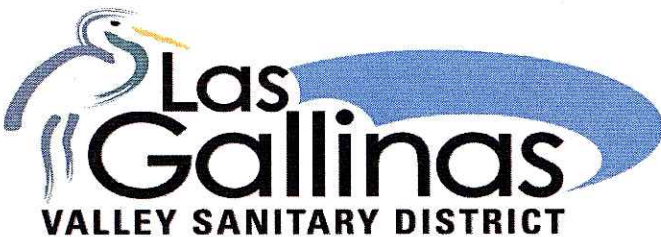


LAS GALLINAS VALLEY SANITARY DISTRICT  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2010 AND 2009





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, 2010 and 2009 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, 2010 and 2009, 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.

As discussed in Note 11 to the financial statements, the District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2010.

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 4, 2010

LAS GALLINAS VALLEY SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2010 AND 2009

**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.

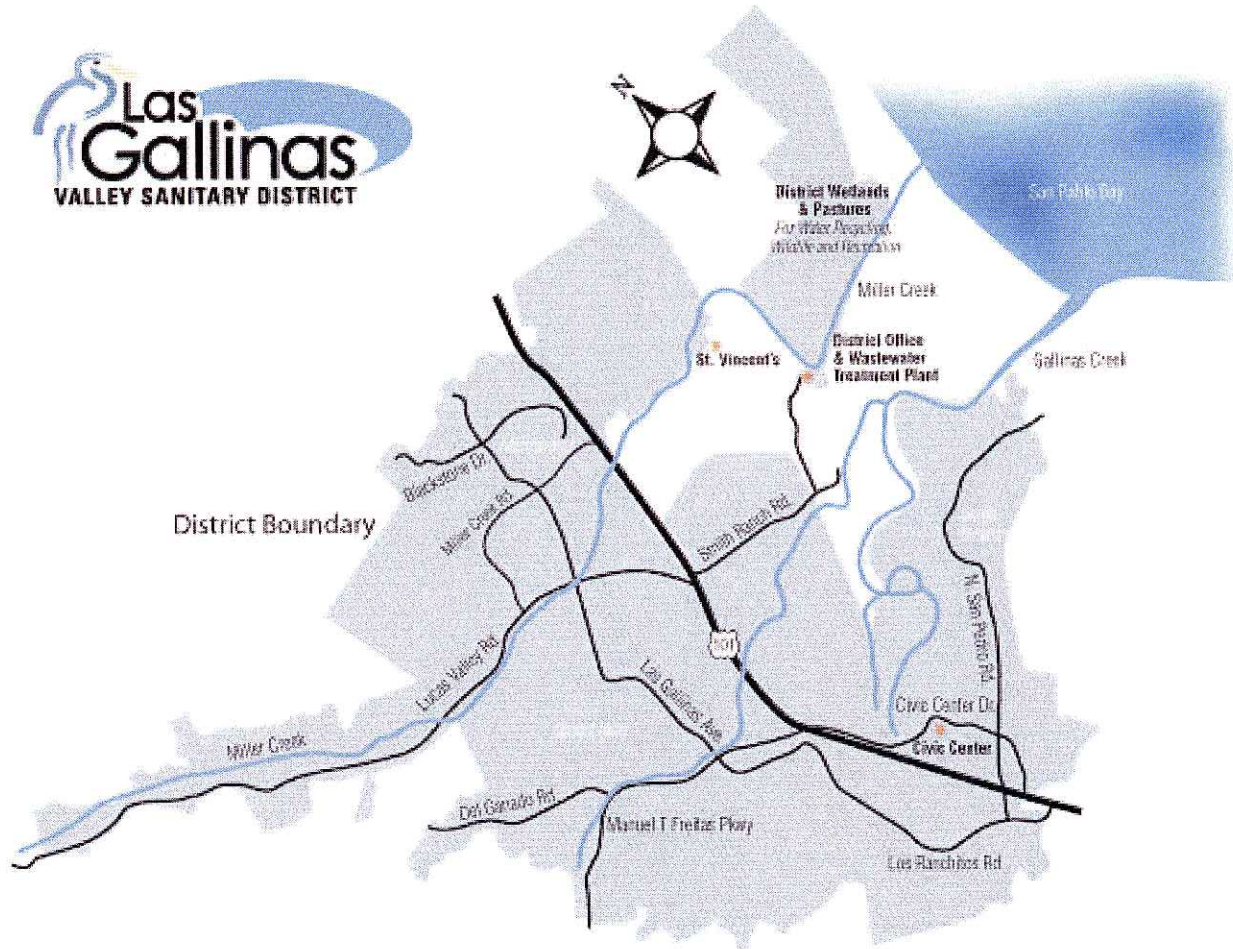
**Our Core Values**

- ❖ 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, 2010 AND 2009

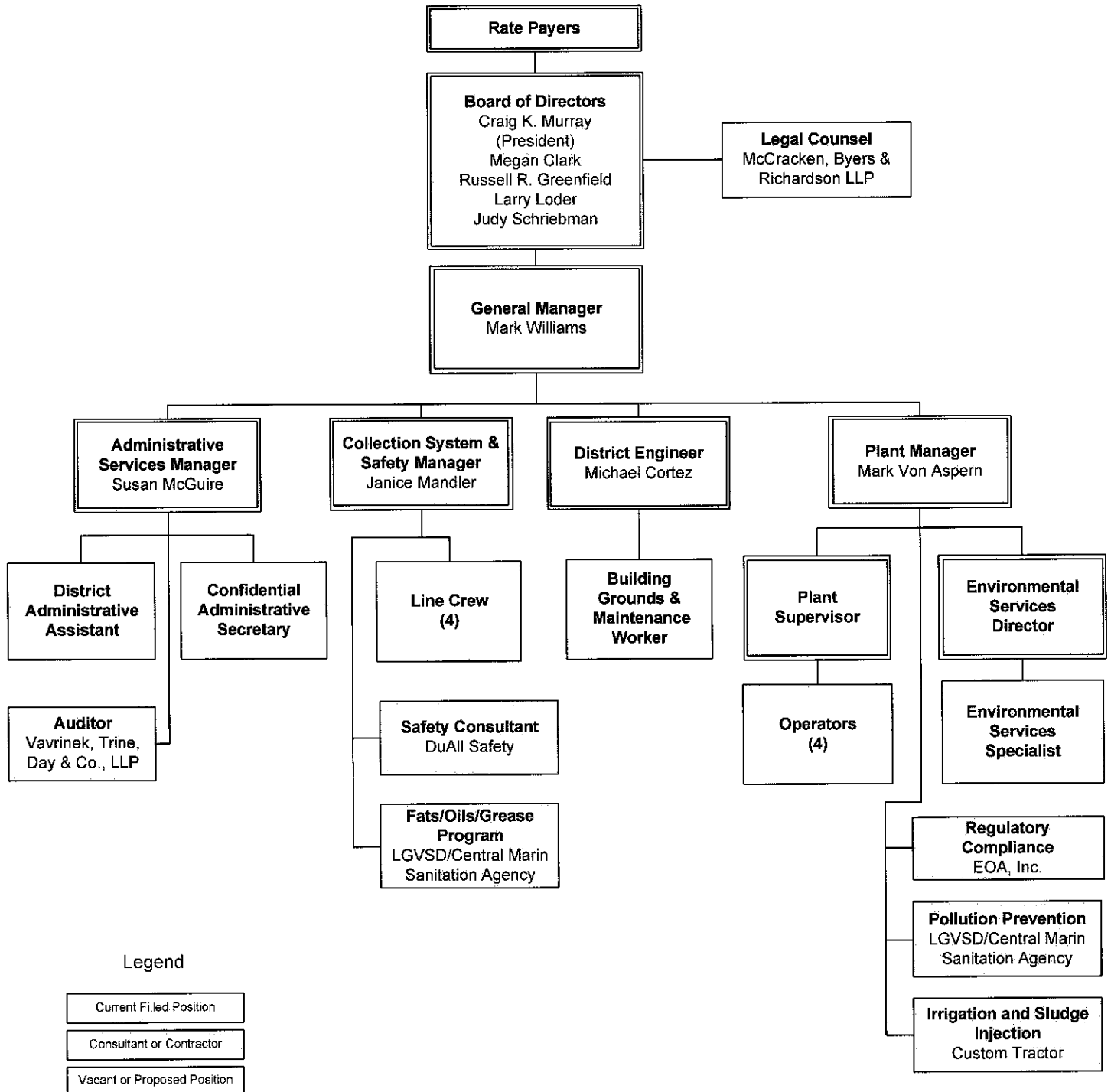
**DISTRICT STRUCTURE**

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, 2010 AND 2009**

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, 2010 AND 2009

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, 2010. 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 \$2.5million over the previous year. This increase was due to an increase in the sewer service charge from \$303 to \$476 per sanitary unit.
- The District operating expenses, net of depreciation, increased by \$330,000 due to the implementation of funding the Other Post Employment Benefit Plan contribution of \$70,000, repairs and maintenance costs including retrofitting two vehicles in compliance with CARB and air release valve repairs of \$144,000, and the hiring an in house engineer. The District believes having an engineer on staff will reduce costs and increase efficiency on projects in the long-term.
- The District refunded connection fees of in excess of the amount collected of \$8,400. Due to the status of the real estate market, projects are not proceeding which resulted in requests to refund fees, less a 10% non-refundable portion. The District did receive connection fees for second units and remodeling projects
- Interest income decreased by \$76,000 in step with the general drop in interest rates in the global market place which was magnified by the decline in return offered by the Local Agency Investment Fund (LAIF) managed by the Treasurer of the State of California. As a mitigating step, the District invested funds in a savings account and certificates of deposit with our local community bank that currently pay a higher interest rate than LAIF while still maintaining the necessary liquidity for current operations.
- 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, 2010, a total of \$592,106 remaining COP funds are available for capital improvement projects. The District plans to expend the balance of these funds in 2010/11.

LAS GALLINAS VALLEY SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2010 AND 2009

**HIGHLIGHTS (CONT.)**

**District Highlights**

- The District completed design of a \$4.2 million upgrade to the treatment plant and applied for a State Revolving Fund loan to fund the project. The interest rate on this loan of 2.7% will provide a substantial savings to our ratepayers.
- The District continued with its sewer main maintenance and rehabilitation plan including smoke testing and video recording of the system.
- The District renewed its five year National Pollutant Discharge Elimination System permit with the United States Environmental Protection Agency.
- The District participated in a multi agency coalition that obtained federal funding to expand the use of water recycling through an upgrade to the treatment plant.
- The District maintained its achievement of having the lowest sewer overflow rate in Marin County.
- The District continued to not have any lost time work related injuries during the fiscal year.
- The District won a statewide award for its public education program.
- The District adopted a Mercury Reduction Ordinance and initiated a dental amalgam separator program.

**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,

LAS GALLINAS VALLEY SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2010 AND 2009

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 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.



LAS GALLINAS VALLEY SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2010 AND 2009

FINANCIAL ANALYSIS OF THE DISTRICT (CONT.)

Changes in Net Assets

The District's net assets increased from the previous year by \$2,545,000. 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:

	2010	2009
<b>ASSETS</b>		
Current assets	\$ 10,373,935	\$ 8,686,819
Capital assets, net of accumulated depreciation	40,423,711	39,918,062
Other noncurrent assets	235,413	188,648
Total assets	<u>51,033,059</u>	<u>48,793,529</u>
<b>LIABILITIES</b>		
Current liabilities	1,776,605	1,687,555
Noncurrent liabilities	8,155,000	8,550,000
Total liabilities	<u>9,931,605</u>	<u>10,237,555</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	32,640,063	31,866,810
Unrestricted	8,461,391	6,689,164
Total net assets	<u>\$41,101,454</u>	<u>\$38,555,974</u>

LAS GALLINAS VALLEY SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2010 AND 2009

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.

	2010	2009
Operating revenues	\$ 7,633,742	\$ 5,066,625
Tax revenues	1,054,291	1,030,698
Interest income and other	113,493	253,140
Connection fees	<u>(8,373)</u>	<u>37,276</u>
Total revenue	<u>8,793,153</u>	<u>6,387,739</u>
Operating expenses	5,886,299	5,449,679
Non-operating expenses	<u>361,374</u>	<u>381,728</u>
Total expenses	<u>6,247,673</u>	<u>5,831,407</u>
Change in net assets	2,545,480	556,332
Capital contributed - property	-	-
Net assets - beginning of year	<u>38,555,974</u>	<u>37,999,642</u>
Net assets - end of year	<u>\$41,101,454</u>	<u>\$38,555,974</u>

LAS GALLINAS VALLEY SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2010 AND 2009

**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, 2010:

	Current Policy	Target Balance
Operating reserves:		
Working cash flow	\$ 1,700,000	\$ 2,590,000
Rate stabilization	300,000	300,000
Emergency repair	<u>700,000</u>	<u>1,000,000</u>
Total operating reserves	2,700,000	3,890,000
Capital reserves	<u>1,500,000</u>	<u>4,000,000</u>
Total reserves	<u>\$ 4,200,000</u>	<u>\$ 7,890,000</u>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2010, the District had \$40,423,711 (net of accumulated depreciation) invested in capital assets.

The District's investment in capital assets as of June 30, 2010 increased from \$74,100,979 at the beginning of the fiscal year to \$76,398,566 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 \$2,344,605.

Major capital asset events during the year included the following:

- Sewer line rehabilitation
- Electrical upgrades at the main plant facility
- Major maintenance of one of the levees in the reclamation area
- Planning and design costs were incurred for treatment plant improvements

LAS GALLINAS VALLEY SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2010 AND 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT.)

Capital Assets (Cont.)

The following summarizes District capital assets for the fiscal year ended June 30, 2010:

	Audited Balance <u>June 30, 2009</u>	Additions	Dispositions/ Transfers	Audited Balance <u>June 30, 2010</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>

Additional information on the long-term debt can be found in Note 5 of the notes to the financial statements of this report.

**LAS GALLINAS VALLEY SANITARY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT.)**

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

	<u>Audited Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Audited Balance</u> <u>June 30, 2010</u>
Certificates of Participation	<u>\$ 8,930,000</u>	<u>\$ -</u>	<u>\$ (380,000)</u>	<u>\$ 8,550,000</u>

The District applied for a State Revolving Fund loan of \$6.1 million in August 2009. A preliminary funding commitment was awarded by the State in March 2010. It is anticipated that construction will begin in the fall of 2010.

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 requirements. These requirements require upgrades to plant and equipment as well as increased staff to effectively operate the system. The District undertook a rate review process in light of necessary improvements. The District is in the second year of the five year plan.

LAS GALLINAS VALLEY SANITARY DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2010 AND 2009

**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	\$ 613	\$ 9,256,300	Proposed
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 and (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 a local bank. 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, 2010 AND 2009

ASSETS

	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents		
Cash and cash equivalents, non-restricted	\$ 9,346,848	\$ 7,731,670
Restricted cash	<u>592,106</u>	<u>693,200</u>
Total cash and cash equivalents	<u>9,938,954</u>	<u>8,424,870</u>
Receivables		
Connection fees	3,510	11,337
User charges	215,196	3,904
Interest	4,045	24,426
Other	6,651	19,270
Inventory of supplies	146,195	146,068
Prepaid expenses	<u>59,384</u>	<u>56,944</u>
TOTAL CURRENT ASSETS	<u>10,373,935</u>	<u>8,686,819</u>
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Property, plant and equipment, net of accumulated depreciation	<u>40,423,711</u>	<u>39,918,062</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Bond issuance costs, net of accumulated amortization	117,948	125,598
Bond discount, net of accumulated amortization	56,298	59,950
Receivables, noncurrent		
Connection fees	-	3,100
Other	<u>61,167</u>	<u>-</u>
TOTAL NONCURRENT ASSETS	<u>235,413</u>	<u>188,648</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF NET ASSETS (CONT.)

JUNE 30, 2010 AND 2009

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES:		
Accounts payable	\$ 368,323	\$ 330,003
Accrued payroll	93,037	72,334
Accrued compensated absences	288,776	257,337
Accrued interest payable	29,460	30,727
Deferred connection fees	602,009	617,154
Bonds payable, current	<u>395,000</u>	<u>380,000</u>
TOTAL CURRENT LIABILITIES	<u>1,776,605</u>	<u>1,687,555</u>
NONCURRENT LIABILITIES:		
Bonds payable, long-term	<u>8,155,000</u>	<u>8,550,000</u>
TOTAL NONCURRENT LIABILITIES	<u>8,155,000</u>	<u>8,550,000</u>
TOTAL LIABILITIES	<u>9,931,605</u>	<u>10,237,555</u>
NET ASSETS:		
Invested in capital assets, net of related debt	32,640,063	31,866,810
Unrestricted	<u>8,461,391</u>	<u>6,689,164</u>
TOTAL NET ASSETS	<u>\$41,101,454</u>	<u>\$38,555,974</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Sewer use charges, net of refunds	\$ 7,592,325	\$ 5,006,202
Miscellaneous	<u>41,417</u>	<u>60,423</u>
TOTAL OPERATING REVENUES	<u>7,633,742</u>	<u>5,066,625</u>
OPERATING EXPENSES:		
Sewage collection and pump stations	1,009,318	882,525
Sewage treatment	1,087,877	1,142,102
Sewage and solid waste disposal	85,210	204,814
Laboratory	312,491	254,659
General and administrative	1,551,969	1,232,974
Depreciation and amortization	<u>1,839,434</u>	<u>1,732,605</u>
TOTAL OPERATING EXPENSES	<u>5,886,299</u>	<u>5,449,679</u>
INCOME (LOSS) FROM OPERATIONS	<u>1,747,443</u>	<u>(383,054)</u>
NONOPERATING REVENUES:		
Intergovernmental fees	4,820	4,954
Franchise fees	25,000	25,000
Property taxes	1,054,291	1,030,698
Gain on disposal, net	7,647	70,413
Interest income	<u>76,026</u>	<u>152,773</u>
TOTAL NONOPERATING REVENUES	<u>1,167,784</u>	<u>1,283,838</u>
NONOPERATING EXPENSES:		
Interest expense	<u>361,374</u>	<u>381,728</u>
TOTAL NONOPERATING EXPENSES	<u>361,374</u>	<u>381,728</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,553,853	519,056
CAPITAL CONTRIBUTIONS - CONNECTION FEES	<u>(8,373)</u>	<u>37,276</u>
INCREASE (DECREASE) IN NET ASSETS	2,545,480	556,332
NET ASSETS - BEGINNING OF YEAR	<u>38,555,974</u>	<u>37,999,642</u>
NET ASSETS - END OF YEAR	<u><u>\$41,101,454</u></u>	<u><u>\$38,555,974</u></u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash receipts from customers	\$ 7,381,804	\$ 5,021,041
Cash payments to employees	(1,482,595)	(1,378,033)
Cash payments to suppliers	(2,472,252)	(2,254,309)
Other receipts	<u>35,180</u>	<u>41,093</u>
Net cash provided by operating activities	<u>3,462,137</u>	<u>1,429,792</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Intergovernmental fees	4,820	4,954
Franchise fees	25,000	25,000
Property taxes received	<u>994,643</u>	<u>1,054,792</u>
Net cash provided by noncapital financing activities	<u>1,024,463</u>	<u>1,084,746</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Connection fees collected	12,500	565,677
Connection fees refunded	(25,092)	-
Acquisition and construction of capital assets	(2,344,605)	(1,934,161)
Proceeds from sale of assets	30,915	119,761
Principal payments, bonds	<u>(380,000)</u>	<u>(370,000)</u>
Net cash used by capital and related financing activities	<u>(2,706,282)</u>	<u>(1,618,723)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income, net of interest expense	<u>(266,234)</u>	<u>(213,119)</u>
Net cash used by investing activities	<u>(266,234)</u>	<u>(213,119)</u>
NET INCREASE IN CASH AND EQUIVALENTS	1,514,084	682,696
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>8,424,870</u>	<u>7,742,174</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,938,954</u>	<u>\$ 8,424,870</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT  
STATEMENTS OF CASH FLOWS (CONT.)  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 1,747,443	\$ (383,054)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,839,434	1,732,605
Changes in assets and liabilities:		
User charges receivable	(211,292)	(2,792)
Other receivables	(1,344)	(1,699)
Inventory of supplies	(127)	(10,265)
Prepaid expenses	(2,440)	(19,996)
Accounts payable and accrued compensation	90,463	115,848
Deferred revenue	-	(855)
	<u>\$ 3,462,137</u>	<u>\$ 1,429,792</u>
Net cash provided by operating activities	<u>\$ 3,462,137</u>	<u>\$ 1,429,792</u>

See accompanying notes.



# LAS GALLINAS VALLEY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

### 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 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, 2010 AND 2009

### 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, 2010 AND 2009

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, 2010 AND 2009

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 and Bond Discount

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

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 accumulated.

Restricted Assets and Liabilities

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

# LAS GALLINAS VALLEY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

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

#### Basis of Accounting (Cont.)

##### 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 1<sup>st</sup> on behalf of the District. Property taxes are due on the following November 1<sup>st</sup> and March 1<sup>st</sup> and become delinquent December 10<sup>th</sup> and April 10<sup>th</sup>, 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, 2010 the District received \$700,803 in property taxes and \$353,488 in ERAF; \$710,043 and \$320,655, respectively for June 30, 2009.

##### 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.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

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

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 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 beginning net OPEB obligation at zero as of the beginning of the initial year. 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 June 2007, GASB issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Implementation is required for periods beginning after June 15, 2009. The District has implemented this Statement in the current year as required and there was no material impact.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement's purpose is to enhance the usefulness of fund balance information by providing clearer classifications that can be more consistently applied and by clarifying the existing governmental fund balance



LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

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

New Accounting Pronouncements (Cont.)

type definitions. Implementation is required for periods beginning after June 15, 2010. The District is an enterprise fund therefore this Statement does not apply to it.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The Statement's purpose is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance in the American Institute of Certified Public Accountants' Statements on Auditing Standards. The Statement does not establish new accounting standards but rather incorporates the existing guidance, to the extent appropriate, into the GASB standards. The pronouncement was effective upon issuance and had no impact on the financial statements.

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 December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This pronouncement is effective for periods beginning after June 15, 2009. The District has implemented this Statement and there is no impact to the financial statements.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding

# LAS GALLINAS VALLEY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

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

#### New Accounting Pronouncements (Cont.)

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 does not believe there will be a significant financial statement effect related to this Statement.

### NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2010, the District maintained the majority of its cash in the Bank of Marin, the County 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 from twelve to twenty-four 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>.

Copies of the financial statements for the County of Marin investment pool may be obtained from the Marin County Treasurer Tax Collector, 3501 Civic Center Drive, Room 202, San Rafael, California, 94903.

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, 2010 and 2009 was \$345,868 and \$343,042, respectively, and was maintained by the Marin County Treasurer.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

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

	Reported/Fair Value	
	<u>Unrestricted</u>	<u>Restricted</u>
Cash in bank and on hand:		
Bank of Marin	\$ 5,822,657	\$ -
Wells Fargo Bank	-	-
Petty cash	<u>1,306</u>	<u>-</u>
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>

Cash and cash equivalents at June 30, 2009, consisted of the following:

	Reported/Fair Value	
	<u>Unrestricted</u>	<u>Restricted</u>
Cash in bank and on hand:		
Bank of Marin	\$ 1,634,803	\$ -
Wells Fargo Bank	-	2
Petty cash	<u>929</u>	<u>-</u>
Total cash in bank and on hand	<u>1,635,732</u>	<u>2</u>
Investments:		
Local Agency Investment Fund (LAIF)	6,064,093	693,198
Marin County Treasurer	<u>31,845</u>	<u>-</u>
Total investments	<u>6,095,938</u>	<u>693,198</u>
Total cash and cash equivalents as of June 30, 2009	<u>\$ 7,731,670</u>	<u>\$ 693,200</u>

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)**

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 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

year-end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 7 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:

		Maturity Date
Bank of Marin	\$ 3,012,629	438 days average
Marin County Treasurer	2,213	281 days average
LAIF	<u>1,100,149</u>	203 days average
	<u>\$ 4,114,991</u>	

**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. As of June 30, 2009 Marin County has a Fitch credit rating of AAA/V1<sup>+</sup> (most recent available). 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 not 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

# LAS GALLINAS VALLEY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

### NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

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 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 \$508,043 as of June 30, 2010 and \$6,757,291 as of June 30, 2009. There are no derivatives included in the portfolio. Included in LAIF's investment portfolio are asset-backed securities, totaling \$3,130 million and \$2,297 million, as of June 30, 2010 and 2009, respectively and structured notes totaling \$625 million and \$5,169 million, as of June 30, 2010 and 2009, 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, 4.5% in June and 0.5% 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



LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 4 – ACCOUNTS RECEIVABLE (CONT.)

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 will be 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.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

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>

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

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

A summary of property, plant and equipment transactions for the year ended June 30, 2009, follows:

	Beginning Balance	Additions	Dispositions/ Transfers	Ending Balance
Land	\$ 2,867,571	\$ -	\$ -	\$ 2,867,571
Subsurface lines	13,310,816	-	-	13,310,816
Facilities and equipment				
Sewage collection	19,840,954	53,504	(11,767)	19,882,691
Sewage treatment	23,174,171	145,589	(78,978)	23,240,782
Sewage disposal	8,747,711	1,599	(555,038)	8,194,272
General plant/administration	980,620	52,761	(102,763)	930,618
Laboratory and pump stations	2,519,436	339,316	(119,114)	2,739,638
Reclamation		1,083	678,662	679,745
Construction-in-progress	914,537	1,452,075	(111,766)	2,254,846
Total property, plant and equipment	<u>72,355,816</u>	<u>2,045,927</u>	<u>(300,764)</u>	<u>74,100,979</u>
Less:				
Accumulated depreciation	<u>(32,588,483)</u>	<u>(1,721,302)</u>	<u>126,868</u>	<u>(34,182,917)</u>
	<u>\$39,767,333</u>	<u>\$ 324,625</u>	<u>\$ (173,896)</u>	<u>\$39,918,062</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, are 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, was extended for 5 years until December 31, 2010.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

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 \$3,652, respectively for 2010 and 2009. 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, 2010, \$9,650,803 of the net proceeds has been spent on such improvements.

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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010
Certificates of Participation	\$ 8,930,000	\$ -	\$ (380,000)	\$ 8,550,000

Future minimum payments are summarized as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2011	\$ 395,000	\$ 345,625	\$ 740,625
2012	410,000	329,525	739,525
2013	425,000	312,825	737,825
2014	440,000	295,525	735,525
2015	460,000	277,525	737,525
2016 to 2020	2,565,000	1,091,852	3,656,852
2021 to 2025	3,135,000	506,650	3,641,650
Thereafter	720,000	15,750	735,750
	\$ 8,550,000	\$ 3,175,277	\$11,725,277

# LAS GALLINAS VALLEY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

### NOTE 7 – LONG-TERM DEBT (CONT.)

#### State Revolving Fund Loan

On April 1, 2010 the District entered into a preliminary funding commitment with the State Water Resources Control Board for a \$6,122,500 loan. This loan is to fund the construction of the District's Primary Clarification System Improvement Project. Construction is expected to begin in the fall of 2010 and be completed by June 2012. The estimated project cost was revised after the bid closed in July 2010 to \$4,314,750 and an amendment to the finance agreement was executed for that amount. The loan is repayable in annual installments of \$282,035 over twenty years at 2.7% interest. The first payment is due June 1, 2013 and the District must establish a reserve fund equal to one year's debt service prior to the construction completion date, projected to be June 1, 2012. As of June 30, 2010, the District had expended \$240,784 in planning and design costs related to this project; however no loan funds had been received as of June 30, 2010.

#### 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 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

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**NOTE 7 – LONG-TERM DEBT (CONT.)**

March 2 and September 2. Maturity dates of each bond range through September 2, 2016. For the years ending June 30, 2010 and 2009, the outstanding principal balance of the bonds was \$1,015,000 and \$1,155,000, 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 \$54,809 and \$60,694 to the plan for the years ended June 30, 2010 and 2009, 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 \$120,000 and \$90,000 as of June 30, 2010 and June 30, 2009, respectively.

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, 2010 and 2009 was \$1,064 and \$688, respectively.

**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

# LAS GALLINAS VALLEY SANITARY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

### NOTE 10 – PENSION PLAN (CONT.)

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 16.584% for fiscal 2009/10 and 15.425% for fiscal 2008/09. Due to contractual arrangements, the District pays half of the required contribution of plan members. The contribution requirements of the plan members are established 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, 2010 and 2009, the District's annual pension cost of approximately \$283,000 and \$249,000, respectively for PERS was equal to the District's required and actual contributions. The required contribution for fiscal 2009/10 was determined as part of the June 30, 2007 (June 30, 2006 for fiscal 2008/09) 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).

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

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 10 – PENSION PLAN (CONT.)

Three-Year Trend Information for PERS

Fiscal Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 184,000	100%	-
2009	\$ 249,000	100%	-
2010	\$ 283,000	100%	-

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. As of June 30, 2009, there were 15 retirees eligible to receive up to a maximum of \$478 per month. During the fiscal year ended June 30, 2009 the retiree health benefits cost the District approximately \$65,200.

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.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

**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 year 2009/10 was 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% 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 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 year ended June 30, 2010 are as follows:

<u>Actuarial Valuation Date</u>	<u>Annual OPEB Cost</u>	<u>Percent Contribution Paid</u>	<u>Increase in Net OPEB Obligation</u>	<u>NET OPEB Obligation Beg of Year</u>	<u>Net OPEB Obligation End of Year</u>
7/1/2009	\$ 133,995	100.0%	\$ -	-	\$ -

Disclosure of annual OPEB cost, percent contributed, and net OPEB is required for the current fiscal year and each of the 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.



LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

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.

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:

	2009	2008
	(most recent available)	
Total assets	\$ 29,209,229	\$26,583,469
Total liabilities	<u>14,730,899</u>	<u>15,298,475</u>
Retained earnings	<u>\$ 14,478,330</u>	<u>\$11,284,994</u>
Total revenues	\$ 11,002,376	\$ 7,694,333
Total expenditures	<u>7,809,040</u>	<u>10,806,732</u>
Net income	<u>\$ 3,193,336</u>	<u>\$ (3,112,399)</u>

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 13 – SUBSEQUENT EVENT

Management of the District has evaluated subsequent events through October 4, 2010 the date which the financial statements were available to be issued. The District is a member of the North Bay Water Reuse Authority (NBWRA). NBWRA is a collaborative effort of water and wastewater agencies in Marin, Sonoma and Napa counties. The group has developed an integrated \$100 million waste water recycling project with phase one projects of \$29 million. NBWRA was awarded a \$7.3 million dollar federal grant, funded with American Recovery and Reinvestment Act money in July 2010. An agreement was executed with the United States Bureau of Reclamation on September 16, 2010 and the funds must be expended by September 30, 2012. The District is planning to supply North Marin Water District with tertiary treated wastewater which will be used for irrigation purposes in the Hamilton area. The District anticipates that its share of the project will be \$5.3 million with federal grant funding of \$871,000.

**REQUIRED SUPPLEMENTARY INFORMATION**

LAS GALLINAS VALLEY SANITARY DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2010

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)
6/30/2006	\$ 1,069,546,974	\$ 1,280,157,040	\$ 210,610,066	83.6%	\$ 304,898,179	69.1%
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%

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 this 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, 2010 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 4, 2010

LAS GALLINAS VALLEY SANITARY DISTRICT

BUDGETARY (NON-GAAP) COMPARISON INFORMATION

YEAR ENDED JUNE 30, 2010

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>				
Sewer use charges	\$ 7,550,000	\$ 7,464,850	\$ 7,592,325	\$ 127,475
Miscellaneous	34,900	34,900	49,064	14,164
Intergovernmental fees	4,500	4,500	4,820	320
Franchise fees	25,000	25,000	25,000	-
Property taxes	1,032,600	962,880	1,054,291	91,411
Interest income, non bond related	120,250	120,250	71,882	(48,368)
<b>TOTAL REVENUES</b>	<u>8,767,250</u>	<u>8,612,380</u>	<u>8,797,382</u>	<u>185,002</u>
<b>EXPENDITURES:</b>				
<b>Personnel Costs:</b>				
Salaries and wages	1,624,218	1,655,840	1,534,737	121,103
Employee benefits	849,650	865,221	756,445	108,776
Payroll processing fees	5,776	5,776	6,751	(975)
<b>Operations Expense:</b>				
Insurance	135,500	135,500	128,726	6,774
Repairs and maintenance	477,680	477,680	364,078	113,602
Chemicals	117,636	117,636	100,454	17,182
Pollution prevention	22,000	22,000	15,938	6,062
Laboratory services	55,000	55,000	59,457	(4,457)
Small tools	3,900	3,900	2,551	1,349
Sludge disposal contract services	18,000	18,000	9,901	8,099
Outside services	23,900	23,900	22,804	1,096
Damage claim	15,000	15,000	10,441	4,559
Reclamation expense	102,500	102,500	50,147	52,353
Engineering consultants	198,000	198,000	284,670	(86,670)
Operating supplies	79,830	79,830	57,959	21,871
Safety program and supplies	68,000	68,000	52,629	15,371
Fuel, gas and oil	31,800	31,800	26,869	4,931
Upper lateral inspection program	100,000	100,000	-	100,000
Private lateral inspection program	71,800	71,800	9,867	61,933
Equipment rents	5,000	5,000	39,791	(34,791)
Permits and fees	30,000	30,000	32,164	(2,164)
Employee training	10,000	10,000	4,649	5,351
Utilities	83,593	83,593	86,353	(2,760)

LAS GALLINAS VALLEY SANITARY DISTRICT

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

YEAR ENDED JUNE 30, 2010

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance Favorable (Unfavorable)
General and Administrative Expense:				
Conferences	\$ 30,000	\$ 30,000	\$ 25,384	\$ 4,616
Mileage and travel	5,500	5,500	965	4,535
Office expense	33,000	33,000	20,520	12,480
Election costs	28,000	28,000	34,486	(6,486)
Publications and legal ads	4,000	4,000	9,447	(5,447)
Public education	23,000	23,000	24,137	(1,137)
Rents and leases	8,500	8,500	8,103	397
Property and other taxes	3,800	3,800	3,117	683
Memberships	16,000	16,000	22,102	(6,102)
Legal and professional	96,000	96,000	192,654	(96,654)
Northbay Watershed Association	6,300	6,300	5,597	703
Bank charges and collection fees	40,500	40,500	33,641	6,859
Employee recognition	3,500	3,500	1,529	1,971
Miscellaneous	-	-	7,802	(7,802)
EXPENDITURES BEFORE DEBT SERVICE	4,426,883	4,474,076	4,046,865	427,211
OPERATING SURPLUS BEFORE DEBT SERVICE	4,340,367	4,138,304	4,750,517	612,213
Interest expense, net of bond interest income	(354,875)	(354,875)	(357,230)	(2,355)
Bond principal payment	(380,000)	(380,000)	(380,000)	-
OPERATING SURPLUS	\$ 3,605,492	\$ 3,403,429	\$ 4,013,287	\$ 609,858