

VALLEY SANITARY DISTRICT

ANNUAL AUDIT REPORT

Years Ended June 30, 2011 and 2010

Valley Sanitary District
Annual Audit Report
Years Ended June 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Sanitary District
Indio, California

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Valley Sanitary District, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate remaining fund information of the Valley Sanitary District, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2011 on our consideration of the District's internal control over financial reporting and on our tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying

accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Teaman Ramirez & Smith, Llc.

October 5, 2011

Management's Discussion and Analysis

The management of the Valley Sanitary District, presents a narrative overview of the Valley Sanitary District's financial statements and analysis of the financial activities of the Valley Sanitary District for the fiscal years ending June 30, 2011 and June 30, 2010. We encourage readers to consider the information presented here in conjunction with the audit report.

Financial Highlights

- The assets of the Valley Sanitary District exceeded its liabilities by \$87,301,978 and \$84,635,062 at the close of June 30, 2011 and 2010 respectively. Of this amount, \$37,028,724 and \$33,546,254 as of June 30, 2011 and 2010, respectively, (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$2,666,916 and \$3,036,882 as of June 30, 2011 and June 30, 2010, respectively. Approximately 90% of the increase in total net assets as of June 30, 2011 is derived from net operating income of which approximately 30% is attributable to a one-time infusion of resources from connection fees while approximately 32% of the increase in net assets is derived from nonoperating revenues. Approximately 88% of the increase in total net assets as of June 30, 2010 is derived from net operating income of which approximately 10% is attributable to a one-time infusion of resources from connection fees while approximately 28% of the increase in net assets is derived from nonoperating revenues.
- The Valley Sanitary District's total liabilities decreased by \$563,863 (5 percent) in 2011 and decreased \$383,642 (3 percent) in 2010. The key factors in the decrease in 2011 are due to a \$495,000 payment on the COPS loan and \$97,566 decrease in accrued salaries and related liabilities. The key factors in the decrease in 2010 were due to a \$475,000 payment on the COPS loan and \$50,972 increase in accounts payable.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Valley Sanitary District's basic financial statements. The Valley Sanitary District's basic financial statements comprise two components: 1) Fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The *statement of net assets* presents information on all of the Valley Sanitary District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Valley Sanitary District is improving or deteriorating.

The *statement of revenue, expenses and changes in net assets* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Valley Sanitary District has only business type activities. The business-type activity of the District is the provision of sanitary services to the community.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Valley Sanitary District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The various funds are presented in the accompanying financial statements as a proprietary fund category, enterprise fund type.

Fiduciary Funds. Fiduciary funds, which consist solely of trust and agency funds, are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the *statement of net assets and statement of revenue, expenses, and changes in net assets* because the resources of the fund are *not* available to support the District's own programs. Fiduciary funds are custodial in nature and, therefore, the accounting used does not involve the measurement of the results of operations. The basic fiduciary fund financial statement can be found on page 5 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 6-18 of this report.

The Schedule of Operating Expenses presents the functional expense items by activities and is presented immediately following the notes to the financial statements. The Schedule of Operating Expenses presented as supplementary information can be found on pages 19 and 20 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Valley Sanitary District, assets exceeded liabilities by 87,301,978 and \$84,635,062 as of June 30, 2011 and 2010, respectively.

By far the largest portion of the Valley Sanitary District’s net assets during June 30, 2011 (56 %) and 2010 (59 %) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Valley Sanitary District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Valley Sanitary District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

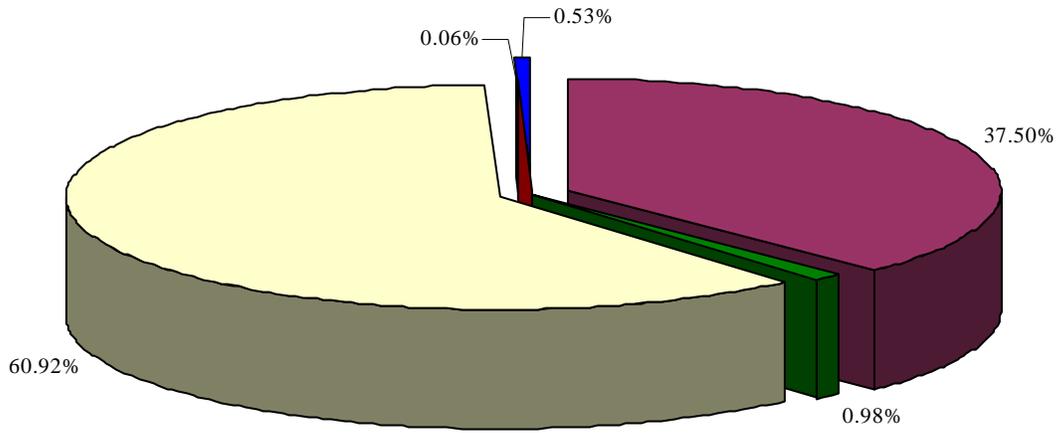
Net assets of the Valley Sanitary District also include \$967,394 of restricted net assets. These are assets representing resources subject to external restrictions as to how they may be used by the District.

VALLEY SANITARY DISTRICT’S NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 37,423,508	\$ 34,003,562	\$ 30,268,727
Noncurrent Assets	<u>61,454,113</u>	<u>62,771,006</u>	<u>63,852,601</u>
Total Assets	<u>\$ 98,877,621</u>	<u>\$ 96,774,568</u>	<u>\$ 94,121,328</u>
Current Liabilities	\$ 923,845	\$ 990,220	\$ 719,919
Noncurrent Liabilities	<u>10,651,798</u>	<u>11,149,286</u>	<u>11,803,229</u>
Total Liabilities	<u>\$ 11,575,643</u>	<u>\$ 12,139,506</u>	<u>\$ 12,523,148</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 49,305,860	\$ 50,121,414	\$ 50,601,844
Restricted	967,394	967,394	1,138,044
Unrestricted	<u>37,028,724</u>	<u>33,546,254</u>	<u>29,858,292</u>
Total Net Assets	<u>\$ 87,301,978</u>	<u>\$ 84,635,062</u>	<u>\$ 81,598,180</u>

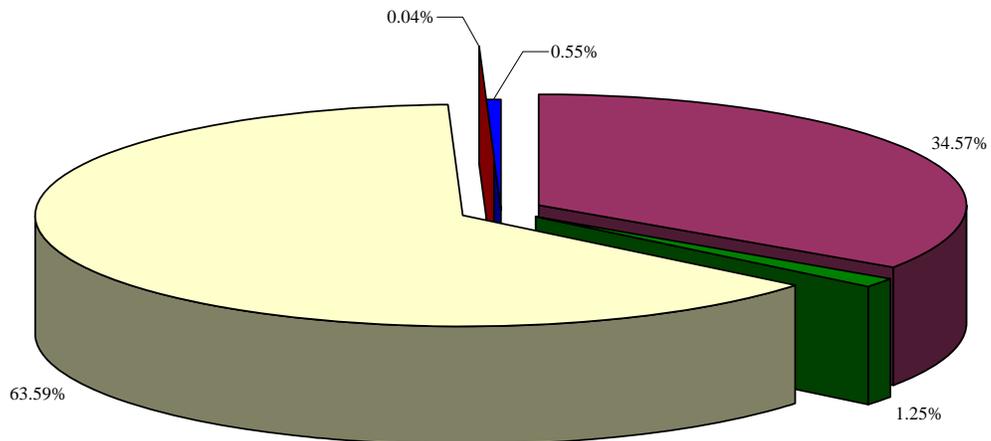
At the end of the current fiscal year, the Valley Sanitary District is able to report positive balances in all three categories of net assets. The same situation held true for the prior two fiscal years.

Assets 2011



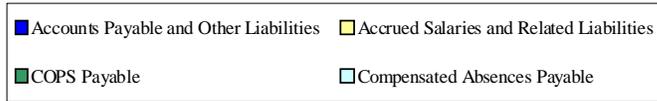
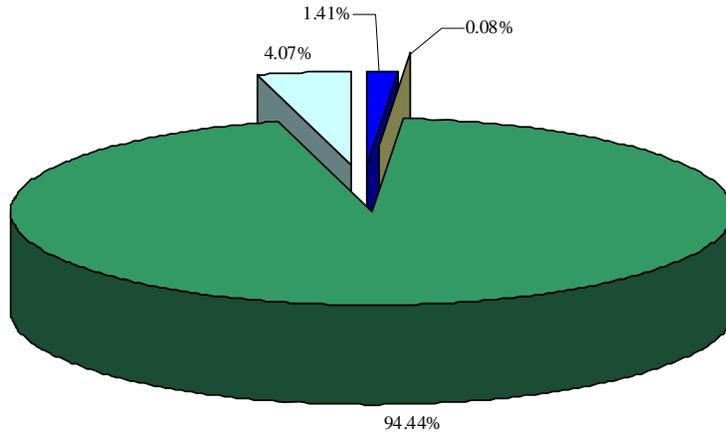
■ Cash and Investments ■ Receivables □ Capital Assets, Net ■ Inventory ■ Prepaid Expenses and Other Assets

Assets 2010

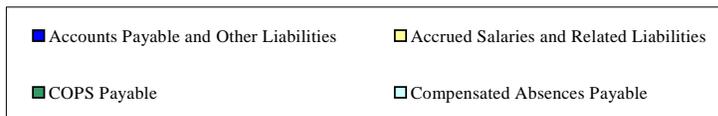
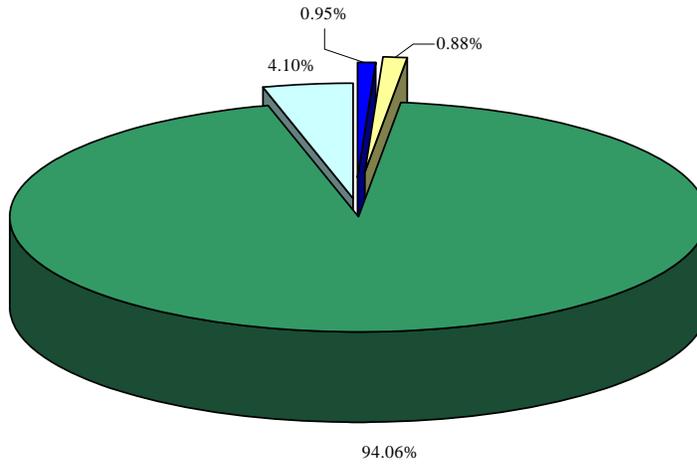


■ Cash and Investments ■ Receivables □ Capital Assets, Net ■ Inventory ■ Prepaid Expenses and Other Assets

Liabilities 2011



Liabilities 2010

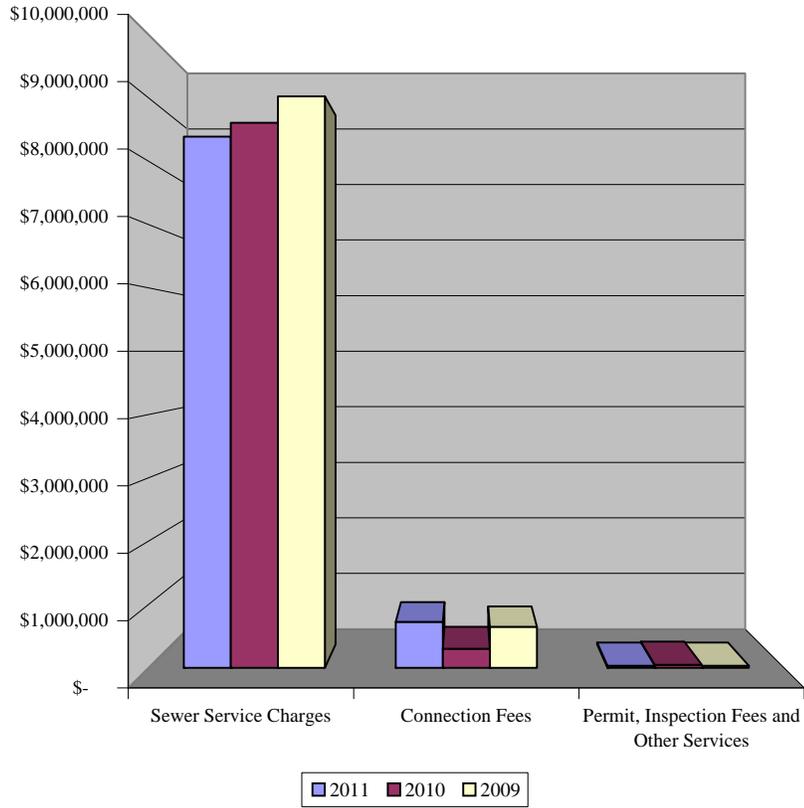


Changes in the District's net assets reflect an increase of \$2,666,916 and \$3,036,882 as of June 30, 2011 and 2010, respectively. Although the District's net assets increased in the current year, the amount of the increase has decreased over the past couple of years. The most significant factor in the decrease is due to the District's total expenses increasing by \$451,132, a 7 percent increase over the prior year. The factors involved in the lower increase in net assets for fiscal year ended June 30, 2010 were due to a reduction in total revenues of \$1,252,132 (11%) consisting of a \$417,025 (33%) reduction in sewer service charges, a \$344,454 (28%) reduction in connection fee income and a \$344,512 (28%) reduction in investment income. In addition, total expenses increased by \$1,554,915 (29%) compared to the prior year. However, expenses associated with the District's operations accounted for only \$423,474 (27%) of the total increase. The most significant factor was due to the increase in depreciation of newly acquired assets.

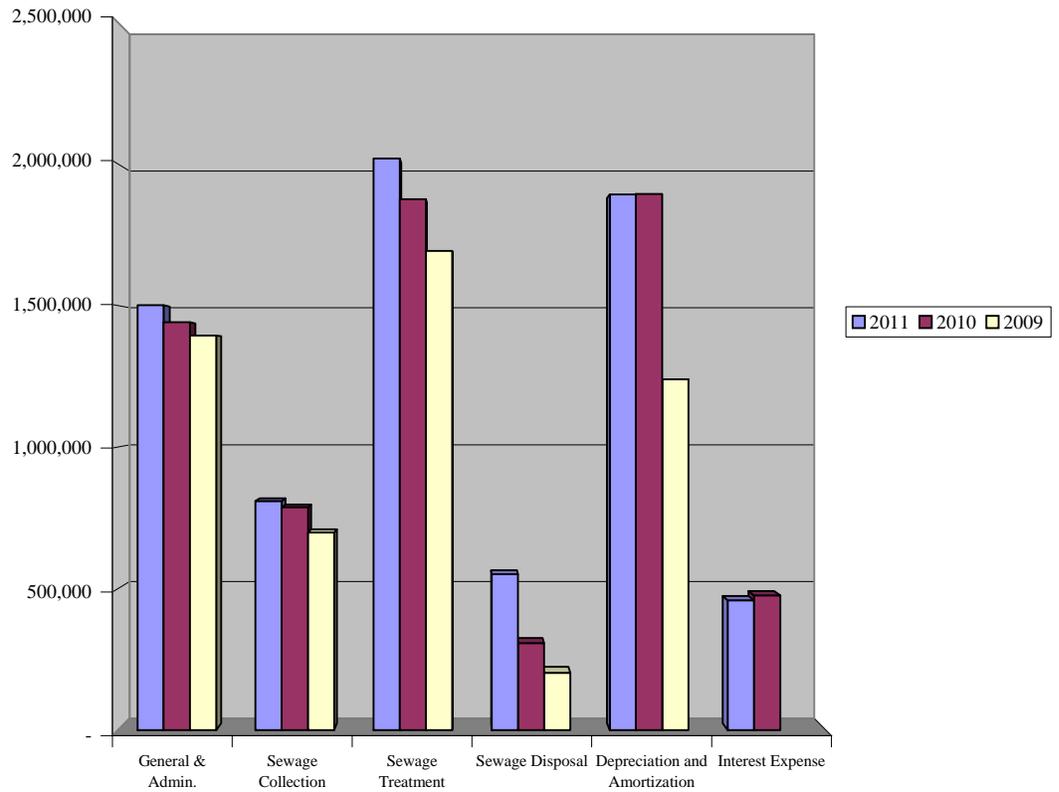
VALLEY SANITARY DISTRICT'S CHANGES IN NET ASSETS

	2011	2010	2009
Revenues:			
Service Charges	\$ 8,385,726	\$ 8,605,117	\$ 9,022,142
Connection Fees	723,985	304,428	648,882
Permits & Inspections	28,544	25,880	24,834
Other Operating	4,726	24,710	10,063
Nonoperating	757,263	858,943	1,365,289
Total Revenues	\$ 9,900,244	\$ 9,819,078	\$ 11,071,210
Expenses:			
Depreciation & Nonoperating	\$ 2,351,300	\$ 2,370,454	\$ 1,239,013
Administrative	1,501,410	1,440,724	1,394,303
Sewage Collection	809,998	788,124	698,225
Sewage Treatment	2,019,251	1,875,514	1,692,546
Sewage Disposal	551,369	307,380	203,194
Total Expenses	\$ 7,233,328	\$ 6,782,196	\$ 5,227,281
Increase in Net Assets	\$ 2,666,916	\$ 3,036,882	\$ 5,843,929
Beginning Net Assets, Restated	84,635,062	81,598,180	75,754,251
Ending Net Assets	\$ 87,301,978	\$ 84,635,062	\$ 81,598,180

Operating Revenues



Operating Expenses



Capital Asset and Debt Administration

Capital assets. The Valley Sanitary District's investment in capital assets as of June 30, 2011 and June 30, 2010 amounts to \$60,238,461 and \$61,540,188 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment. The total decrease in the Valley Sanitary District's investment in capital assets for the current fiscal year was 2%. This decrease is due primarily to depreciation.

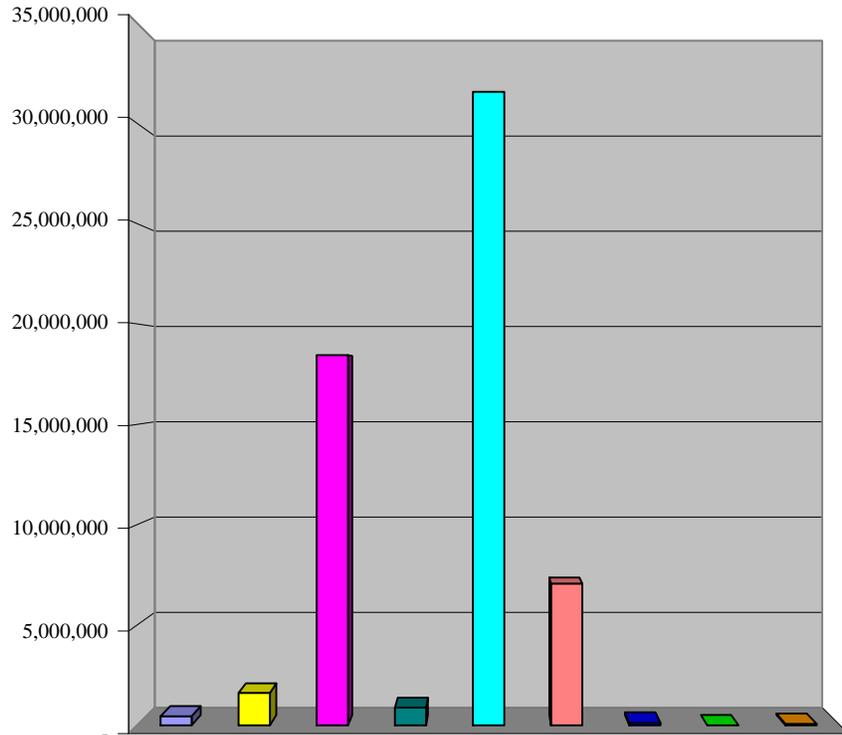
Major capital asset events during the current fiscal year included the following:

- Sewer Relocation by Riverside County on Clinton Street
- Mainline Point Repairs
- Flygt Influent Pump
- 2 Toshiba Frequency Drives for Influent Pumps
- Air Conditioner for Influent Pump Frequency Drive
- Manhole Frames and Covers
- Particulate Trap for Vactor Truck

VALLEY SANITARY DISTRICT'S CAPITAL ASSETS Net of Accumulated Depreciation

	June 30, 2011	June 30, 2010	June 30, 2009
Land	\$ 448,364	\$ 448,364	\$ 448,364
Construction in Progress	1,622,137	1,299,444	862,138
Subsurface	18,438,811	18,773,375	19,107,939
Collection Facilities	891,259	941,954	1,005,238
Treatment Facilities	31,563,335	32,589,187	33,598,457
Disposal Facilities	7,065,140	7,238,914	7,190,801
General Plant	135,666	168,260	185,157
Laboratory Facilities	4,880	7,328	10,179
Admin Facilities	68,869	73,362	78,518
Total	<u>\$ 60,238,461</u>	<u>\$ 61,540,188</u>	<u>\$ 62,486,791</u>

Capital Assets-Net



■ Land	■ Construction in progress	■ Subsurface	■ Collection Facilities	■ Treatment Facilities
■ Disposal Facilities	■ General Plant	■ Laboratory Facilities	■ Admin Facilities	

Additional information on the Valley Sanitary District’s capital assets can be found in note 6 on page 14 of this report.

Long-term Debt. At the end of June 30, 2011 and 2010, the District had total long-term debt of \$10,651,798 and \$11,149,286 which includes \$224,197 and \$225,512 of compensated absences respectively. The debt was incurred to help fund Phase I of the District’s Treatment Plan expansion and renovation. The term of the certificate runs through 2027 and has a variable rate of interest. Repayment of the debt is funded through the combination of sewer use fees and connection capacity fees of the District.

VALLEY SANITARY DISTRICT’S OUTSTANDING DEBT

	2011	2010
Certificates of Participation	\$ 11,065,000	\$ 11,560,000
Total	\$ 11,065,000	\$ 11,560,000

The District’s total debt decreased \$495,000 as a result of a \$495,000 principal payment during the June 30, 2011 fiscal year. During 2009/2010 the District’s total debt decreased by \$475,000 as a result of a \$475,000 principal payment during the fiscal year.

Additional information on the Valley Sanitary District’s long-term debt can be found in note 6 on pages 14 and 16 of this report.

Economic Factors and Next Year's Budgets and Rates

Residential Development within the District's service area has experienced a decline in recent years due to the overall economic downturn that has been and continues to be experienced throughout Southern California as well as most of the nation. However, the District experienced some increase in Commercial Development during the 2010/2011 fiscal year. To take advantage of lower construction costs, the District is beginning a major treatment plant facilities upgrade during the 2011/2012 fiscal year. However, it has scaled back the expansion portion of the project in anticipation that the limited growth within its service area will not demand additional capacity until development resumes.

The annual base unit of service sewer use fee will remain at the current rate of \$259 per year for the fiscal year 2011/2012. The connection capacity charge will also remain at its current rate of \$3,957 per unit of service for the 2011/2012 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Valley Sanitary District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, Valley Sanitary District, 45500 Van Buren Street, Indio, California, 92201.

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Valley Sanitary District
Statements of Net Assets
June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 36,114,922	\$ 32,488,099
Accounts Receivable - Net of Allowance for Uncollectibles	874,956	1,112,771
Interest Receivable	39,168	40,321
Inventory of Materials	61,755	39,825
Note Receivable - Current	2,027	3,570
Prepaid Expenses	330,680	318,976
TOTAL CURRENT ASSETS	37,423,508	34,003,562
NONCURRENT ASSETS		
Restricted: Cash with Fiscal Agent	967,394	967,394
Accounts Receivable - State Prop 1A	51,177	51,177
Capital Assets Not being Depreciated		
Land	448,364	448,364
Construction in Progress	1,622,137	1,299,444
Capital Assets, Net of Accumulated Depreciation	58,167,960	59,792,380
Note Receivable - Long-Term		2,027
Bond Issue Costs, Net of Accumulated Amortization	197,081	210,220
TOTAL NONCURRENT ASSETS	61,454,113	62,771,006
TOTAL ASSETS	98,877,621	96,774,568
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	162,695	115,435
Accrued Salaries and Related Liabilities	9,641	107,207
Deposits		
Compensated Absences Payable	246,509	272,578
Certificates of Participation	505,000	495,000
TOTAL CURRENT LIABILITIES	923,845	990,220
LONG-TERM LIABILITIES		
Compensated Absences Payable	224,197	225,512
Certificates of Participation	10,427,601	10,923,774
TOTAL LONG-TERM LIABILITIES	10,651,798	11,149,286
TOTAL LIABILITIES	11,575,643	12,139,506
NET ASSETS		
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	49,305,860	50,121,414
Restricted for Debt Service	967,394	967,394
Unrestricted	37,028,724	33,546,254
TOTAL NET ASSETS	\$ 87,301,978	\$ 84,635,062

The accompanying notes are an integral part of these statements.

Valley Sanitary District
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Sewer Service Charges	\$ 8,385,726	\$ 8,605,117
Connection Fees	723,985	304,428
Permit and Inspection Fees	28,544	25,880
Other Services	<u>4,726</u>	<u>24,710</u>
TOTAL OPERATING REVENUES	<u>9,142,981</u>	<u>8,960,135</u>
OPERATING EXPENSES		
Administrative and Plant		
General and Administrative	1,501,410	1,440,724
Sewage Collection	809,998	788,124
Sewage Treatment	2,019,251	1,875,514
Sewage Disposal	<u>551,369</u>	<u>307,380</u>
Total Administrative and Plant	<u>4,882,028</u>	<u>4,411,742</u>
Other Operating Expenses		
Depreciation	<u>1,870,504</u>	<u>1,870,268</u>
Total Other Operating Expenses	<u>1,870,504</u>	<u>1,870,268</u>
TOTAL OPERATING EXPENSES	<u>6,752,532</u>	<u>6,282,010</u>
NET OPERATING INCOME (LOSS)	<u>2,390,449</u>	<u>2,678,125</u>
NONOPERATING REVENUES (EXPENSES)		
Property Taxes	585,628	662,348
Homeowners' Tax Relief	7,183	7,268
Investment Income	154,896	183,210
Interest Expense	(458,830)	(476,411)
Amortization	(21,966)	(21,966)
Loss on Disposed Assets		(1,809)
Other Revenues	<u>9,556</u>	<u>6,117</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>276,467</u>	<u>358,757</u>
CHANGE IN NET ASSETS	2,666,916	3,036,882
NET ASSETS AT BEGINNING OF YEAR	<u>84,635,062</u>	<u>81,598,180</u>
NET ASSETS AT END OF YEAR	<u>\$ 87,301,978</u>	<u>\$ 84,635,062</u>

The accompanying notes are an integral part of these statements.

Valley Sanitary District
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts From Customers	\$ 9,382,463	\$ 9,213,841
Cash Payments to Suppliers for Goods and Services	(3,051,032)	(2,894,368)
Cash Payments to Employees for Services	(1,942,334)	(1,750,268)
	4,389,097	4,569,205
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Tax Revenues	585,628	662,348
Homeowners' Tax Relief Revenues	7,182	7,268
(Increase) Decrease in Taxes Receivable	1,918	(65,591)
Other Nonoperating Revenues	9,556	6,117
	604,284	610,142
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(568,777)	(931,832)
Proceeds from Sale of Capital Assets		6,358
Principal Paid on Certificates of Participation Payable	(495,000)	(475,000)
Interest Paid on Certificates of Participation	(458,830)	(476,411)
	(1,522,607)	(1,876,885)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	156,049	240,804
	156,049	240,804
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,626,823	3,543,266
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	33,455,493	29,912,227
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 37,082,316	\$ 33,455,493
Cash and Cash Equivalents are reported on the Statement of Net Assets as follows:		
Cash and Investments	\$ 36,114,922	\$ 32,488,099
Restricted: Cash with Fiscal Agent	967,394	967,394
	\$ 37,082,316	\$ 33,455,493

The accompanying notes are an integral part of these statements.

Valley Sanitary District
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Net Operating Income	<u>\$ 2,390,449</u>	<u>\$ 2,678,125</u>
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,870,504	1,870,268
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(27,457)	149,381
(Increase) Decrease in Sewer Charges Receivable	263,354	108,400
(Increase) Decrease in Inventory of Materials	(21,930)	(5,099)
(Increase) Decrease in Note Receivable	3,570	2,380
(Increase) Decrease in Miscellaneous Receivable	15	695
(Increase) Decrease in Prepaid Expenses	(11,718)	(317,474)
Increase (Decrease) in Accounts Payable	47,260	50,972
Increase (Decrease) in Accrued Salaries and Related Liabilities	(97,566)	41,545
Increase (Decrease) in Deposits		(7,150)
Increase (Decrease) in Compensated Absences Payable	<u>(27,384)</u>	<u>(2,838)</u>
Total Adjustments	<u>1,998,648</u>	<u>1,891,080</u>
Net Cash Provided by Operating Activities	<u><u>\$ 4,389,097</u></u>	<u><u>\$ 4,569,205</u></u>
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Amortization of Bond Issuance Cost and Discount	\$ 21,966	\$ 21,966

The accompanying notes are an integral part of these statements.

Valley Sanitary District
Statements of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2011 and 2010

	2011	2010
ASSETS		
Cash and Investments	\$ 310,549	\$ 271,149
Cash with Fiscal Agent	634,315	725,130
Assessments Receivable	109,400	49,642
Interest Receivable	356	358
Total Assets	\$ 1,054,620	\$ 1,046,279
LIABILITIES		
Due to Bondholders	\$ 1,054,620	\$ 1,046,279
Total Liabilities	\$ 1,054,620	\$ 1,046,279

The accompanying notes are an integral part of this statement.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

<u>NOTES</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Valley Sanitary District was formed June 1, 1925 under the Health and Safety Code, Sanitary District Act of 1923, Secs. 6400 Et. Seq., for the purpose of operation and maintenance of sewer collection, transmission and treatment facilities serving a population of approximately 77,000 in the City of Indio and adjacent unincorporated areas of Riverside County.

The financial statements of the District include the financial activities of the District and Valley Sanitary District Wastewater Facilities Corporation. In accordance with GASB Statement No. 14, the basic criteria for including an agency, institution, authority or other organization in a governmental unit's financial reporting entity is financial accountability. Financial accountability includes, but is not limited to: 1) selection of the governing body, 2) imposition of will, 3) ability to provide a financial benefit to or impose financial burden on and 4) fiscal dependency.

There may, however, be factors other than financial accountability that are so significant that exclusion of a particular agency from a reporting entity's financial statements would be misleading. These other factors include scope of public service and special financing relationships.

Based upon the application of these criteria, an agency, institution or authority may be included as a component unit in the primary government's financial statements. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. A discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the government. There are no discretely presented component units in these financial statements. Each blended component unit presented has a June 30 year end. The following is a brief review of each component unit included in the primary government's reporting entity.

Valley Sanitary District Wastewater Facilities Corporation (Corporation) was activated in 2006 by the District. The Corporation was organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California, being Part 2 of Division 2 of Title 1 of the California Corporation Code. It was formed for the purpose of providing financial assistance to the District by acquiring, constructing, improving and developing certain real and personal property, together with appurtenances and appurtenant work for the use, benefit and enjoyment of the public. The District's Board of Directors sits as the Corporation's Board of Directors. The Corporation's activities are blended with those of the District in these financial statements. There was no activity in the Corporation until the fiscal year 2007-08. Separate financial statements of the Corporation are not issued.

District officers are as follows:

<u>Name</u>	<u>Title</u>
William R. Teague	President
Richard Friestad	Vice President
Merritt Wiseman	Secretary/Treasurer
Mike Duran	Director
Doug York	Director

The Board of Directors meets the second and fourth Tuesday of each month.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Uniform Accounting System

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. This system permits separate accounting for each established fund for purposes of complying with applicable legal provisions, Board of Director's ordinances and resolutions and other requirements. Also, the accounts have been maintained in accordance with the California State Controller's uniform system of accounts.

C) Basis of Accounting, Measurement Focus and Financial Statement Presentation

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. For financial reporting purposes, all of the funds of the District have been consolidated after elimination of significant interfund accounts and transactions. 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.

Additionally, the District reports an *Agency Fund* which is used to account for assets held by the District as an agent for property owners.

An enterprise fund is accounted for on the flow of economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with the activity are included on the statement of net assets. Fund equity is displayed as three components: (1) Invested in capital assets, net of related debt, which reflects the cost of capital assets less accumulated depreciation and less the outstanding principal of related debt not associated with unspent bond proceeds; (2) Restricted, which reflects the carrying value of assets less related liabilities that are restricted by outside covenants or by law; and (3) Unrestricted, which represents the remaining fund equity balance.

The District distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by wastewater services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of wastewater treatment services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then use unrestricted resources as they are needed.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Use of Estimates

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

E) Capital Assets

Capital assets, which include land, structures, equipment, etc, are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Assets purchased in excess of \$5,000 are capitalized if they have an expected useful life of 1 year or more. Major capital outlay for capital assets and improvements are capitalized as projects are constructed. For debt-financed capital assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed. Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the Statement of Net Assets.

The estimated useful lives are as follows:

Subsurface Lines	40 Years
General Plant	10 - 40 Years
Equipment	5 - 10 Years
Collection, Treatment and Disposal Facilities	10 - 40 Years

F) Budgetary Accounting

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

G) Cash and Investments

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of change in value because of changes in interest rates. Investments purchased within three months of original maturity are considered to be cash equivalents.

Investments are reported at fair value. Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

H) Uncollectible Accounts

Uncollectible accounts are determined by the allowance method, based upon prior experience and management's assessment of the collectibility of existing specific accounts.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I) Inventories

Inventories are priced using the lower of cost or market method, determined on a first-in, first-out basis. Inventories consist of expendable supplies, spare parts and fittings.

J) Reclassifications

Certain amounts in the prior fiscal year have been reclassified to conform with the current year financial statement presentation.

K) Restricted Assets

Certain proceeds of the District's long-term debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by bond covenants.

2) PROPERTY TAX CALENDAR

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 01	
Levy Date	July 01	
Due Date	November 01	- 1st Installment
	February 01	- 2nd Installment
Delinquent Date	December 10	- 1st Installment
	April 10	- 2nd Installment

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities and districts based on complex formulas prescribed by the state statutes.

3) CASH AND INVESTMENTS

Cash and Investments are classified in the accompanying financial statements as follows:

	<u>2011</u>	<u>2010</u>
Statements of Net Assets:		
Cash and Investments	\$ 36,114,922	\$ 32,488,099
Cash with Fiscal Agent	967,394	967,394
Statements of Fiduciary Assets and Liabilities		
Cash and Investments	310,549	271,149
Cash with Fiscal Agent	<u>634,315</u>	<u>725,130</u>
 Total Cash and Investments	 <u>\$ 38,027,180</u>	 <u>\$ 34,451,772</u>

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

3) CASH AND INVESTMENTS - Continued

Cash and investments consist of the following:

	2011	2010
Cash on Hand	\$ 500	\$ 500
Deposits with Financial Institutions	1,913,420	1,900,991
Investments	36,113,260	32,550,281
Total Cash and Investments	\$ 38,027,180	\$ 34,451,772

Investments Authorized by the California Government Code and the District's Investment Policy

Idle cash is authorized under the District's Investment Policy to be invested in the Local Agency Investment Fund. Fiscal agent investments are governed by the trust indenture and are not subject to the California Government Code or District Policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2011, the District had the following investments.

		Maturity Date 12 Month or Less
State Investment Pool	\$ 34,511,551	\$ 34,511,551
Held by Bond Trustee:		
Money Market Fund	1,601,709	1,601,709
Total	\$ 36,113,260	\$ 36,113,260

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

3) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk - Continued

Investment Type		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				Aaa	Aa	Not Rated
State Investment Pool Held by Bond Trustee:	\$ 34,511,551	N/A	\$	\$	\$	\$ 34,511,551
Money Market Fund	<u>1,601,709</u>	N/A		<u>1,601,709</u>		
Total	<u>\$ 36,113,260</u>		<u>\$ -</u>	<u>\$ 1,601,709</u>	<u>\$ -</u>	<u>\$ 34,511,551</u>

Concentration of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 Entity'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 government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California 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.

The collateral for certificates of Deposit is generally held in safekeeping by the Federal Home Loan Bank in San Francisco as the third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintain detailed records of the security pool which are coordinated and updated weekly.

The Agency Treasurer, at his or her discretion, may waive the 100% collateral requirement for deposits which are insured up to \$250,000 by the FDIC. As of June 30, 2011, the District did not have any deposits with financial institutions in excess of federal depository insurance limits and held in uncollateralized accounts.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

3) CASH AND INVESTMENTS - Continued

Custodial Credit Risk - Continued

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 investments. With respect to investments, custodial credit risk generally applies only to direct investments 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).

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon 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 balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The yield of LAIF for the quarter ended June 30, 2011 was .48%. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2011 was \$66,384,617,119 and \$66,489,270,508, respectively. The District's share of the Pool at June 30, 2011 was approximately 0.0005 percent.

Each government agency may invest up to \$50,000,000 in the Fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments in LAIF are secured by the full faith and credit of the State of California. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes and asset-backed securities totaling \$1,100,000,000 and \$2,221,706,000. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

Cash with Fiscal Agent

Cash and investments held and invested by fiscal agents on behalf of the District are pledged for payment or security of certain long-term debt issuances. Fiscal agents are mandated by bond indentures as to the types of investments in which debt proceeds can be invested.

4) ACCOUNTS RECEIVABLE

Accounts receivable primarily consist of sewer use fees - direct billings, connection fees, and reimbursements as well as the District's allocation of property taxes and sewer use charges collected but not remitted by the Riverside County. As of June 30, 2011 and 2010, direct billings, connection fees and reimbursements receivable were \$296,249 and \$268,901 with an allowance for uncollectibles of \$13,524 and \$13,367, respectively, while receivables from the Riverside County were \$592,231 and \$857,503, respectively.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

5) CAPITAL ASSETS

Activities relating to capital assets are presented as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
Capital Assets, Not Depreciated				
Land	\$ 448,364	\$	\$	\$ 448,364
Construction in Progress	1,299,444	344,606	21,913	1,622,137
Total Capital Assets Not Depreciated	1,747,808	344,606	21,913	2,070,501
Capital Assets, Being Depreciated				
Subsurface	20,459,776			20,459,776
Sewage Collection Facilities	2,638,426	165,762		2,804,188
Wastewater Treatment Facilities	39,305,514	80,322		39,385,836
Sludge Disposal Facilities	8,166,998			8,166,998
General Plant Facilities	1,089,138			1,089,138
Laboratory Facilities	67,171			67,171
Administration Facilities	317,220			317,220
Total Capital Assets Being Depreciated	72,044,243	246,084	-	72,290,327
Less Accumulated Depreciation:				
Subsurface	1,686,401	334,564		2,020,965
Sewage Collection Facilities	1,696,472	216,457		1,912,929
Wastewater Treatment Facilities	6,716,327	1,106,174		7,822,501
Sludge Disposal Facilities	928,084	173,774		1,101,858
General Plant Facilities	920,878	32,594		953,472
Laboratory Facilities	59,843	2,448		62,291
Administration Facilities	243,858	4,493		248,351
Total Accumulated Depreciation	12,251,863	1,870,504	-	14,122,367
Total Capital Assets Being Depreciated, Net	59,792,380	(1,624,420)	-	58,167,960
Total Capital Assets, Net	\$ 61,540,188	\$ (1,279,814)	\$ 21,913	\$ 60,238,461

6) LONG-TERM LIABILITIES

Long-term liability activities for the year ended June 30, 2011, are as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year	Due Within One Year
Certificates of Participation	\$ 11,560,000	\$	\$ 495,000	\$ 11,065,000	\$ 505,000
Unamortized Discount	(141,226)		(8,827)	(132,399)	
Compensated Absences	498,090	245,194	272,578	470,706	246,509
Total	\$ 11,916,864	\$ 245,194	\$ 758,751	\$ 11,403,307	\$ 751,509

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

6) LONG-TERM LIABILITIES - Continued

A) Certificates of Participation (COPs)

On August 15, 2006 the District issued \$12,915,000 Certificates of Participation to help fund Phase I of the District's treatment plant expansion. Interest ranging from 3.50% to 4.375% is payable semi-annually on February 1st and August 1st commencing February 1, 2007. The Bonds mature August 1st commencing August 1, 2007 and continuing through 2026 with optional annual call dates beginning August 1, 2016.

A reserve fund has been established under the trust agreement to be held by the Trustee to further secure the timely payment of principal and interest on the certificates. The amount initially deposited in the reserve fund was \$964,900, an amount which is the lesser of (i) 10% of the issue price, (ii) 125% of the average annual amount of installment payments, or (iii) maximum annual installment payments (the "Reserve Requirement"). Information regarding the current reserve is as follows:

Requirement: \$964,900 Actual: \$964,900

Future debt service requirements for the certificates are as follows:

<u>For the Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 505,000	\$ 440,706
2013	525,000	422,037
2014	550,000	402,552
2015	570,000	381,896
2016	590,000	360,146
2017-2021	3,325,000	1,424,965
2022-2026	4,080,000	653,509
2027	920,000	20,125
	<u>\$ 11,065,000</u>	<u>\$ 4,105,936</u>

B) Bond Issue and Underwriting Costs

The bond issue costs and underwriters discount associated with the outstanding bonds issue are being amortized on a straight line basis over the life of the bonds.

Issuance costs and underwriters discount associated with the 2006 Certificates of Participation was \$439,308 and is being amortized over 20 years, at an amount of \$21,966 per year.

C) Compensated Absences Payable

Pursuant to GASB Statement 16, the accompanying financial statements present vacation and sick benefits due employees at year end.

District policy permits its employees to accumulate not more than one and one half of their current annual vacation. Employees are compensated 12 days of sick leave per year not to exceed 120 days. The combined unused vacation and sick pay will be paid to the employee or his beneficiary upon leaving the District's employment. The amount due will be

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

6) LONG-TERM LIABILITIES - Continued

C) Compensated Absences Payable - Continued

determined using salary/wage rates in effect at the time of separation. Based on management's estimates, the total amount to be paid during the fiscal year ending June 30, 2012 will be \$246,509 with the remaining amount of \$224,197 to be paid in subsequent periods.

D) Limited Obligation Improvement Bonds

On July 21, 2005, the District issued \$8,848,000 limited obligation improvement bonds, Series 2005 for Assessment District No. 2004-VSD (Shadow Hills Interceptor). Interest ranging from 3.05% to 5.20% is payable semi-annually on March 2nd and September 2nd each year commencing March 2, 2006. The Bonds mature September 2nd commencing September 2, 2007 and continuing through 2030 with optional call dates beginning September 2, 2015.

The Bonds are limited obligations of the District payable solely from the installments of unpaid assessments levied on the assessment parcels within the District and other funds pledged under the fiscal agent agreement. The District shall only be obligated to pay the principal of the Bonds, or the interest thereon, from funds described in the Indenture and neither the faith and credit nor the taxing power of the District, the State of California or any of its political subdivisions is pledged to the payment of principal or the interest on the Bonds. Therefore none of the limited obligation improvement bonds have been included in the accompanying financial statements. As of June 30, 2011, there were outstanding bonds of \$7,840,000.

7) PENSION PLANS

A) Defined Contribution Pension Plan

Effective January 1, 1993, the District established a new employee money purchase pension plan and trust. This plan is a defined contribution plan. Employees who were employed by the District prior to January 1, 1999 are eligible to participate in the plan provided they are at least 18 years of age and have completed six (6) months of service in which the employee is credited with five hundred (500) hours of service. As of January 1, 1999, no new employees will be enrolled in the plan. Employees who are employed by the District after January 1, 1999 shall be enrolled with the Public Employees Retirement System (PERS). The District contributes 15.757 percent of the employees' compensation to the Plan - \$27,235 for the year ended June 30, 2011. Participants are vested in the value arising from District contributions beginning the second year of service at a rate of 25% and an additional 25% for each subsequent full year of service until fully vested. The plan provides for the accumulation of contributions and earnings and the distribution of such funds at retirement, death or other termination of employment. The plan assets are invested in various mutual funds by Nationwide Life Insurance Company with a fair value of \$381,370 at June 30, 2011. The total covered payroll for the 3 employees participating in the plan for the year ended June 30, 2011 was \$172,844.

B) District Employees' Retirement Plan (Defined Benefit Pension Plan)

The Valley Sanitary District contributes to the California Public Employees Retirement System (PERS), a cost-sharing 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

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

7) PENSION PLANS - Continued

C) District Employees' Retirement Plan (Defined Benefit Pension Plan) – Continued

provisions and all other requirements are established by State statute and District ordinance. Copies of the PERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Participants are required to contribute 8% of their annual covered salary. The District is required to contribute at an actuarially determined rate. These rates were determined as part of the June 30, 2008 actuarial valuation: the current rate is 16.478% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS. The following represents the required contributions for the past three fiscal years:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
6/30/09	222,118	100%
6/30/10	235,458	100%
6/30/11	251,417	100%

8) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Premiums are paid annually by the District. For the fiscal year ended June 30, 2011, the District paid \$314,847 in premiums.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2011 and 2010, there were no liabilities to be reported.

During the past three fiscal years there have been no settlements or judgments that exceeded insured coverage. There have been no significant reductions in insured liability coverage from coverage in the prior year.

9) COMMITMENTS AND CONTINGENCIES

Indio Terrace Assessment District No. 2

In 1965, the District received proceeds from the sale of bonds from Indio Terrace Assessment District No. 2. Under the covenants of this assessment district, as parcels within Indio Terrace are developed and connected to the District's system, the Valley Sanitary District is required to allow credits toward connection fees that are paid by the individual developers. As of June 30, 2011, the total amount of unused credits was \$41,595. Estimated future revenue from connection fees based upon the current fee in effect is approximately \$162,000. Since no development occurred in the Indio Terrace Assessment District during the year, no connections fee income was reduced by these credits for the year ended June 30, 2011.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2011 and 2010

9) COMMITMENTS AND CONTINGENCIES - Continued

Reimbursement Agreement

On October 27, 1999 the District entered into an agreement with a developer to reimburse the developer for the “excess portion” of off-site improvements. The developer will install improvements that exceed the needs of their project so that when future development occurs, the improvements installed now will not need to be replaced. Since the additional cost of the oversized improvements should be borne by the future developments rather than the current developer, this agreement establishes a method whereby a “Capital Recovery Fee” will be collected from the benefited properties at the time new sewer service is requested (future developers complete their projects). This “Capital Recovery Fee” will be remitted to the developer as it is collected to reimburse the additional cost plus interest.

The term of the agreement is for 20 years from the date of the agreement. If sewer service is not requested by a development parcel in the benefited area by October 27, 2019 then the obligation of the District to collect the “Capital Recovery Fee” and the claim by the developer for reimbursement shall lapse.

The “excess portion” of off-site improvements (amount to be reimbursed) was determined to be \$494,174 of which \$203,780 has been collected and reimbursed through June 30, 2011.

Shadow Hills Assessment District

In September 1994, the District authorized oversize credits of \$343,403 against capital impact fees for developments occurring within Assessment District 90-1 that are benefiting from the sewer trunk line improvements installed in 1993. As of June 30, 2011, credits of \$204,341 have been applied leaving a balance of \$139,062 to be issued.

At June 30, 2011, in the opinion of the District's Administration, there are no other outstanding matters which could have a significant effect on the financial position of the funds of the District.

10) PROPOSITION 1A STATE BORROWING

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California State legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$51,177 and is included as a receivable in the accompanying financial statements.

11) SUBSEQUENT EVENT

On September 13, 2011, the District awarded an \$18 million construction contract for the second phase of the treatment plant expansion, a new operations building, and rehabilitation of the administration building.

SUPPLEMENTARY INFORMATION

Valley Sanitary District
Schedule of Operating Expenses
Year Ended June 30, 2011

	General and Administrative	Sewage Collection	Sewage Treatment	Sewage Disposal	Total
Salaries and Wages	\$ 532,464	\$ 481,949	\$ 683,590	\$ 119,381	\$ 1,817,384
Employee Benefits	224,748	207,602	299,410	44,880	776,640
Directors' Fees	12,400				12,400
Insurance	314,874				314,874
Memberships	23,760	792	1,408	264	26,224
Office Expenses	13,490				13,490
Permits	5,037	6,579	66,061		77,677
Operating Supplies	39,333	3,444	5,046	40,822	88,645
Professional Services	91,077	1,181			92,258
Repairs and Maintenance	50,256	46,764	72,940	11,154	181,114
Travel and Seminars	14,090	2,479	12,783	648	30,000
Utilities and Telephone	41,258	8,196	510,418	54,731	614,603
Chemicals			225,257		225,257
Clothing	2,110	3,933	6,269	1,444	13,756
Certifications	464	719	1,361	130	2,674
Gas, Oil and Fuel	34,928				34,928
County Charges	15,803				15,803
Contractual Services	34,414	45,179	132,129	276,998	488,720
Publication/Legal Notices	1,481				1,481
Small Tools	625	373	1,407	640	3,045
Research/Monitoring	47,022				47,022
Election					-
Other Expenses	1,776	808	1,172	277	4,033
Total	\$ 1,501,410	\$ 809,998	\$ 2,019,251	\$ 551,369	\$ 4,882,028

The above detail does not include depreciation expense of \$1,870,504 which is stated as a separate line in the Statements of Revenues, Expenses and Changes in Net Assets.

Valley Sanitary District
Schedule of Operating Expenses
Year Ended June 30, 2010

	General and Administrative	Sewage Collection	Sewage Treatment	Sewage Disposal	Total
Salaries and Wages	\$ 548,723	\$ 484,753	\$ 631,357	\$ 124,141	\$ 1,788,974
Employee Benefits	194,220	180,867	254,556	42,749	672,392
Directors' Fees	11,500				11,500
Insurance	317,283				317,283
Memberships	23,949	924	1,200	132	26,205
Office Expenses	14,353				14,353
Permits	3,215	6,579	29,613		39,407
Operating Supplies	32,799	2,673	6,159	26,641	68,272
Professional Services	68,206	1,750			69,956
Repairs and Maintenance	46,139	53,301	63,721	14,857	178,018
Travel and Seminars	14,532	1,300	10,097	195	26,124
Utilities and Telephone	48,749	8,450	547,177	40,639	645,015
Chemicals			212,257		212,257
Clothing	1,631	3,726	6,584	1,199	13,140
Certifications	145	495	1,113		1,753
Gas, Oil and Fuel	33,839				33,839
County Charges	12,140				12,140
Contractual Services	16,069	41,780	109,104	56,031	222,984
Publication/Legal Notices	2,788				2,788
Small Tools	480	721	1,362	553	3,116
Research/Monitoring	45,383				45,383
Election	3,191				3,191
Other Expenses	1,390	805	1,214	243	3,652
Total	\$ 1,440,724	\$ 788,124	\$ 1,875,514	\$ 307,380	\$ 4,411,742

The above detail does not include depreciation expense of \$1,870,268 which is stated as a separate line in the Statements of Revenues, Expenses and Changes in Net Assets.