

LAS GALLINAS VALLEY SANITARY DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2011 AND 2010



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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Las Gallinas Valley Sanitary District
San Rafael, California

We have audited the accompanying statements of net assets of Las Gallinas Valley Sanitary District, as of and for the year ended June 30, 2011 and 2010 and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These basic financial statements are the responsibility of Las Gallinas Valley Sanitary District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Las Gallinas Valley Sanitary District, as of June 30, 2011 and 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's office for special districts.

The management's discussion and analysis and schedule of funding progress for pension and other postemployment benefits information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
October 16, 2011

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

Our Mission

The Mission of the Las Gallinas Valley Sanitary District is to protect public health and the environment by providing effective wastewater collection, treatment, and recycling services.

Vision

The Las Gallinas Valley Sanitary District will...

- ❖ Strive toward beneficial recycling of wastewater, biosolids and other resources using safe and effective processes and systems to support our zero waste goals,
- ❖ Manage our treatment and collection infrastructure in a planned and sustainable way,
- ❖ Cooperate with stakeholders to leverage opportunities, for protecting the bay and regional water resources for the people we serve,
- ❖ Maintain a safe, high quality workplace to promote a sustainable, motivated, long-term and cohesive workforce,
- ❖ Increase public participation, acceptance and understanding of what we do, and
- ❖ Responsibly manage the refuse franchise.

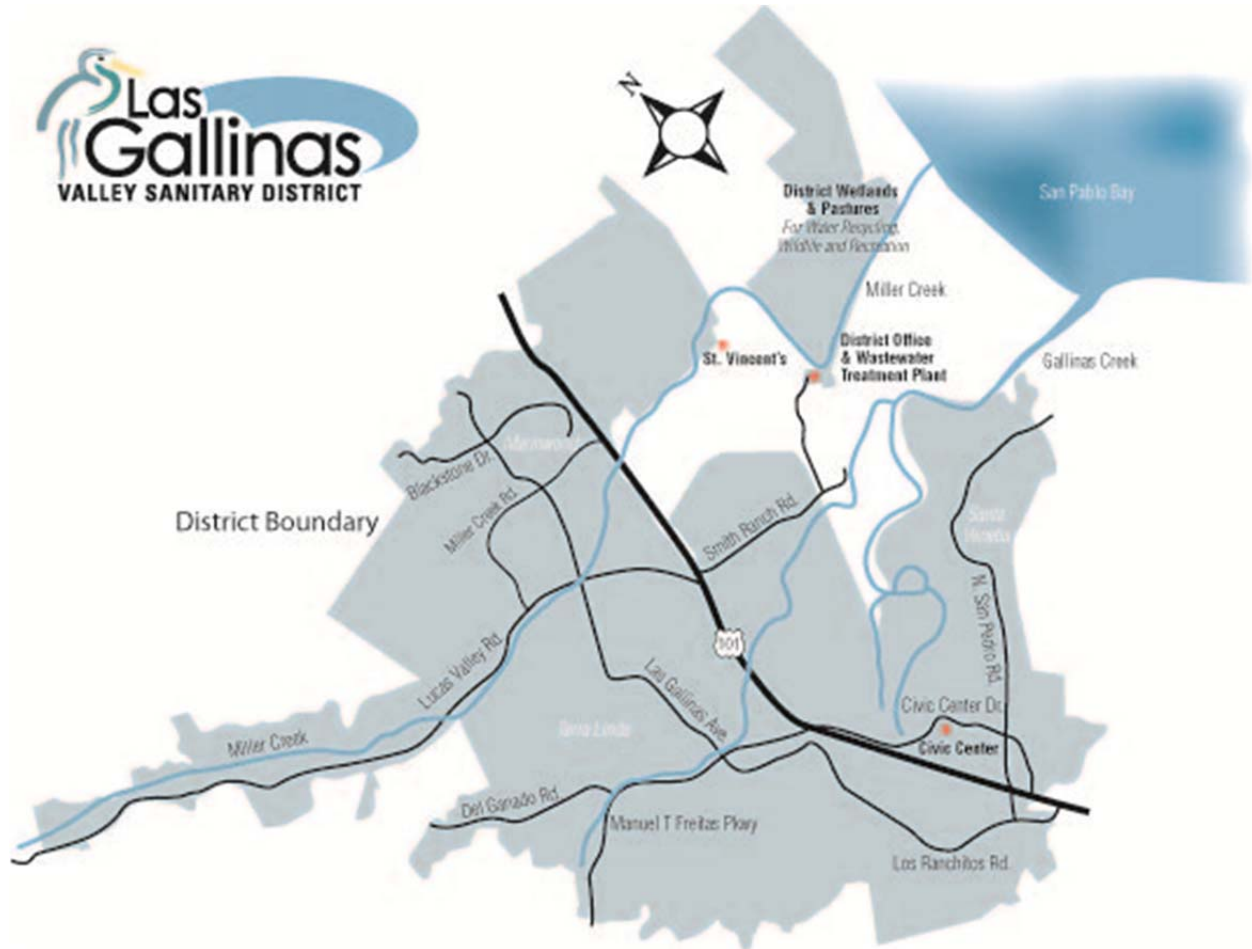
Our Core Values

- ❖ Does it reflect our commitment to the Public Health and to the Environment?
- ❖ Will it support high quality customer service and public outreach?
- ❖ Does it enhance our infrastructure, facility maintenance and system reliability?
- ❖ Will it support best workforce practices?
- ❖ Does it control rates by responsible use of the Public's funds now and in the future?
- ❖ Does it build on and leverage our network of Partners?
- ❖ Will it support our ability to govern as a Board team with honesty, openness and respect?
- ❖ Will it support our commitment to practical innovative methods?

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

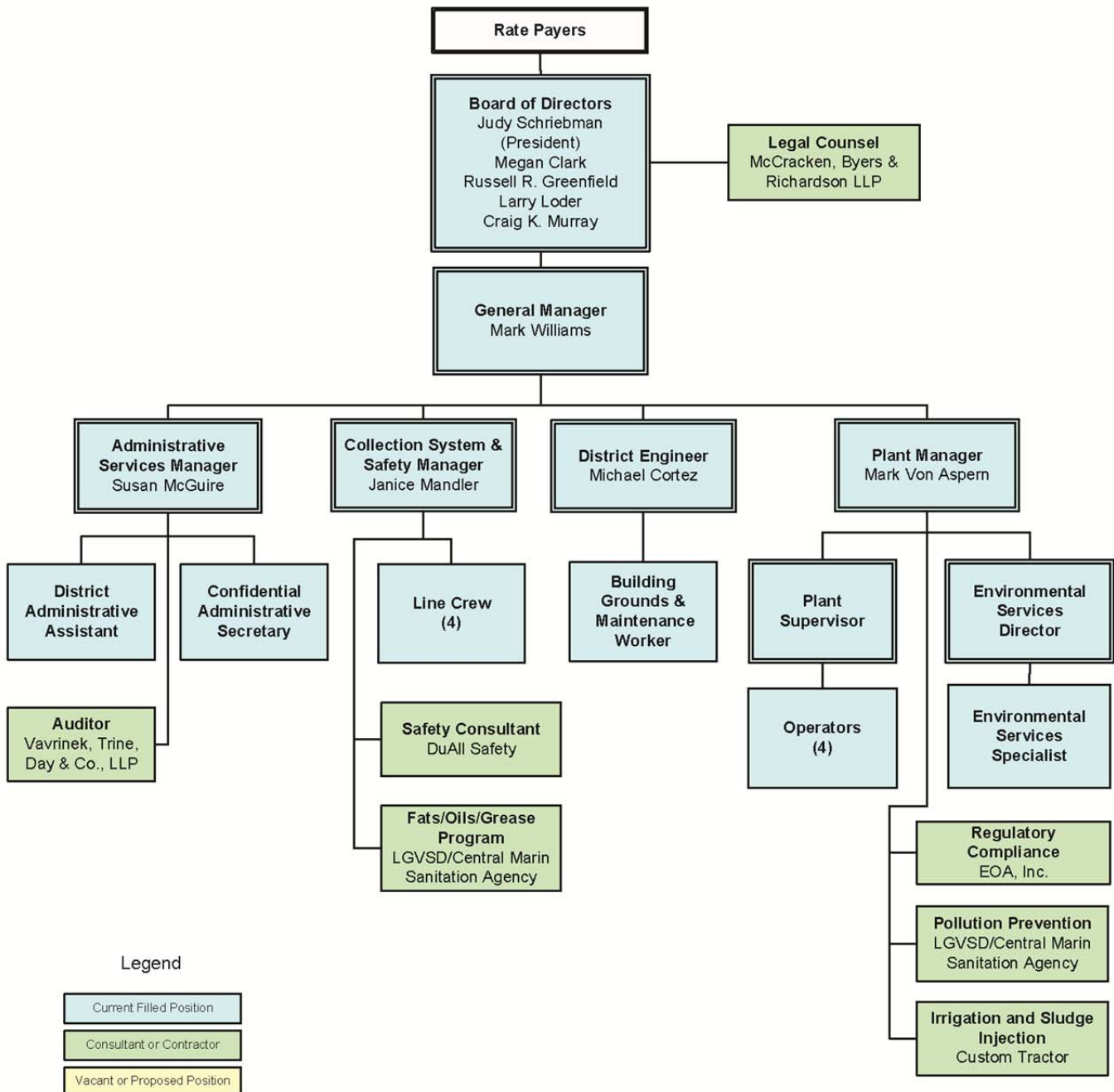
DISTRICT STRUCTURE

Las Gallinas Valley Sanitary District (the District) is located in the Las Gallinas Valley between central San Rafael and Novato.



LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

The District is governed by a five member Board of Directors, the members of which are elected by the registered voters in our service area.



LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

The following discussion and analysis of the Las Gallinas Valley Sanitary District's (District) financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

Financial Highlights

- Operating Revenues increased by approximately \$1.2 million over the previous year. This increase was due to an increase in the sewer service charge from \$476 to \$563 per sanitary unit.
- The District operating expenses, net of depreciation, increased by \$138,000 due to the increase in personnel costs related to hiring a full time engineer, maintenance staff and filling of the plant manager position; these costs were offset by savings in outside engineering and maintenance fees, legal costs, and the non-occurrence of one time equipment repairs and upgrades that occurred in 2009/10.
- The District participates in the North Bay Water Reuse Authority (NBWRA) which is a group of water and wastewater agencies that surround the San Pablo Bay. NBWRA received a \$7.3 million American Recovery and Reinvestment Act (ARRA) grant in July 2010 and a \$1.3 million federal WaterSMART grant in May 2011 to fund recycled water treatment and distribution improvements. The District received \$1,225,000 of these grants.
- The District also applied for and was awarded a Proposition 84/Integrated Water Resources Management Program grant from the California Department of Water Resources. The grant of \$300,000 was awarded in September 2011 and will be used to fund the recycled water facility construction.
- The District recognized income from connection fees of \$529,000 primarily due to the connection of an 82 unit condominium project to the sewerage facilities.
- Interest income increased by \$16,500 due to a build-up in cash which will be used to fund two large projects, the Primary Clarification System Improvement Project and the Recycled Water Facility. These projects are financed with a combination of loans and grants which will require the District to advance the funds to pay the contractors and wait for reimbursement. In addition, the District was able to lock in a higher interest rate through two certificates of

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

HIGHLIGHTS (CONT.)

Financial Highlights (Cont.)

deposit in March 2010 which provided as better rate of return than generally available on liquid deposits.

- The District issued \$10 million Certificates of Participation (COP) in 2005/06 to fund additional capital improvements for both the treatment plant and the collection system. As of June 30, 2011, a total of \$297,574 remaining COP funds are available for capital improvement projects. The District plans to expend the balance of these funds in 2011/12.

District Highlights

- The District completed design of a \$4.2 million upgrade to the treatment plant in 2010 and began construction in 2011. The project is financed through a State Revolving Fund loan. The interest rate on this loan of 2.7% will provide a substantial savings to our ratepayers.
- The District treated 1,156 million gallons for wastewater and produced 174 million gallons of effluent for recycled water treatment and distribution by Marin Municipal Water District during the year ended June 30, 2011.
- The District has two photovoltaic systems which power the reclamation pump station and the treatment plant. These systems generated 335,000 kWh of electricity for operations resulting in the District utilizing net 38,000 kWh of electricity for operating the plant during the year. Based on the monetary credits generated by energy production during peak energy usage times during the summer, the District was able to offset its cost for power drawn from the power grid.
- The District continued with its sewer main maintenance and rehabilitation plan including smoke testing and video recording of the system.
- The District was awarded the statewide Small Collection System of the Year (less than 250 miles) Award from the California Water Environment Association in April 2011.
- The District maintained its achievement of having among the lowest reported sewer overflow rate in Marin County.
- The District was awarded the California Sanitation Risk Management Authority Workers' Compensation Program Honors Safety Superstar Award in 2010.

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

HIGHLIGHTS (CONT.)

District Highlights (Cont.)

- The District continued to not have any lost time work related injuries during the fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information contained in those statements.

REQUIRED FINANCIAL STATEMENTS

District financial statements report information about the District's use of accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all District assets and liabilities, provides information about the nature and amounts of investments in resources and obligations to creditors. It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. 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 operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its user 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, cash disbursements and net changes in cash resulting from operations, investing and capital and noncapital financing activities.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District activities in a way that will help answer this question. These two statements report the net assets of the District and

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

FINANCIAL ANALYSIS OF THE DISTRICT (CONT.)

changes in them. The difference between assets and liabilities (net assets) is one way to measure financial health or financial position. Over time, increases or decreases in District net assets are one indicator of whether the financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

Changes in Net Assets

The District's net assets increased from the previous year by \$4,200,000. The following condensed financial statements show net asset position, statement of net assets and statement of revenues, expenses and changes in net assets.

CONDENSED STATEMENT OF NET ASSETS
FISCAL YEAR ENDED JUNE 30:

	2011	2010
ASSETS		
Current assets	\$18,699,741	\$10,373,935
Capital assets, net of accumulated depreciation	41,205,772	40,423,711
Other noncurrent assets	282,140	235,413
Total assets	<u>60,187,653</u>	<u>51,033,059</u>
LIABILITIES		
Current liabilities	2,695,434	1,776,605
Noncurrent liabilities	12,191,012	8,155,000
Total liabilities	<u>14,886,446</u>	<u>9,931,605</u>
NET ASSETS		
Invested in capital assets, net of related debt	32,830,123	32,640,063
Restricted	5,231,394	592,106,000
Unrestricted	7,239,690	7,869,285
Total net assets	<u>\$45,301,207</u>	<u>\$41,101,454</u>

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

FINANCIAL ANALYSIS OF THE DISTRICT (CONT.)

Changes in Net Assets (Cont.)

Changes in District net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Assets.

	2011	2010
Operating revenues	\$ 8,866,604	\$ 7,633,742
Tax revenues	1,009,341	1,054,291
Federal grants	74,841	-
Interest income and other	128,678	113,493
Connection fees	529,995	(8,373)
Total revenue	<u>10,609,459</u>	<u>8,793,153</u>
Operating expenses	6,057,127	5,886,299
Non-operating expenses	352,579	361,374
Total expenses	<u>6,409,706</u>	<u>6,247,673</u>
Change in net assets	4,199,753	2,545,480
Capital contributed - property	-	-
Net assets - beginning of year	<u>41,101,454</u>	<u>38,555,974</u>
Net assets - end of year	<u>\$45,301,207</u>	<u>\$41,101,454</u>

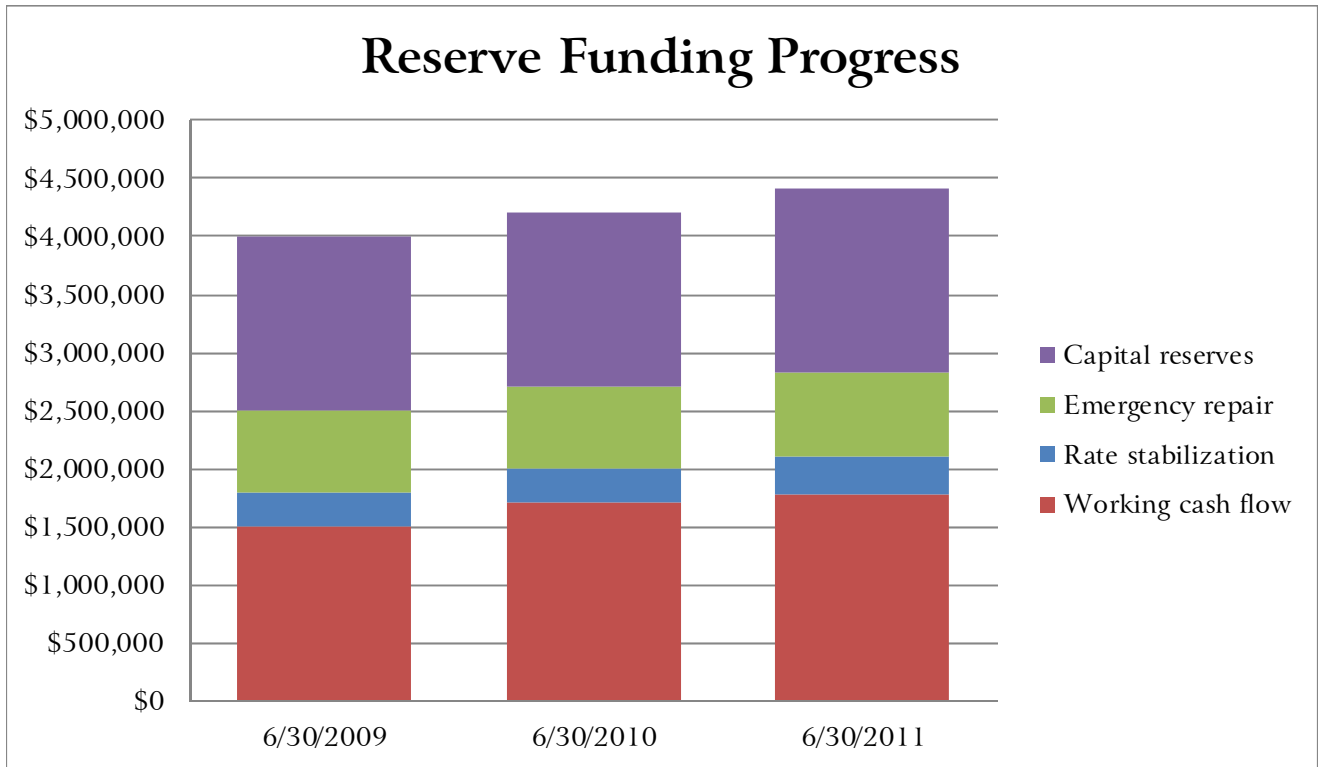
LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

DESIGNATED RESERVES

The District's current policy, adopted as part of the five year rate plan and the Board policies and procedures in 2009, established a goal of increasing the reserves. Unrestricted net assets were designated for the following at June 30, 2011:

	June 30, 2011	Target Balance
Operating reserves:		
Working cash flow	\$ 1,785,000	\$ 2,590,000
Rate stabilization	315,000	300,000
Emergency repair	<u>735,000</u>	<u>1,000,000</u>
Total operating reserves	2,835,000	3,890,000
Capital reserves	<u>1,575,000</u>	<u>4,000,000</u>
Total reserves	<u><u>\$ 4,410,000</u></u>	<u><u>\$ 7,890,000</u></u>

The following chart illustrates the District's progress on meeting this goal:



LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the District had \$41,205,772 (net of accumulated depreciation) invested in capital assets.

The District's investment in capital assets as of June 30, 2011 increased from \$76,398,566 at the beginning of the fiscal year to \$79,041,339 at the end of the fiscal year.

The assets include: land, subsurface lines, the sewage collection, treatment and disposal system, and equipment. The total increase in District capital assets for the current fiscal year is \$2,642,773.

Major capital asset events during the year included the following:

- Construction of treatment plant improvements began
- Design and planning of the recycled water facility
- Acquisition of equipment including a grit classifier
- Upgrades to pump stations
- Cathodic protection improvements to a forcemain

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT.)

Capital Assets (Cont.)

The following summarizes District capital assets for the fiscal year ended June 30, 2011:

	<u>Audited Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Dispositions/ Transfers</u>	<u>Audited Balance</u> <u>June 30, 2011</u>
Land	\$ 2,867,571	\$ -	\$ -	\$ 2,867,571
Subsurface lines	14,143,970	-	-	14,143,970
Facilities and equipment				
Sewage collection	19,903,930	-	-	19,903,930
Sewage treatment	24,894,861	133,480	-	25,028,341
Sewage disposal	8,194,272	-	-	8,194,272
General plant/administration	1,124,871	24,034	-	1,148,905
Laboratory and pump stations	2,806,115	477,989	-	3,284,104
Reclamation	1,133,062	5,593	-	1,138,655
Construction-in-progress	<u>1,329,914</u>	<u>2,380,108</u>	<u>(378,431)</u>	<u>3,331,591</u>
Total property, plant and equipment	<u>76,398,566</u>	<u>3,021,204</u>	<u>(378,431)</u>	<u>79,041,339</u>
Less:				
Accumulated depreciation	<u>(35,974,855)</u>	<u>(1,860,712)</u>	<u>-</u>	<u>(37,835,567)</u>
	<u>\$ 40,423,711</u>	<u>\$ 1,160,492</u>	<u>\$ (378,431)</u>	<u>\$ 41,205,772</u>

Additional information on the capital assets can be found in Note 5 of the notes to the financial statements of this report.

Long-Term Debt

On November 15, 2005, the District issued \$10,000,000 of certificates of participation with an average interest rate of 4% to fund general plant upgrades. The District applied for a State Revolving Fund loan which was executed in May 2010 and amended in September 2010. This is a construction loan with a maximum amount of \$4,314,750. Construction began in April 2011 and is expected to be completed by June 2012. The District also received a \$4,600,000 loan from Bank of Marin for the construction of the recycle water facility. This project is under design

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT.)

Long-Term Debt (Cont.)

and is expected to begin construction in October 2011. The following is a summary of long-term debt for the year:

	<u>Audited Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Audited Balance</u> <u>June 30, 2011</u>
Construction Loan				
State Revolving Fund Loan	\$ -	\$ 220,649	\$ -	\$ 220,649
Bonds Payable				
Certificates of Participation	\$ 8,550,000	\$ -	\$ (395,000)	\$ 8,155,000
Notes Payable				
Bank of Marin	\$ -	\$ 4,600,000	\$ -	\$ 4,600,000

Additional information on the long-term debt can be found in Note 7 of the notes to the financial statements of this report.

ECONOMIC FACTORS, RATES AND BUDGETARY CONTROL

The District is a California Special District maintained as an enterprise fund. As a special district, charges to customers are made only to those who receive services. The District is not typically subject to general economic conditions such as increases or decreases in property tax values or other types of revenues that vary with economic conditions such as sales taxes. However, it does receive a small amount of property tax which is dependent on property tax valuations. Accordingly, the District sets its user rates and capacity charges to cover the costs of operation, maintenance and recurring capital replacement and debt financed capital improvements, plus increments for known or anticipated changes in program costs.

The District, as a waste water treatment plant, is subject to increasing regulatory compliance regulations. These regulations require upgrades to plant and equipment as well as increased staff to effectively operate the system. The District undertook a rate review process in 2008 in light of necessary improvements and is in the third year of the five year plan.

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

ECONOMIC FACTORS, RATES AND BUDGETARY CONTROL (CONT.)

The expected revenue from sanitary service charges is as follows:

Fiscal Year	Price per Sanitary Unit	Projected Total Revenue	Status
2009-10	\$ 476	\$ 7,187,600	Approved June 2009
2010-11	\$ 563	\$ 8,741,250	Approved June 2010
2011-12	\$ 590	\$ 9,145,000	Approved June 2011
2012-13	\$ 662	\$ 9,996,200	Proposed
2013-14	\$ 680	\$ 10,268,000	Proposed

The District and its Board adopts an annual budget to serve as its approved financial plan. The Board sets all fees and charges required to fund the District's operations and capital programs. The budget is used as a key control device (1) to ensure Board approval for amounts set for operations and capital projects; (2) to monitor expenses and project progress; and (3) as compliance that approved spending levels have not been exceeded. All operating activities and capital activities of the District are included within the approved budget.

The District is monitoring the changes in the current financial and credit markets. Reserve funds are invested in two manners. A portion, in the Local Agency Investment Fund (LAIF) which is an investment pool managed by the Treasurer of the State of California. The Treasurer's office is regularly updating the pool members of the impact of changes in the investment landscape on the portfolio. The balance is invested in savings accounts and certificates of deposit with Bank of Marin. Community based banks tend to be more conservative in their lending decisions and to retain funds within the locality. Funds on deposit with the bank are covered by insurance from the Federal Deposit Insurance Corporation up to \$250,000; in addition the funds are collateralized 110% by securities held in trust.

REQUEST FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District finances and demonstrate District accountability for the money it received. If you have any questions about this report, or need additional financial information, contact the General Manager at 300 Smith Ranch Road, San Rafael, CA 94903.

FINANCIAL STATEMENTS

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF NET ASSETS

JUNE 30, 2011 AND 2010

ASSETS

	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents		
Cash and cash equivalents, non-restricted	\$12,853,990	\$ 9,346,848
Restricted cash	<u>5,231,394</u>	<u>592,106</u>
Total cash and cash equivalents	<u>18,085,384</u>	<u>9,938,954</u>
Receivables		
Connection fees	480	3,510
User charges	191,335	215,196
Interest	4,212	4,045
Other	79,327	6,651
Inventory of supplies	274,480	146,195
Prepaid expenses	<u>64,523</u>	<u>59,384</u>
TOTAL CURRENT ASSETS	<u>18,699,741</u>	<u>10,373,935</u>
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Property, plant and equipment, net of accumulated depreciation	<u>41,205,772</u>	<u>40,423,711</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Bond issuance costs, net of accumulated amortization	110,297	117,948
Bond discount, net of accumulated amortization	52,647	56,298
Loan fees, net of accumulated amortization	58,519	-
Receivables, noncurrent		
Connection fees	600	-
User Charges	3,273	-
Other	<u>56,804</u>	<u>61,167</u>
TOTAL NONCURRENT ASSETS	<u>282,140</u>	<u>235,413</u>
TOTAL ASSETS	<u>60,187,653</u>	<u>51,033,059</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF NET ASSETS (CONT.)

JUNE 30, 2011 AND 2010

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES:		
Accounts payable	\$ 1,406,574	\$ 368,323
Accrued payroll	30,671	93,037
Accrued compensated absences	340,302	288,776
Accrued interest payable	42,801	29,460
Current portion of long-term debt	563,988	395,000
Construction loan	220,649	-
Deferred connection fees	90,449	602,009
	<u>2,695,434</u>	<u>1,776,605</u>
TOTAL CURRENT LIABILITIES		
	<u>2,695,434</u>	<u>1,776,605</u>
NONCURRENT LIABILITIES:		
Notes payable, long-term	4,446,012	-
Bonds payable, long-term	7,745,000	8,155,000
	<u>12,191,012</u>	<u>8,155,000</u>
TOTAL NONCURRENT LIABILITIES		
	<u>12,191,012</u>	<u>8,155,000</u>
TOTAL LIABILITIES		
	<u>14,886,446</u>	<u>9,931,605</u>
NET ASSETS:		
Invested in capital assets, net of related debt	32,830,123	32,640,063
Restricted	5,231,394	592,106
Unrestricted	7,239,690	7,869,285
	<u>45,301,207</u>	<u>41,101,454</u>
TOTAL NET ASSETS		
	<u>\$45,301,207</u>	<u>\$41,101,454</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Sewer use charges, net of refunds	\$ 8,834,558	\$ 7,592,325
Miscellaneous	<u>32,046</u>	<u>41,417</u>
TOTAL OPERATING REVENUES	<u>8,866,604</u>	<u>7,633,742</u>
OPERATING EXPENSES:		
Sewage collection and pump stations	854,508	1,009,318
Sewage treatment	1,137,935	1,087,877
Sewage and solid waste disposal	142,772	85,210
Laboratory	352,763	312,491
General and administrative	1,696,890	1,551,969
Depreciation and amortization	<u>1,872,259</u>	<u>1,839,434</u>
TOTAL OPERATING EXPENSES	<u>6,057,127</u>	<u>5,886,299</u>
INCOME FROM OPERATIONS	<u>2,809,477</u>	<u>1,747,443</u>
NONOPERATING REVENUES:		
Property taxes	1,009,341	1,054,291
Federal grant	74,841	-
Franchise fees	25,000	25,000
Intergovernmental fees	4,755	4,820
Gain on disposal, net	6,350	7,647
Interest income	<u>92,573</u>	<u>76,026</u>
TOTAL NONOPERATING REVENUES	<u>1,212,860</u>	<u>1,167,784</u>
NONOPERATING EXPENSES:		
Interest expense	<u>352,579</u>	<u>361,374</u>
TOTAL NONOPERATING EXPENSES	<u>352,579</u>	<u>361,374</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	3,669,758	2,553,853
CAPITAL CONTRIBUTIONS - CONNECTION FEES	<u>529,995</u>	<u>(8,373)</u>
INCREASE IN NET ASSETS	4,199,753	2,545,480
NET ASSETS - BEGINNING OF YEAR	<u>41,101,454</u>	<u>38,555,974</u>
NET ASSETS - END OF YEAR	<u>\$ 45,301,207</u>	<u>\$ 41,101,454</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 8,870,255	\$ 7,381,804
Cash payments to employees	(1,824,956)	(1,482,595)
Cash payments to suppliers	(1,465,925)	(2,472,252)
Other receipts	<u>24,688</u>	<u>35,180</u>
Net cash provided by operating activities	<u>5,604,062</u>	<u>3,462,137</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Intergovernmental fees	4,755	4,820
Franchise fees	25,000	25,000
Property taxes received	<u>1,008,118</u>	<u>994,643</u>
Net cash provided by noncapital financing activities	<u>1,037,873</u>	<u>1,024,463</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Connection fees collected	35,445	12,500
Connection fees refunded	(14,580)	(25,092)
Long-term debt issuance costs	(58,764)	-
Acquisition and construction of capital assets	(2,422,124)	(2,344,605)
Proceeds from sale of assets	6,350	30,915
Proceeds from long-term debt	4,600,000	-
Principal payments, bonds	<u>(395,000)</u>	<u>(380,000)</u>
Net cash provided (used) by capital and related financing activities	<u>1,751,327</u>	<u>(2,706,282)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income, net of interest expense	<u>(246,832)</u>	<u>(266,234)</u>
Net cash used by investing activities	<u>(246,832)</u>	<u>(266,234)</u>
NET INCREASE IN CASH AND EQUIVALENTS	8,146,430	1,514,084
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>9,938,954</u>	<u>8,424,870</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$18,085,384</u></u>	<u><u>\$ 9,938,954</u></u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF CASH FLOWS (CONT.)

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,809,477	\$ 1,747,443
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,872,259	1,839,434
Changes in assets and liabilities:		
User charges receivable	24,951	(211,292)
Other receivables	3,388	(1,344)
Inventory of supplies	(128,285)	(127)
Prepaid expenses	(5,139)	(2,440)
Accounts payable and accrued compensation	<u>1,027,411</u>	<u>90,463</u>
Net cash provided by operating activities	<u>\$ 5,604,062</u>	<u>\$ 3,462,137</u>
 SUPPLEMENTARY INFORMATION CASH FLOWS FROM CAPITAL: AND RELATED FINANCING ACTIVITIES:		
 NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	\$ 2,642,773	\$ 2,344,605
Financed through construction loan draws	<u>(220,649)</u>	<u>-</u>
Cash paid for acquisition and construction of capital assets	<u>\$ 2,422,124</u>	<u>\$ 2,344,605</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1 – REPORTING ENTITY

The Las Gallinas Valley Sanitary District (the District) was formed on April 6, 1954, as a special district of the State of California. The District provides sewage collection, treatment, disposal, and wastewater recycling services as well as manages the garbage franchise. The District provides these services to approximately 32,000 people in an area of twelve square miles, from Santa Venetia to Lucas Valley and the Marin County Civic Center to Marinwood, in Marin County, California. Revenues are derived principally from sewer charges collected from commercial and residential users within the District.

The scope of this report extends exclusively to the financial information presented for the Las Gallinas Valley Sanitary District. The Board of Directors of the District has no oversight responsibility for any other governmental unit or agency. As such, the Board's governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters extends only to the affairs of the Las Gallinas Valley Sanitary District.

The District is governed by a five person Board of Directors elected for four year terms.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

On July 1, 2003, the District adopted the provisions of GASB Statement No. 34 (Statement No. 34) of the Governmental Accounting Standards Board, "*Basic Financial Statements – Management's Discussion and Analysis – For State and Local Governments*". Statement No. 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds,

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting (Cont.)

mortgages, notes or other borrowings attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow takes place.

Operating revenues, such as charges for sewer services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes, and investment income, result from non-exchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Basis of Accounting (Cont.)

The District receives the majority of its revenue from sewer use charges and property taxes which are collected by the County of Marin through the annual property tax bills. The County has implemented the Teeter policy whereby the District receives all of the amounts billed whether or not the County collects the monies from the assessed property owners. This ensures that the District has the funds to operate without being dependent upon the timing of the collection of the remittances from the covered property owners.

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except for depreciation and amortization which are not included and annual principal payments on debt service which are included. All annual appropriations lapse at fiscal year-end.

Inventory of Supplies

Inventory consists of materials and supplies, such as chemicals, pipe fittings, valves, pumps and filters, which are stated at cost, using the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment owned by the District are recorded at cost or at estimated historical cost if cost information is not practically determinable. The cost of normal repairs and maintenance are recorded as expenses. Improvements that add

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Basis of Accounting (Cont.)

to the value or extend the life of assets are capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Subsurface lines	50 – 75 years
Facilities and structures	15 – 40 years
Equipment	5 – 20 years

Intangible Assets

Intangible assets consist of easements and internally generated computer software. All intangible assets are recognized in the statement of net assets only if they are considered identifiable. They are amortized over their estimated useful life unless the life is indefinite.

Deferred Bond Issuance Costs, Bond Discount and Loan Fees

The District incurs underwriting, various costs related to bond issuances and loan fees. These costs are shown on the statement of net assets as bond issuance costs, bond discount and loan fees, and are amortized over the repayment term of the related bonds and loans.

Compensated Absences

The District provides vacation and sick leave benefits to its employees. Upon termination of employment, employees are paid for accumulated vacation days, accrued administrative or compensated time off (overtime hours for which pay is not taken), and one-half of accumulated sick days. The District recognizes the related expense as the benefits are earned.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Basis of Accounting (Cont.)

Restricted Assets and Liabilities

Restricted assets are items that have been restricted by either bond indentures, loan agreements or are to be used for specified purposes based on contract provisions, such as debt service. Restricted liabilities relate to assets restricted for their payment.

Grants

The District's grant is a cost-reimbursement grant which is earned as it makes the allowable expenditures under the agreement. A receivable is recorded when the criteria established for requesting reimbursement under the grant agreement has been satisfied and the amount of reimbursement is determinable.

Connection Fees

The District charges connection fees to developers to reserve system capacity. Amounts charged are recorded as liabilities (deferred connection fees) until connections are actually made. Once connections are made, the fees are recognized as increases to capital contributions. In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the capital contributions are recorded in the statements of revenues, expenses and changes in net assets.

Property Taxes

The County of Marin levies taxes and places liens on real property as of January 1st on behalf of the District. Property taxes are due on the following November 1st and March 1st and become delinquent December 10th and April 10th, for the first and second installments, respectively. All taxes collected for debt service are maintained in separate funds designated for payment of the debt (see Note 7).

The District receives property taxes and Education Revenue Augmentation Funds (ERAF) from the County of Marin. The ERAF allows the state legislature to reallocate property tax amounts to local governments. For the year ended June 30,

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

2011 the District received \$690,968 in property taxes and \$318,373 in ERAF; \$700,803 and \$353,488, respectively for June 30, 2010.

Interest

The District capitalizes the interest cost incurred for assets that require an acquisition period to get them ready for use. The interest cost capitalization period begins when the following three conditions are met: expenditures have occurred; activities necessary to prepare the asset, including administrative activities before construction, have begun; and interest cost has been incurred. Interest cost is not capitalized during delays or interruptions, other than for brief periods. For assets that are financed with tax-exempt debt, the interest income earned on unexpended funds, is offset against the interest expenditures in determining the amount of interest to capitalize. When the project is completed, the interest cost will be included in the amount of the asset that is capitalized and depreciated over the assets useful life.

Use of Estimates

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

New Accounting Pronouncements

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

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

New Accounting Pronouncements (Cont.)

applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, employers set the initial net OPEB obligation at zero as of the beginning of the year of adoption. The District has implemented the provisions of this Statement for the fiscal year beginning July 1, 2009. See Note 11 for the additional information on the impact of implementing this Statement.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension 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 OPEB plans. This pronouncement is effective for periods beginning after June 15, 2011. The District does not believe there will be a significant financial statement effect related to this Statement.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. 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. This pronouncement is effective for periods beginning after June 15, 2010. The District has implemented this statement effective July 1, 2010 and it did not have a significant financial statement effect.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

New Accounting Pronouncements (Cont.)

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. 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. This pronouncement is effective for periods beginning after December 15, 2011. The District does not believe there will be a significant financial statement effect related to this Statement.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. 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. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This pronouncement is effective for periods beginning after June 15, 2012. Since the District is a stand-alone proprietary fund, it does not believe there will be a significant financial statement effect related to this Statement.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. 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,

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

New Accounting Pronouncements (Cont.)

which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District does not believe there will be a significant financial statement effect related to this Statement.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District does not believe there will be a significant financial statement effect related to this Statement.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

New Accounting Pronouncements (Cont.)

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*. 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. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The District does not have any hedge relationships so there will not be any impact upon the financial statements related to this pronouncement.

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2011, the District maintained the majority of its cash in the Bank of Marin and the State of California Local Agency Investment Fund (LAIF) pooled investment funds. Balances in the Bank of Marin are insured by the Federal Deposit Insurance Corporation up to \$250,000, are collateralized by securities at 110% of the balance, and consist of checking, savings accounts and certificates of deposit. Certificates of deposit have maturities of twelve months.

The LAIF funds invest deposits of the District, counties, various schools and other special districts primarily in cash equivalents, as prescribed by the California Government Code. Balances are stated at cost, which is approximately market value. Each participating agency is allocated realized investment gains, losses, and interest based on average daily balances invested. Copies of financial statements for LAIF may be obtained from the California State Treasurer at <http://www.treasurer.ca.gov/pmia-laif/reports.asp>.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

In accordance with the Consolidated Reassessment and Refunding District of 2003 (Note 7) bond covenants, the District established restricted accounts to be used for capital improvements and for paying principal and interest. The accounts are not considered to be the assets of the District and are not reflected in the financial statements. The restricted cash balance at June 30, 2011 and 2010 was \$345,509 and 345,868, respectively, and was maintained by the Marin County Treasurer.

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

	Reported/Fair Value	
	<u>Unrestricted</u>	<u>Restricted</u>
Cash in bank and on hand:		
Bank of Marin	\$ 9,281,085	\$ 4,933,820
Petty cash	917	-
Total cash in bank and on hand	<u>9,282,002</u>	<u>4,933,820</u>
Investments:		
Bank of Marin	3,061,361	-
Local Agency Investment Fund (LAIF)	510,627	297,574
Total investments	<u>3,571,988</u>	<u>297,574</u>
Total cash and cash equivalents as of June 30, 2011	<u>\$ 12,853,990</u>	<u>\$ 5,231,394</u>

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

Cash and cash equivalents at June 30, 2010, consisted of the following:

	<u>Unrestricted</u>	<u>Restricted</u>
Cash in bank and on hand:		
Bank of Marin	\$ 5,822,657	\$ -
Petty cash	1,306	-
Total cash in bank and on hand	<u>5,823,963</u>	<u>-</u>
Investments:		
Bank of Marin	3,012,629	-
Local Agency Investment Fund (LAIF)	508,043	592,106
Marin County Treasurer	<u>2,213</u>	<u>-</u>
Total investments	<u>3,522,885</u>	<u>592,106</u>
Total cash and cash equivalents as of June 30, 2010	<u>\$ 9,346,848</u>	<u>\$ 592,106</u>

For the purpose of the statements of cash flows, cash and cash equivalents include all items of cash and investments with original maturities of three months or less.

Investments Authorized by the District's Investment Policy

The table below identifies the investment types that are authorized by the District. The table also identifies certain provisions of the District's investment policy that addresses interest rate risk, credit risk and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Bonds issued by the District	none	none	none
U.S. Treasury Obligations	none	none	none
U.S. Agency Securities	none	none	none
Registered State Warrants or Treasury Notes or Bonds issued by the State of California	none	none	none
Local Agency Bonds, Notes, Warrants or Pooled Investment Accounts	none	none	none
Bankers' Acceptances	270 days	40%	30%
Prime Commercial Paper	180 days	15%-30%	none
Negotiable Certificates of Deposit	none	30%	none
Repurchase/Reverse Repurchase Agreements	none	none	none
Medium-Term Notes	5 years	30%	none
Money Market Mutual Funds	none	15%	none
Collateralized Bank Deposits	none	none	none
Mortgage Pass-Through Securities	5 years	30%	none

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year-end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 8 months.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

		<u>Maturity Date</u>
Bank of Marin	\$ 3,061,361	256 days average
LAIF	<u>808,201</u>	237 days average
	<u>\$ 3,869,562</u>	

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

Credit Risk

Generally, credit risk is the risk of an issuer that 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. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits nor will it be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. With respect to investments, custodial credit risk generally applies only to direct investment in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF). The State of California has no additional requirements for custodial credit risk, nor does the District.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

Treasurer of the State of California. The fair value of the District's investment in this pool is based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The District's proportionate share of that value was \$808,201 and \$1,100,149 as of June 30, 2011 and 2010, respectively. There are no derivatives included in the portfolio. Included in LAIF's investment portfolio are asset-backed securities, totaling \$2,221 million and \$3,130 million, as of June 30, 2011 and 2010, respectively and structured notes totaling \$1,100 million and \$625 million, as of June 30, 2011 and 2010, respectively. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The current and prior year changes in fair value were not material to the financial statements as a whole and therefore have not been presented.

NOTE 4 – ACCOUNTS RECEIVABLE

The majority of the District's sewer user charge revenue and all of the property tax revenue are collected by the County of Marin through charges on the tax rolls. The collections are remitted to the District as follows: 55% in December, 40% in April, 3% in June and 2% in July. The June and July remittances allow the County as the collection agent to true-up any changes for revisions in the sewer charges after the initial calculation in August. In the spring 2010, the District determined that a few sewer users were not charged the correct amount and held a series of public hearings to assess the affected property owners. These amounts are shown as current receivables and were collected by December 2010. In addition, \$56,804 of property tax funds were borrowed by the State of California under Proposition 1A as part of the State's 2009-10 budget. The District did not participate in the Proposition 1A Securitization Program and does not expect to receive the funds until fiscal year 2012-13. The receivable is considered long-term.

The District received an American Recovery and Reinvestment Act grant in July 2010 through its participation in the North Bay Water Reuse Authority (NBWRA). The District's portion of the grant is \$871,000 and will be used for constructing a recycled water facility. Planning and design occurred in the spring of 2011 and construction will commence in fall 2011. The project must be completed by September 30, 2012. The grant requires a 75% match by the District. As of June 30, 2011 the District is eligible for \$74,841 of grant funds; they were received in September 2011.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 4 – ACCOUNTS RECEIVABLE (CONT.)

The District applied for and received a \$335,000 federal WaterSMART grant in May 2011 through NBWRA for the water recycling facility. The grant agreement is being finalized and will be available for the District to draw down during the 2011/12 fiscal year.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment transactions for the year ended June 30, 2011, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions/ Transfers</u>	<u>Ending Balance</u>
Land	\$ 2,867,571	\$ -	\$ -	\$ 2,867,571
Subsurface lines	14,143,970	-	-	14,143,970
Facilities and equipment				
Sewage collection	19,903,930	-	-	19,903,930
Sewage treatment	24,894,861	133,480	-	25,028,341
Sewage disposal	8,194,272	-	-	8,194,272
General plant/administration	1,124,871	24,034	-	1,148,905
Laboratory and pump stations	2,806,115	477,989	-	3,284,104
Reclamation	1,133,062	5,593	-	1,138,655
Construction-in-progress	<u>1,329,914</u>	<u>2,380,108</u>	<u>(378,431)</u>	<u>3,331,591</u>
Total property, plant and equipment	<u>76,398,566</u>	<u>3,021,204</u>	<u>(378,431)</u>	<u>79,041,339</u>
Less:				
Accumulated depreciation	<u>(35,974,855)</u>	<u>(1,860,712)</u>	<u>-</u>	<u>(37,835,567)</u>
	<u>\$40,423,711</u>	<u>\$ 1,160,492</u>	<u>\$ (378,431)</u>	<u>\$41,205,772</u>

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (Cont.)

A summary of property, plant and equipment transactions for the year ended June 30, 2010, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Land	\$ 2,867,571	\$ -	\$ -	\$ 2,867,571
Subsurface lines	13,310,816	833,154	-	14,143,970
Facilities and equipment				
Sewage collection	19,882,691	21,239	-	19,903,930
Sewage treatment	23,240,782	1,683,621	(29,542)	24,894,861
Sewage disposal	8,194,272	-	-	8,194,272
General plant/administration	930,618	211,729	(17,476)	1,124,871
Laboratory and pump stations	2,739,638	66,477	-	2,806,115
Reclamation	679,745	453,317	-	1,133,062
Construction-in-progress	<u>2,254,846</u>	<u>621,095</u>	<u>(1,546,027)</u>	<u>1,329,914</u>
Total property, plant and equipment	<u>74,100,979</u>	<u>3,890,632</u>	<u>(1,593,045)</u>	<u>76,398,566</u>
Less:				
Accumulated depreciation	<u>(34,182,917)</u>	<u>(1,828,132)</u>	<u>36,194</u>	<u>(35,974,855)</u>
	<u>\$39,918,062</u>	<u>\$ 2,062,500</u>	<u>\$ (1,556,851)</u>	<u>\$40,423,711</u>

NOTE 6 – DEFERRED WATER DISPOSAL EXPENSE AND DISPOSAL SERVICE COMMITMENT

In 1988, the District entered into a water-reclamation agreement with Marin Municipal Water District (MMWD) to provide for the disposal of treated wastewater. In this contract, the District agreed to pay \$360,000 towards the construction of a MMWD wastewater reclamation plant. The District also agreed to provide sludge and wash water disposal from the reclamation plant, which was valued at \$330,000.

The services to be provided to MMWD, valued at \$330,000 at the commencement of the agreement in 1988, were recognized as revenue ratably over the term of the contract. As of June 30, 2007, all amounts under the original contract have been recognized. The contract, which was set to expire in December 2005, has been extended until December 31, 2013.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 – LONG-TERM DEBT

The District issued \$10,000,000 of AA rated bonds on November 15, 2005. The bonds have maturity dates ranging from December 1, 2006 through December 1, 2025 and carry an average interest rate of 4%. Interest payments are due each December 1 and June 1 through 2025. The bonds are payable solely from net revenues of the District. Net revenues consist generally of all revenues after payment of adjusted operation and maintenance costs and include property taxes received by the District. The net proceeds from the sale, after paying issuance costs, underwriter fees, and the reserve surety bond premium was \$9,774,000. Amortization expense for bond issuance costs and bond discount was \$7,651 and \$3,651, respectively for 2011 and 2010. The District is required to use the proceeds to construct several wastewater system improvements, including improvements to the collection system, pumping station, reclamation system and treatment pond. As of June 30, 2011, the balance remaining in the account consists of interest earned on the unspent funds since issuance.

The District entered into a loan agreement with the State Water Resources Control Board on May 25, 2010 to borrow \$6,122,500; the agreement was amended on September 21, 2010 to reduce the amount to \$4,314,750 based on the contract price for the financed improvements. The loan is for a major treatment plant improvement which began construction in April 2011 and is expected to be completed by June 2012. The District has drawn \$220,649 for construction costs as of June 30, 2011. The loan bears interest at 2.7%, requires that a reserve fund equal to one year's debt service or \$282,035 be established by completion of construction, and annual payments beginning June 1, 2013 through 2032. The net revenues of the District are pledged to repay the loan.

The District also entered into a financing agreement with Bank of Marin on June 10, 2011 for \$4,600,000. The loan is for the recycled water facility which was under design at year end. Construction is expected to begin in the fall of 2011. The loan bears interest at 3.88%, requires a reserve fund equal to one year's debt service or \$332,681, and monthly principal and interest payments of \$27,723 beginning July 2011 through June 10, 2031. The District incurred legal and loan origination costs of \$58,764 which are being amortized over the twenty year loan term. Amortization expense was \$245 for the year ended June 30, 2011. The loan requires the District to maintain a debt coverage ratio of earnings before interest, depreciation and amortization over scheduled principal payments of 1.2 to 1.0

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 – LONG-TERM DEBT (CONT.)

The following is a summary of long-term debt for the year:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>
Bonds Payable				
Certificates of Participation	<u>\$ 8,550,000</u>	<u>\$ -</u>	<u>\$ (395,000)</u>	<u>\$ 8,155,000</u>
Notes Payable				
Bank of Marin	<u>\$ -</u>	<u>\$ 4,600,000</u>	<u>\$ -</u>	<u>\$ 4,600,000</u>

Future minimum payments are summarized as follows:

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30,			
2012	\$ 563,988	\$ 508,218	\$ 1,072,206
2013	585,646	484,860	1,070,506
2014	607,081	461,126	1,068,207
2015	633,773	436,433	1,070,206
2016	655,318	411,189	1,066,507
2017 to 2021	3,677,804	1,631,983	5,309,787
2022 to 2026	4,523,742	793,712	5,317,454
Thereafter	<u>1,507,648</u>	<u>155,760</u>	<u>1,663,408</u>
	<u>\$ 12,755,000</u>	<u>\$ 4,883,281</u>	<u>\$17,638,281</u>

The District incurred interest expense of \$367,236 during the year ended June 30, 2011; \$14,657 was incurred for the construction of capital assets and was capitalized as part of construction project costs. During the year ended June 30, 2010 the District incurred interest expense of \$361,374, of which none was capitalized.

Consolidated Reassessment and Refunding District of 2003

The District authorized and issued coupon bonds in order to finance construction of sewer improvements and related costs. Payment of the bond principal and interest will be provided through special assessments collected on the tax rolls by the County of Marin from property owners within the assessment districts. The District is not liable for the repayment of the debts other than the amounts held in the reserve and

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 – LONG-TERM DEBT (CONT.)

redemption funds. The District acts as an agent for the property owners and facilitates the repayment of the bonds by collecting the annual assessments and remitting the required payments of principal and interest to the bondholders. As such, the District does not maintain the bond liability, the annual assessment receipts or interest payments on the financial statements.

On July 30, 2003 the District issued new bonds totaling \$1,736,409 for the purpose of (a) providing funds to refund the remaining principal amount of the North Circle Road Assessment District bonds, with an interest rate of 6.474% per annum and the Los Ranchitos Assessment District bonds, with an interest rate of 6.042% per annum; (b) funding a reserve for the bonds; and (c) paying certain costs associated with the issuance of the bonds. The new bonds, Consolidated Reassessment and Refunding District of 2003, bear an interest rate starting at 1.50% in 2004 and gradually increasing each year until the rate reaches 4.625% in 2016. Interest is payable on March 2 and September 2. Maturity dates of each bond range through September 2, 2016. For the years ending June 30, 2011 and 2010, the outstanding principal balance of the bonds was \$860,000 and \$1,015,000, respectively.

NOTE 8 – DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all permanent District employees, permits employees to defer a portion of their current salary until future years. Deferred amounts are held in a 457 plan trust established by the District for the exclusive benefit of the participants and their beneficiaries. Employees contributed \$53,450 and \$54,809 to the plan for the years ended June 30, 2011 and 2010, respectively. This trust is an entity separate from the District and, accordingly, the trust assets are not considered to be assets of the District itself.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The District was contractually committed to contractors for various projects for approximately \$2,542,000 and \$120,000 as of June 30, 2011 and June 30, 2010, respectively.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Cont.)

The District leased office equipment under a non-cancelable agreement commencing April 2009 through July 2012 which requires monthly payments of \$108. The lease commitment is \$1,296 for the years ended June 30, 2011 and 2012; and \$108 for the year ended June 30, 2013. The rent expense for the fiscal years ended June 30, 2011 and 2010 was \$1,419 and \$1,064, respectively.

The District entered into an agreement on April 19, 2011 with North Marin Water District (NMWD) to provide 220 acre feet of recycled water for a period of twenty years. NMWD will reimburse the District its actual operation and maintenance costs. In addition, NMWD will charge its end users an amount for the recycled water to cover the District's and NMWD's operation and maintenance costs plus an amount for maintenance and replacement.

NOTE 10 – PENSION PLAN

Plan Description

The District contributes to the California Public Employees' Retirement System (PERS); an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of PERS' annual financial report may be obtained from its Executive Office at 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 8% of their annual covered salary. The District is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate was 16.123% for fiscal 2010/11 and 16.584% for fiscal 2009/10. Due to contractual arrangements, the District pays half of the required contribution of plan members. The contribution requirements of the plan members are established

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 10 – PENSION PLAN (CONT.)

by State statute and the employer contribution rates are established and may be amended by PERS.

Annual Pension Cost

For the years ended June 30, 2011 and 2010, the District’s annual pension cost of approximately \$327,000 and \$283,000, respectively for PERS was equal to the District’s required and actual contributions. The required contribution for fiscal 2010/11 was determined as part of the June 30, 2009 (June 30, 2008 for fiscal 2009/10) actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value).

The PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payrolls on a closed basis.

Three-Year Trend Information for PERS

<u>Fiscal Year Ending June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2009	\$ 249,000	100%	-
2010	\$ 283,000	100%	-
2011	\$ 327,000	100%	-

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

In addition to the pension benefits described in Note 10, the District pays retiree health insurance benefits to employees in accordance with the Memorandum of Understanding between the District and its employees. These employees must meet certain service requirements and retire directly from employment with the District.

Effective July 1, 2009, the District has implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires the District to account for the postemployment benefits on an accrual basis rather than on the pay-as-you-go method used in the past. The District decided to join the California Employees' Retiree Benefit Trust (CERBT) during the fiscal year ended June 30, 2010. This is an agent multiple-employer plan as defined in GASB No. 43 consisting of an aggregations of single-employer plans with pooled administrative and investment functions. Copies of CERBT's annual financial report may be obtained from its Executive Office at 400 Q Street, Sacramento, CA 95814.

Funding Policy

The District is required to contribute the annual required contribution (ARC), an amount actuarially determined in accordance within the parameters of GASB 45. The required contribution for fiscal years 2010/11 and 2009/10 were determined as part of the July 1, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected annual salary increases of not more than 3.35% (c) general inflation of 3.0%, compounded annually (d) medical inflation rates that range from 8.0% in the near term to 5.0% in later years. The ARC represents a level of funding that, if paid on an ongoing basis, projects to cover the normal cost each year and amortize 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 two years.

The District's annual ARC and the amount paid for the fiscal year 2010/11 was

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Cont.)

\$138,770; for 2009/10 was \$129,541, the balance of \$4,454 is accrued as of June 30, 2010. The District’s annual OPEB cost, the percent paid, and the net OPEB obligation for the years ended June 30, 2011 and 2010 are as follows:

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Percent</u> <u>Contribution</u> <u>Paid</u>	<u>Increase in</u> <u>Net OPEB</u> <u>Obligation</u>	<u>NET OPEB</u> <u>Obligation</u> <u>Beg of Year</u>	<u>Net OPEB</u> <u>Obligation</u> <u>End of Year</u>
2010	\$ 133,995	100.0%	\$ -	\$ -	\$ -
2011	\$ 138,770	100.0%	\$ -	\$ -	\$ -

Disclosure of annual OPEB cost, percent contributed, and net OPEB is required for the current fiscal year and each of the two preceding fiscal years. Three-year data is currently not available and will be shown when three year’s data becomes available. In the year of adoption of GASB 45, the initial liability for post-employment benefits is zero.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees, errors and omissions, and natural disaster. The District’s insurance coverage is carried through California Sanitation Risk Management Authority (CSRMA) in pooled programs and through a commercial insurance carrier.

CSRMA is a public entity risk pool currently operating as a common risk management and insurance program for member sanitary districts located throughout California. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group. Although CSRMA may assess additional premiums to a member district in the event of losses in excess of reserves, no additional assessments have occurred or are contemplated.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 12 – RISK MANAGEMENT (Cont.)

The financial statements of CSRMA are available at the District office. Condensed financial information for CSRMA is presented below for the years ended June 30:

	2010 <small>(most recent available)</small>	2009 <small>(most recent available)</small>
Total assets	\$ 30,183,456	\$29,209,229
Total liabilities	<u>16,996,071</u>	<u>14,730,899</u>
Retained earnings	<u>\$ 13,187,385</u>	<u>\$14,478,330</u>
Total revenues	\$ 10,635,989	\$11,002,376
Total expenditures	<u>11,926,934</u>	<u>7,809,040</u>
Net income	<u>\$ (1,290,945)</u>	<u>\$ 3,193,336</u>

NOTE 13 – SUBSEQUENT EVENT

Management of the District has evaluated subsequent events through October 16, 2011 the date which the financial statements were available to be issued. The District applied for and received a \$300,000 grant in September 2011 from the California Department of Water Resources under the Integrated Water Resources Management Plan related to construction of the water recycling facility. The grant agreement is being finalized and will be available for the District to draw down during the 2011/12 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

LAS GALLINAS VALLEY SANITARY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

PENSION PLANS SCHEDULE OF FUNDING PROGRESS – PERS

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Liability/ (excess Assets) (2) - (1)	Funded Ratio (1)/(2)	Covered Payroll	Unfunded Actuarial Liability as a % of Covered Payroll ((2) - (1))/(5)
6/30/2007	\$ 1,362,059,317	\$ 1,627,025,950	\$ 264,966,633	83.7%	\$ 376,292,121	70.4%
6/30/2008	\$ 1,529,548,799	\$ 1,823,366,479	\$ 293,817,680	83.9%	\$ 414,589,514	70.9%
6/30/2009	\$ 1,674,260,302	\$ 2,140,438,884	\$ 466,178,582	78.2%	\$ 440,071,499	105.9%

Effective with the June 30, 2004 valuation, PERS switched all employers with less than 100 active participants into a pool, as reflected in the above. Note 10 describes the Pension Plan including the plan description, funding policy and annual pension cost.

OTHER POST EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS – CERBT

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Liability/ (excess Assets) (2) - (1)	Funded Ratio (1)/(2)	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Covered Payroll ((2) - (1))/(5)
7/1/2009	\$ -	\$ 1,465,852	\$ 1,465,852	0.0%	\$ 1,324,153	110.7%

The requirements of GASB No. 45 were implemented in the previous fiscal year and accordingly, there are no factors that significantly affect the identification of trends in the amounts reported. Three year funding progress will be shown when data becomes available.

SUPPLEMENTARY INFORMATION



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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Las Gallinas Valley Sanitary District
San Rafael, California

Our report on the audit of the basic financial statements of Las Gallinas Valley Sanitary District for the year ended June 30, 2011 appears on Page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
October 16, 2011

LAS GALLINAS VALLEY SANITARY DISTRICT

BUDGETARY (NON-GAAP) COMPARISON INFORMATION

YEAR ENDED JUNE 30, 2011

	<u>Original/Final Appropriated Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Sewer use charges	\$ 8,741,250	\$ 8,834,558	\$ 93,308
Miscellaneous	35,800	38,396	2,596
Property taxes	1,034,800	1,009,341	(25,459)
Federal grant	-	74,841	74,841
Intergovernmental fees	4,400	4,755	355
Franchise fees	25,000	25,000	-
Interest income, non bond related	62,335	89,816	27,481
	<u>9,903,585</u>	<u>10,076,707</u>	<u>173,122</u>
TOTAL REVENUES			
EXPENDITURES:			
Personnel Costs:			
Salaries and wages	1,921,400	1,778,573	142,827
Employee benefits	922,626	843,759	78,867
Payroll processing fees	6,500	6,868	(368)
Operations Expense:			
Insurance	151,250	160,361	(9,111)
Repairs and maintenance	351,825	221,527	130,298
Chemicals	129,580	95,563	34,017
Pollution prevention	26,300	14,956	11,344
Laboratory services	60,000	64,960	(4,960)
Small tools	5,700	6,575	(875)
Sludge disposal contract services	20,000	17,212	2,788
Outside services	24,000	21,413	2,587
Damage claim	20,000	10,728	9,272
Reclamation expense	106,863	96,734	10,129
Engineering consultants	209,375	182,468	26,907
Operating supplies	80,000	60,668	19,332
Safety program and supplies	90,000	62,146	27,854
Fuel, gas and oil	32,000	33,702	(1,702)
Upper lateral inspection program	205,000	-	205,000
Private lateral inspection program	75,390	13,506	61,884
Equipment rents	10,000	26,345	(16,345)
Permits and fees	35,000	32,936	2,064
Employee training	8,000	10,252	(2,252)
Utilities	82,020	98,427	(16,407)

LAS GALLINAS VALLEY SANITARY DISTRICT

BUDGETARY (NON-GAAP) COMPARISON INFORMATION (CONT.)

YEAR ENDED JUNE 30, 2011

	<u>Original/Final Appropriated Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
General and Administrative Expense:			
Conferences	\$ 29,000	\$ 32,910	\$ (3,910)
Mileage and travel	1,500	1,725	(225)
Office expense	41,500	52,703	(11,203)
Election costs	-	425	(425)
Publications and legal ads	4,000	10,181	(6,181)
Public education	25,000	39,195	(14,195)
Rents and leases	8,500	8,545	(45)
Property and other taxes	3,200	3,067	133
Memberships	28,300	30,608	(2,308)
Legal and professional	136,000	106,755	29,245
Bank charges and collection fees	37,500	34,231	3,269
Employee recognition	3,000	2,403	597
Miscellaneous	<u>-</u>	<u>2,441</u>	<u>(2,441)</u>
EXPENDITURES BEFORE DEBT SERVICE	<u>4,890,329</u>	<u>4,184,868</u>	<u>705,461</u>
OPERATING SURPLUS BEFORE DEBT SERVICE	5,013,256	5,891,839	878,583
Interest expense, net of bond interest income	(343,826)	(349,822)	(5,996)
Bond principal payment	<u>(395,000)</u>	<u>(395,000)</u>	<u>-</u>
OPERATING SURPLUS	<u>\$ 4,274,430</u>	<u>\$ 5,147,017</u>	<u>\$ 872,587</u>