	23,786,624	13,783,969	10,002,655	2,962,284	338%
2004	25,372,383	14,062,182	11,310,201	2,960,684	382%
2005	25,523,910	15,785,841	9,738,069	2,964,284	329%
2006	24,836,536	18,195,424	6,641,112	2,962,884	224%
2007	25,351,889	16,972,475	8,379,414	2,961,084	283%
2008	21,509,682	17,861,274	3,648,408	2,964,484	123%
2009	20,029,267	16,112,679	3,916,588	2,962,684	132%
2010	20,945,019	16,532,809	4,412,210	2,427,153	182%
2011	21,742,376	16,426,724	5,315,652	2,426,600	219%

(1) Includes capacity fees.

(2) Does not include depreciation, amortization, and other postemployment benefits.

(3) Highest annual debt service payment due on the remaining life of the bonds.

(4) Bond covenant requires that net revenue be at least 115% of debt service requirement.

Source: District's Audited Financial Statements and Accounting Records

FAIRFIELD-SUISUN SEWER DISTRICT

Debt Capacity

Schedule 9 Summary of Debt Service Payments Last Ten Fiscal Years

Year	2010 Sewer Refunding Bonds			Sewer Refunding Bonds, 2001 Series A			Sewer Refunding Bonds, 1991 Series A			Total Debt Service		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2002	\$ -	\$ -	\$ -	\$ 1,960,000	\$ 1,003,464	\$ 2,963,464	\$ -	\$ -	\$ -	\$ 1,960,000	\$ 1,003,464	\$ 2,963,464
2003	-	-	-	2,040,000	922,284	2,962,284	-	-	-	2,040,000	922,284	2,962,284
2004	-	-	-	35,000	840,684	875,684	884,999	1,200,001	2,085,000	919,999	2,040,685	2,960,684
2005	-	-	-	35,000	839,284	874,284	824,568	1,265,432	2,090,000	859,568	2,104,716	2,964,284
2006	-	-	-	45,000	837,884	882,884	762,029	1,317,971	2,080,000	807,029	2,155,855	2,962,884
2007	-	-	-	40,000	836,084	876,084	708,629	1,376,371	2,085,000	748,629	2,212,455	2,961,084
2008	-	-	-	45,000	834,484	879,484	662,154	1,422,846	2,085,000	707,154	2,257,330	2,964,484
2009	-	-	-	50,000	832,684	882,684	617,240	1,462,760	2,080,000	667,240	2,295,444	2,962,684
2010	-	-	-	2,130,000	830,684	2,960,684	-	-	-	2,130,000	830,684	2,960,684
2011	2,005,000	422,153	2,427,153	-	-	-	-	-	-	2,005,000	422,153	2,427,153
Total	\$ 2,005,000	\$ 422,153	\$ 2,427,153	\$ 6,380,000	\$ 7,777,536	\$14,157,536	\$ 4,459,619	\$ 8,045,381	\$12,505,000	\$12,844,619	\$16,245,070	\$29,089,689

Outstanding Debt Service Coverage

June 30, 2011

	Outstanding Debt	Population Served	Coverage
2010 Sewer Revenue Refunding Bonds	\$ 10,975,000	133,027	\$ 82.50

Debt Capacity: The District may issue or incur new debt on a parity basis if the sum of audited net sewer enterprise revenues for the prior fiscal year, plus 75% of estimated increases in net revenues due to rate increases in effect before the District issues or incurs the new parity obligations (but not in effect during the prior fiscal year), equals at least 115% of the combined maximum annual payment.

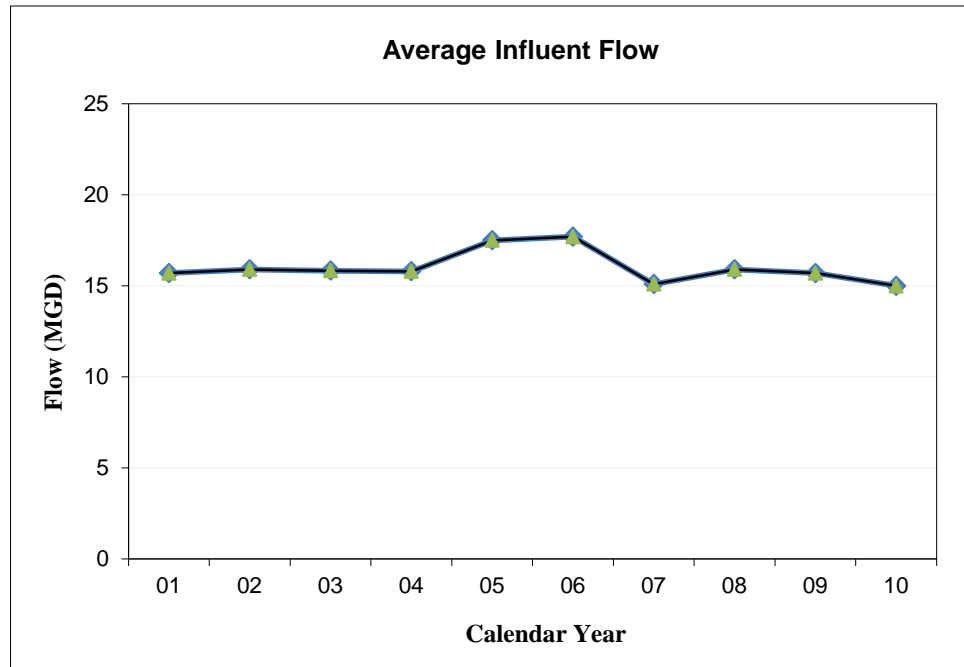
Source: District's Audited Financial Statements and Accounting Records

FAIRFIELD-SUISUN SEWER DISTRICT

Operating Information

Schedule 10 Average Annual Influent Flow

Year (Calendar)	Flow (MGD)*
2001	15.7
2002	15.9
2003	15.8
2004	15.8
2005	17.5
2006	17.7
2007	15.1
2008	15.9
2009	15.7
2010	15.0



*Million gallons per day

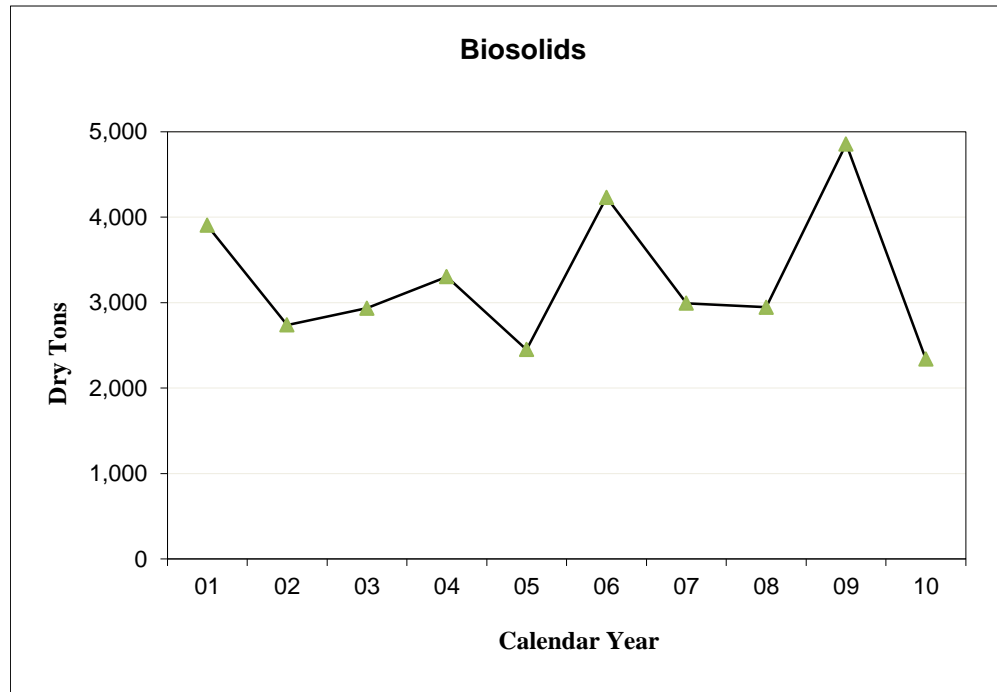
Source: District's Regulatory Department
Data for 2011 is not available as of fiscal year-end date.

FAIRFIELD-SUISUN SEWER DISTRICT

Operating Information

Schedule 11 Biosolids Disposal

Year (Calendar)	Dry Metric Tons
2001	3,905
2002	2,738
2003	2,934
2004	3,302
2005	2,451
2006	4,231
2007	2,993
2008	2,945
2009	4,856
2010	2,339



Annual biosolids disposal is derived by totaling the tons of biosolids removed from the treatment plant each year. Inter-annual variability results when on-plant storage is used to a greater or lesser extent year to year.

The higher biosolids removal in 2006 and 2009 were the result of maintenance work done on the digester and the sludge lagoon.

Source: District's Regulatory Department
Data for 2011 is not available as of fiscal year-end date.

FAIRFIELD-SUISUN SEWER DISTRICT

Operating Information

Schedule 12 Schedule of Insurance Coverage

Nature of Insurance	Policy Number	Effective Date 10-Sep	Insurance Company	Limits	Deductible	Cost
GL/AL (including Errors & Omissions and Employment Practices Liability EPL)	CSL FSSD 1011 1	12/31/10-11	CSRMA Pooled Liability Munich American Reinsurance Co.	\$15,500,000	\$2,500 E&O DED \$25,000 EPL DED \$10,000 Sewer Backup DED	\$166,505
Excess Liability	000864501	12/31/10-11	Ironshore Specialty Insurance Co.	\$10,000,000 Limits XS \$15,000,000 XS \$500,000		Included above
Special Form Property	P101654-00	7/1/10-11	Public Entity Property Insurance Program (P.E.P.I.P.)	\$160,368,525	\$25,000 DED	\$42,802
Primary Insurance Program >General Liability >Management Liability	GPPAPF6053464-00	12/31/10-11	American Alternative Insurance Corp.	\$1,000,000 OCC/ \$3,000,000 AGG \$1,000,000 Each Wrongful ACT/\$3,000,000 Policy AGG	\$0 DED	\$27,714
Excess Liability	GPPAXS3051431- --	12/31/10-11	American Alternative Insurance Corp.	\$4,000,000 Employers' Liab. Excluded		Included above
Workers' Compensation Employers' Liability	CSWC FSSD 1011 1	7/1/10-11	CSRMA Pooled Workers' Compensation	\$750,000	\$0 DED	\$71,019
Excess Workers' Compensation Employers' Liability	SP 4042084	7/1/10-11	Safety National Casualty Corp.	Statutory XS \$750,000 \$1,000,000 XS \$750,000		Included above.
Public Entity Physical	WV 0000107	7/1/10-11	Beazley Insurance Co.	\$951,547 Total Value	\$25,000/25,000 DED	\$3,339

Source: California Sanitation and Risk Management Authority

FAIRFIELD-SUISUN SEWER DISTRICT
Economic and Demographic Information

Schedule 13
Population Served

The table below sets forth population figures for both cities for the last ten years.

Year	City of Fairfield	City of Suisun City	Total Served	% Change
2002	100,226	26,635	126,861	3.2%
2003	102,496	26,869	129,365	2.0%
2004	103,600	27,416	131,016	1.3%
2005	105,026	27,716	132,742	1.3%
2006	105,601	27,748	133,349	0.5%
2007	105,421	27,980	133,401	0.0%
2008	106,753	28,193	134,946	1.2%
2009	106,440	28,856	135,296	0.3%
2010	105,955	28,962	134,917	-0.3%
2011	104,815	28,212	133,027	-1.4%

Source: State of California Department of Finance

FAIRFIELD-SUISUN SEWER DISTRICT

Economic and Demographic Information

Schedule 14

Major Employers (Current year compared to four years ago)

Firm Name	Type of Business	Estimated	Ranking	% of Total	Estimated	Ranking	% of Total
		Employees		Service Area	Employees		Service Area
		2011		Employment	2002		Employment
Travis Air Force Base	Military Base	14,353	1	25%	15,767	1	N/A
County of Solano	Government	3,000	2	5%	2,690	2	N/A
Fairfield-Suisun Unified School District	Education	2,120	3	4%	2,407	3	N/A
NorthBay Medical Center	Hospital	1,119	4	2%	1,000	4	N/A
Solano Community College	Education	650	5	1%	564	5	N/A
City of Fairfield	Government	606	6	1%	527	7	N/A
Jelly Belly Candy Co.	Candy & Confections	480	7	1%	419	9	N/A
Anheuser-Busch	Brewery	420	8	1%	500	8	N/A
Sutter Regional Medical Foundation	Medical	406	9	1%	-	-	N/A
Westamerica Bank	Corporate Headquarters	360	10	1%	542	6	N/A

Source: City of Fairfield and California Employment Development Department

FAIRFIELD-SUISUN SEWER DISTRICT
Economic and Demographic Information

Schedule 15
Full-Time District Employees by Program
Last Ten Fiscal Years

Function/Program	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Engineering and Construction (1)	9	9	12	13	12	10	9	8	8	7
Finance and Administration	7	8	9	10	8	8	7	7	7	7
Regulatory (2)	4	4	4	4	7	4	4	4	4	3
Information Systems (3)	0	2	2	1	1	1	1	1	1	-
Safety	1	1	1	1	1	-	-	-	-	-
Operation and Maintenance (4)	42	39	37	33	-	-	-	-	-	-
Total	63	63	65	62	29	23	21	20	20	17

Billing and collection functions are contracted out to third parties.

- (1) This includes engineering technicians/inspectors.
- (2) This includes laboratory and source control.
- (3) Contracted out starting fiscal year 2010/11.
- (4) Brought in-house effective July 1, 2008.

Source: Fairfield-Suisun Sewer District

FAIRFIELD-SUISUN SEWER DISTRICT

Economic and Demographic Information

Schedule 16 Demographic Statistics

General

Service area	City of Fairfield City of Suisun City
Governing body	Council members of both cities
Chief executive officer	General Manager
Date of formation	May 5, 1951
Type of service	Sewage collection, treatment and disposal and drainage maintenance
Number of full-time employees	63
District population	133,027

Wastewater Facilities

Area served (square miles)	41
Number of treatment plant(s)	1
Number of pump stations	13
Average dry weather flow	13.4 MGD
Miles of sewer (12-inch and larger)	70

Stormwater Facilities

Area served (square miles)	41
Number of pump stations	7

Source: Fairfield-Suisun Sewer District