

LAS GALLINAS VALLEY SANITARY DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2008 AND 2007



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

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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, 2008 and 2007 and the related statements of revenues and expenses and changes in net assets, and cash flows for the year 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, 2008 and 2007, 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.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
November 4, 2008

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

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LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007

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, 2008. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

Financial Highlights

- Revenues increased by approximately \$1,020,000 over the previous year. This increase was due to: (1) A scheduled \$800,000 increase in the annual service sewer charges (2) A \$220,000 increase in property taxes compared to the prior year primarily from a one-time settlement payment of additional Education Revenue Augmentation Funds.
- The District expenses, net of depreciation, increased by \$116,000 due to additional repairs and maintenance to equipment, the development of a strategic plan, and engineering costs associated with renewing our operating permit. These cost increases were offset by decreases in legal and professional fees of \$92,000 due to the settlement of a lawsuit.
- Connection fees increased by \$30,770 from the previous year. The District does not have areas for substantial new development so the majority of connection fees are for second units and infill projects.
- Interest income decreased by \$80,000 as the District continued to spend Certificates of Participation funds for projects which resulted in a \$100,000 decrease; this was offset by an increase in interest earned on reserves and operating funds of \$20,000.
- 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, 2008, a total of \$1,795,244 remaining COP funds are available for capital improvement projects. The District plans to expend the balance of these funds in 2008/09.

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007

HIGHLIGHTS (CONT.)

District Highlights

- The District remained on track to meet the State mandated Sanitary Sewer Maintenance Plan and did complete the Plan in August 2008.
- The District's treatment plant did not incur any effluent limitation violations.
- The District's Solar System provided more than 100% of the required power to operate the Treatment Plant and Reclamation area.
- The District purchased 10 acres of land for reclamation/storage purposes from St. Vincent Catholic Youth Organization.

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.

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007

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.

Changes in Net Assets

The District's net assets increased from the previous year by \$940,000. 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:

	2008	2007
ASSETS		
Current assets	\$ 8,012,557	\$ 7,386,969
Capital assets, net of accumulated depreciation	39,767,333	39,964,402
Other noncurrent assets	<u>201,824</u>	<u>242,286</u>
Total assets	<u>47,981,714</u>	<u>47,593,657</u>
LIABILITIES		
Current liabilities	1,052,072	1,234,333
Noncurrent liabilities	<u>8,930,000</u>	<u>9,300,000</u>
Total liabilities	<u>9,982,072</u>	<u>10,534,333</u>
NET ASSETS		
Invested in capital assets, net of related debt	32,457,844	33,349,234
Restricted for treatment plant improvements	1,584	54,611
Unrestricted	<u>5,540,214</u>	<u>3,655,479</u>
Total net assets	<u>\$ 37,999,642</u>	<u>\$ 37,059,324</u>

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007

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.

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 FISCAL YEAR ENDED JUNE 30:**

	2008	2007
Operating revenues	\$ 4,746,126	\$ 3,977,399
Tax revenues	1,176,267	951,123
Interest income and other	316,155	363,702
Connection fees	43,969	13,199
Total revenue	<u>6,282,517</u>	<u>5,305,423</u>
Operating expenses	4,990,490	4,704,689
Non-operating expenses	401,862	403,475
Total expenses	<u>5,392,352</u>	<u>5,108,164</u>
Change in net assets	890,165	197,259
Capital contributed - property	50,153	-
Net assets - beginning of year	<u>37,059,324</u>	<u>36,862,065</u>
Net assets - end of year	<u>\$ 37,999,642</u>	<u>\$ 37,059,324</u>

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007

DESIGNATED RESERVES

The District's policy is to have a \$4 million reserve for operations and capital needs. Unrestricted net assets were designated for the following at June 30, 2008:

Operating reserves:	
Working cash flow	\$ 1,500,000
Rate stabilization	300,000
Emergency repair	<u>700,000</u>
Total operating reserves	2,500,000
Capital reserves	<u>1,500,000</u>
Total reserves	<u><u>\$ 4,000,000</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, the District had \$39,767,333 (net of accumulated depreciation) invested in capital assets.

The District's investment in capital assets as of June 30, 2008 increased from \$70,975,007 at the beginning of the fiscal year to \$72,355,816 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 \$2,934,212.

Major capital asset events during the year included the following:

- Rehabilitation of subsurface lines
- Purchase of land adjacent to the Plant
- Pump station equipment purchases and upgrades

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT.)

Capital Assets (Cont.)

The following summarizes District capital assets for the fiscal year ended June 30, 2008:

	<u>Audited Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Dispositions/ Transfers</u>	<u>Audited Balance</u> <u>June 30, 2008</u>
Land	\$ 2,651,568	\$ 216,003	\$ -	\$ 2,867,571
Subsurface lines	12,563,085	747,730	-	13,310,815
Facilities and equipment				
Sewage collection	19,806,493	49,920	(15,458)	19,840,955
Sewage treatment	22,839,973	352,149	(17,951)	23,174,171
Sewage disposal	8,643,990	103,720	-	8,747,710
General plant/administration	1,074,693	2,616	(96,689)	980,620
Laboratory and pump stations	1,537,359	982,077	-	2,519,436
Construction-in-progress	<u>1,857,846</u>	<u>479,997</u>	<u>(1,423,305)</u>	<u>914,538</u>
Total property, plant and equipment	<u>70,975,007</u>	<u>2,934,212</u>	<u>(1,553,403)</u>	<u>72,355,816</u>
Less:				
Accumulated depreciation	<u>(31,010,605)</u>	<u>(1,694,992)</u>	<u>117,114</u>	<u>(32,588,483)</u>
	<u>\$ 39,964,402</u>	<u>\$ 1,239,220</u>	<u>\$ (1,436,289)</u>	<u>\$ 39,767,333</u>

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, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Audited Balance</u> <u>June 30, 2008</u>
Certificates of Participation	<u>\$ 9,655,000</u>	<u>\$ -</u>	<u>\$ (355,000)</u>	<u>\$ 9,300,000</u>

Additional information on the long-term debt can be found in Note 6 of the notes to the financial statements of this report.

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007

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 increase or declines 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 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 is in the process of reviewing its rates in light of necessary improvements and will be proposing an increase to provide the necessary funding for the next five years beginning in 2009/10.

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 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. In addition, the District has reviewed its banking relationship and the security of its operating funds. When the District evaluated different financial institutions to choose a bank, it decided to work 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.

LAS GALLINAS VALLEY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007

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, 2008 AND 2007

ASSETS

	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents		
Cash and cash equivalents, non-restricted	\$ 5,946,930	\$ 4,222,984
Restricted cash	<u>1,795,244</u>	<u>2,886,290</u>
Total cash and cash equivalents	7,742,174	7,109,274
Receivables		
Connection fees	26,377	31,984
User charges	1,112	-
Interest	40,922	73,770
Other	29,221	5,891
Inventory of supplies	135,803	116,266
Prepaid expenses	<u>36,948</u>	<u>49,784</u>
TOTAL CURRENT ASSETS	<u>8,012,557</u>	<u>7,386,969</u>
CAPITAL ASSETS:		
Property, plant and equipment, net of accumulated depreciation	<u>39,767,333</u>	<u>39,964,402</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Bond issuance costs, net of accumulated amortization	133,249	140,899
Bond discount, net of accumulated amortization	63,602	67,254
Connection fees receivable, noncurrent	<u>4,973</u>	<u>34,133</u>
TOTAL OTHER ASSETS	<u>201,824</u>	<u>242,286</u>
TOTAL ASSETS	<u>47,981,714</u>	<u>47,593,657</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF NET ASSETS (CONT.)

JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
CURRENT LIABILITIES:		
Accounts payable	\$ 236,658	\$ 373,436
Accrued payroll	56,932	43,602
Accrued compensated absences	250,575	247,641
Accrued interest payable	31,387	33,144
Deferred connection fees	105,665	153,074
Deferred revenue	855	28,436
Bonds payable, current	<u>370,000</u>	<u>355,000</u>
 TOTAL CURRENT LIABILITIES	 <u>1,052,072</u>	 <u>1,234,333</u>
 NONCURRENT LIABILITIES:		
Bonds payable, long-term	<u>8,930,000</u>	<u>9,300,000</u>
 TOTAL NONCURRENT LIABILITIES	 <u>8,930,000</u>	 <u>9,300,000</u>
 TOTAL LIABILITIES	 <u>9,982,072</u>	 <u>10,534,333</u>
 NET ASSETS:		
Invested in capital assets, net of related debt	32,457,844	33,349,234
Restricted for treatment plant improvements	1,584	54,611
Unrestricted	<u>5,540,214</u>	<u>3,655,479</u>
 TOTAL NET ASSETS	 <u>\$ 37,999,642</u>	 <u>\$ 37,059,324</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Sewer use charges, net of refunds	\$ 4,684,972	\$ 3,937,800
Miscellaneous	<u>61,154</u>	<u>39,599</u>
TOTAL OPERATING REVENUES	<u>4,746,126</u>	<u>3,977,399</u>
OPERATING EXPENSES:		
Sewage collection	683,519	530,907
Sewage treatment	1,000,356	1,118,625
Sewage and solid waste disposal	146,065	120,565
Laboratory and pump stations	340,719	414,313
General and administrative	1,124,839	993,306
Depreciation and amortization	<u>1,694,992</u>	<u>1,526,973</u>
TOTAL OPERATING EXPENSES	<u>4,990,490</u>	<u>4,704,689</u>
LOSS FROM OPERATIONS	<u>(244,364)</u>	<u>(727,290)</u>
NONOPERATING REVENUES:		
Intergovernmental fees	5,083	2,566
Franchise fees	31,000	-
Property taxes	1,176,267	951,123
Interest income	<u>280,072</u>	<u>361,136</u>
TOTAL NONOPERATING REVENUES	<u>1,492,422</u>	<u>1,314,825</u>
NONOPERATING EXPENSES:		
Loss on disposals, net	12,983	-
Interest expense	<u>388,879</u>	<u>403,475</u>
TOTAL NONOPERATING EXPENSES	<u>401,862</u>	<u>403,475</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	846,196	184,060
CAPITAL CONTRIBUTIONS - CONNECTION FEES	43,969	13,199
CAPITAL CONTRIBUTIONS - PROPERTY	<u>50,153</u>	<u>-</u>
INCREASE IN NET ASSETS	940,318	197,259
NET ASSETS - BEGINNING OF YEAR	<u>37,059,324</u>	<u>36,862,065</u>
NET ASSETS - END OF YEAR	<u>\$ 37,999,642</u>	<u>\$ 37,059,324</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 4,673,586	\$ 3,949,830
Cash payments to employees	(1,126,278)	(1,171,069)
Cash payments to suppliers	(2,284,277)	(1,993,246)
Other receipts	<u>44,585</u>	<u>32,699</u>
Net cash provided by operating activities	<u>1,307,616</u>	<u>818,214</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Intergovernmental fees	5,083	2,566
Franchise fees	31,000	-
Property taxes received	<u>1,151,341</u>	<u>951,123</u>
Net cash provided by noncapital financing activities	<u>1,187,424</u>	<u>953,689</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Connection fees collected	31,328	27,292
Acquisition and construction of capital assets	(1,460,753)	(3,002,998)
Principal payments, bonds	<u>(355,000)</u>	<u>(345,000)</u>
Net cash used by capital and related financing activities	<u>(1,784,425)</u>	<u>(3,320,706)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income, net of interest expense	<u>(77,715)</u>	<u>(85,823)</u>
Net cash used by investing activities	<u>(77,715)</u>	<u>(85,823)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	632,900	(1,634,626)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>7,109,274</u>	<u>8,743,900</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 7,742,174</u>	<u>\$ 7,109,274</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF CASH FLOWS (CONT.)

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (244,364)	\$ (727,290)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	1,706,294	1,526,973
Changes in assets and liabilities:		
User charges receivable	4,779	(5,258)
Other receivables	(4,298)	10,387
Inventory of supplies	(19,537)	3,216
Prepaid expenses	12,836	(2,594)
Recognition of deferred water disposal expense	-	10,385
Accounts payable and accrued compensation	(120,513)	(26,041)
Deferred revenue	<u>(27,581)</u>	<u>28,436</u>
Net cash provided by operating activities	<u>\$ 1,307,616</u>	<u>\$ 818,214</u>
 SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets through a contribution	<u>\$ 50,153</u>	<u>\$ -</u>

See accompanying notes.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

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 managing 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:

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting (Cont.)

- 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, mortgages, notes or other borrowings that are 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.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

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

Basis of Accounting (Cont.)

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. 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 interest expense which are not included. All annual appropriations lapse at fiscal year-end.

Inventory of Supplies

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

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

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

Basis of Accounting (Cont.)

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 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 years
Facilities and structures	15 – 40 years
Equipment	5 – 15 years

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 (including floating holidays and personal 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, 2008 AND 2007

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 on behalf of the District. Property taxes are due on the following November 1 and March 1 and become delinquent December 10 and April 10, 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 6).

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, 2008 the District received \$694,865 in property taxes and \$481,402 in ERAF; \$663,281 and \$287,842, respectively for June 30, 2007.

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, 2008 AND 2007

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

New Accounting Pronouncements

In July 2004, 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 will be required to implement the provisions of this Statement for the fiscal year beginning July 1, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the statement of net assets and activities.

In September 2006, GASB issued GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement addresses the accounting for these types of transactions. Implementation is required for periods ending on or after December 31, 2007. 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, 2008 AND 2007

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

New Accounting Pronouncements (Cont.)

In November 2006, GASB issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting for environmental cleanups. Implementation is required for periods beginning after December 15, 2007. The District does not believe there will be any significant financial statement effect related to 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 does not believe there will be a significant financial statement effect related to this Statement.

In November 2007, GASB issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investment by endowments. Implementation is required for periods beginning after June 15, 2008. The District does not believe there will be a significant financial statement effect related to this Statement.

In June 2008, GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement requires governments to measure most derivative instruments at fair value as assets or liabilities in their financial statements. Implementation is required for periods beginning after June 15, 2009. 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, 2008 AND 2007

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2008, 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 and money market savings accounts. Prior to April 2008, the District also invested funds in the Hypo Public Finance Bank which consisted solely of U.S. Treasury and Agency obligations. These balances are the remaining proceeds from the certificates of participation issued during the fiscal year, and as such are restricted in use (see Note 6). 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.

In accordance with the Consolidated Reassessment and Refunding District of 2003 (Note 6) 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, 2008 and 2007 was \$323,766 and \$306,978, respectively, and was maintained by the Marin County Treasurer.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

Cash and cash equivalents at June 30, 2008, consist of the following:

	<u>Reported/ Fair Value</u>
Cash in bank and on hand:	
Petty cash	\$ 645
Wells Fargo Bank	174
Bank of Marin	<u>885,988</u>
Total cash in bank and on hand	<u>886,807</u>
Investments:	
Marin County Treasurer	11,491
Hypo Public Finance Bank	-
Local Agency Investment Fund (LAIF)	<u>6,843,876</u>
Total investments	<u>6,855,367</u>
 Total cash and cash equivalents as of June 30, 2008	 <u><u>\$ 7,742,174</u></u>

Cash and cash equivalents at June 30, 2007, consisted of the following:

	<u>Reported/ Fair Value</u>
Cash in bank and on hand:	
Petty cash	\$ 776
Bank of Marin	<u>309,717</u>
Total cash in bank and on hand	<u>310,493</u>
Investments:	
Marin County Treasurer	850,797
Hypo Public Finance Bank	2,833,824
Local Agency Investment Fund (LAIF)	<u>3,114,160</u>
Total investments	<u>6,798,781</u>
 Total cash and cash equivalents as of June 30, 2007	 <u><u>\$ 7,109,274</u></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.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

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

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

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 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:

		<u>Maturity Date</u>
Marin County Treasurer	\$ 11,491	218 days average
State investment pool	<u>6,843,876</u>	212 days average
	<u>\$ 6,855,367</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. Marin County has a Fitch credit rating of AAA/V1+. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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 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 \$6,843,876 as of June 30, 2008 and \$3,114,161 as of June 30, 2007. There are no derivatives included in the portfolio. Included in LAIF's investment portfolio are asset-backed securities, totaling \$4,188 million and \$1,501 million, as of June 30, 2008 and 2007, respectively and structured notes totaling \$6,113 million and \$774 million, as of June 30, 2008 and

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 3 – CASH AND CASH EQUIVALENTS (CONT.)

Investment in State Investment Pool (Cont.)

2007, 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 – PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment transactions for the year ended June 30, 2008, follows:

	Beginning Balance	Additions	Dispositions/ Transfers	Ending Balance
Land	\$ 2,651,568	\$ 216,003	\$ -	\$ 2,867,571
Subsurface lines	12,563,085	747,730	-	13,310,815
Facilities and equipment				
Sewage collection	19,806,493	49,920	(15,458)	19,840,955
Sewage treatment	22,839,973	352,149	(17,951)	23,174,171
Sewage disposal	8,643,990	103,720	-	8,747,710
General plant/administration	1,074,693	2,616	(96,689)	980,620
Laboratory and pump stations	1,537,359	982,077	-	2,519,436
Construction-in-progress	1,857,846	479,997	(1,423,305)	914,538
Total property, plant and equipment	70,975,007	2,934,212	(1,553,403)	72,355,816
Less:				
Accumulated depreciation	(31,010,605)	(1,694,992)	117,114	(32,588,483)
	\$ 39,964,402	\$ 1,239,220	\$ (1,436,289)	\$ 39,767,333

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT (CONT.)

A summary of property, plant and equipment transactions for the year ended June 30, 2007, follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 1,550,194	\$ 1,101,374	\$ -	\$ 2,651,568
Subsurface lines	12,563,085	-	-	12,563,085
Facilities and equipment				
Sewage collection	19,535,768	270,725	-	19,806,493
Sewage treatment	15,417,334	7,422,639	-	22,839,973
Sewage disposal	8,643,990	-	-	8,643,990
General plant/administration	1,074,691	2	-	1,074,693
Laboratory and pump stations	950,731	586,628	-	1,537,359
Construction-in-progress	8,236,216	1,139,571	(7,517,941)	1,857,846
Total property, plant and equipment	67,972,009	10,520,939	(7,517,941)	70,975,007
Less:				
Accumulated depreciation	(29,494,934)	(1,515,671)	-	(31,010,605)
	\$ 38,477,075	\$ 9,005,268	\$ (7,517,941)	\$ 39,964,402

NOTE 5 – 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, 2008 AND 2007

NOTE 6 – BONDS PAYABLE

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 2008 and 2007. 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, 2008, \$8,412,162 of the net proceeds have been spent on such improvements.

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

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008
Certificates of Participation	\$ 9,655,000	\$ -	\$ (355,000)	\$ 9,300,000

Future minimum payments are summarized as follows:

Fiscal year ending	Principal	Interest	Total
June 30,			
2009	\$ 370,000	\$ 376,125	\$ 746,125
2010	380,000	361,125	741,125
2011	395,000	345,625	740,625
2012	410,000	329,525	739,525
2013	425,000	312,825	737,825
2014 to 2018	2,390,000	1,290,425	3,680,425
2019 to 2023	2,870,000	759,349	3,629,349
Thereafter	2,060,000	137,529	2,197,529
	\$ 9,300,000	\$ 3,912,528	\$ 13,212,528

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 6 – BONDS PAYABLE (CONT.)

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 March 2 and September 2. Maturity dates of each bond range through September 2, 2016. For the years ending June 30, 2008 and 2007, the outstanding principal balance of the bonds was \$1,285,000 and \$1,405,000, respectively.

NOTE 7 – 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 \$37,375 and \$31,380 to the plan for the years ended June 30, 2008 and 2007, 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.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The District was contractually committed to contractors for various projects for approximately \$438,000 as of June 30, 2008 and \$538,000 as of June 30, 2007.

The District performed an internal audit of the sewer service charges for the 2006/07 and 2007/08 fiscal years during 2008. As a result of the audit, the District determined that certain customers were overbilled and others underbilled for their sewer service charge. The overbillings are estimated to be \$46,945, have been accrued as a liability at June 30, 2008 and will be refunded in late 2008. The underbillings are estimated to be \$220,000 and the District is in the process of notifying the affected property owners of the amounts due. A public hearing will be held in December 2008.

NOTE 9 – 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 15.786% for fiscal 2007/08 and 15.989% for fiscal 2006/07. 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.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 9 – PENSION PLAN (CONT.)

Annual Pension Cost

For the years ended June 30, 2008 and 2007, the District’s annual pension cost of approximately \$184,000 and \$201,000, respectively for PERS was equal to the District’s required and actual contributions. The required contribution for fiscal 2007/08 was determined as part of the June 30, 2005 (June 30, 2004 for fiscal 2006/07) 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.

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>
2006	\$ 196,000	100%	-
2007	201,000	100%	-
2008	184,000	100%	-

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 9 – PENSION PLAN (CONT.)

Three-Year Trend Information for PERS

For the 6/30/04 valuation, PERS switched all employers with less than 100 active participants into a pool, as reflected in the following table:

Actuarial Valuation Date	(1) Actuarial Asset Value	(2) Entry Age Actuarial Accrued Liability	(3) Unfunded Liability/ (excess Assets) (2) - (1)	(4) Funded Ratio (1)/(2)	(5) Covered Payroll	(6) Unfunded Actuarial Liability as a % of Covered Payroll ((2) - (1))/(5)
6/30/2005	\$ 729,556,809	\$ 872,346,612	\$ 142,789,803	83.6%	\$ 203,995,039	70.0%
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%

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District pays retiree health insurance benefits to employees who retire directly from employment with the District. As of June 30, 2008, there were 14 retirees eligible to receive up to a maximum of \$471 per month. As of June 30, 2007, there were 13 retirees eligible to receive up to a maximum of \$394 per month. Upon the death of a retiree, a surviving spouse that was married to the retiree at the time of retirement would continue to receive this benefit. During the fiscal years ended June 30, 2008 and 2007, the retiree health benefits cost the District approximately \$49,700 and \$48,900, respectively.

NOTE 11 – 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.

LAS GALLINAS VALLEY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 11 – RISK MANAGEMENT (CONT.)

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:

	2007 <small>(most recent available)</small>	2006
Total assets	\$ 27,922,837	\$ 28,803,485
Total liabilities	<u>13,525,444</u>	<u>14,571,663</u>
Retained earnings	<u>\$ 14,397,393</u>	<u>\$ 14,231,822</u>
Total revenues	\$ 8,144,475	\$ 10,345,559
Total expenditures	<u>7,978,904</u>	<u>8,557,638</u>
Net income	<u>\$ 165,571</u>	<u>\$ 1,787,921</u>

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, 2008 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, on pages 36 and 37 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
November 4, 2008

LAS GALLINAS VALLEY SANITARY DISTRICT

BUDGETARY COMPARISON INFORMATION

YEAR ENDED JUNE 30, 2008

	<u>Original/Final Appropriated Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Sewer use charges	\$ 4,575,300	\$ 4,684,972	\$ 109,672
Miscellaneous	21,500	61,154	39,654
Intergovernmental fees	-	5,083	5,083
Franchise fees	6,000	31,000	25,000
Property taxes	779,910	1,176,267	396,357
Interest income, non bond related	85,000	192,249	107,249
TOTAL REVENUES	<u>5,467,710</u>	<u>6,150,725</u>	<u>683,015</u>
EXPENDITURES:			
Salaries and wages	1,300,500	1,194,404	106,096
Employee benefits	588,100	530,172	57,928
Insurance	83,500	107,546	(24,046)
Repairs and maintenance	234,500	176,756	57,744
Chemicals	115,000	81,659	33,341
Pollution prevention	59,000	26,515	32,485
Laboratory expenses	94,000	89,073	4,927
Pilot projects/monitoring	-	14,387	(14,387)
Small tools	1,500	1,575	(75)
Sludge disposal contract services	77,500	29,304	48,196
Outside services	54,000	84,494	(30,494)
Sewage collection line	40,000	36,561	3,439
Damage claim	11,000	16,402	(5,402)
Reclamation expense	52,000	83,180	(31,180)
Engineering consultants	128,100	164,139	(36,039)
Pump stations	33,000	-	33,000
Main plant	70,000	79,606	(9,606)
Miscellaneous meeting/safety expense	36,000	43,990	(7,990)
Conferences	30,000	22,505	7,495
Vehicle gas, mileage and travel	27,000	45,198	(18,198)
Utilities	91,000	85,477	5,523
Office expense	34,000	31,111	2,889
Election costs	25,287	26,273	(986)
Publications and legal ads	22,000	1,957	20,043
Public education	10,000	16,076	(6,076)
Rents and leases	11,500	13,505	(2,005)

LAS GALLINAS VALLEY SANITARY DISTRICT
BUDGETARY COMPARISON INFORMATION (CONT.)

YEAR ENDED JUNE 30, 2008

	Original/Final Appropriated Budget	Actual	Variance Favorable (Unfavorable)
Property and other taxes	\$ 5,000	\$ 3,632	\$ 1,368
Memberships	22,000	20,248	1,752
Permits, penalties and fines	6,000	15,952	(9,952)
Legal and professional	158,000	191,796	(33,796)
Northbay Watershed Association	6,200	6,219	(19)
Bank charges and collection fees	33,000	32,555	445
Employee recognition	2,500	2,075	425
Employee training	<u>6,000</u>	<u>9,854</u>	<u>(3,854)</u>
 EXPENDITURES DEBT SERVICE	 <u>3,467,187</u>	 <u>3,284,196</u>	 <u>182,991</u>
 SURPLUS BEFORE DEBT SERVICE	 2,000,523	 2,866,529	 866,006
 Interest expense, net of bond interest income	 (306,800)	 (301,056)	 5,744
Bond principal payment	<u>(355,000)</u>	<u>(355,000)</u>	<u>-</u>
 SURPLUS	 <u>\$ 1,338,723</u>	 <u>\$ 2,210,473</u>	 <u>\$ 871,750</u>