

VALLEY SANITARY DISTRICT
ANNUAL AUDIT REPORT
Years Ended June 30, 2007 and 2006



Valley Sanitary District
Annual Audit Report
Years Ended June 30, 2007 and 2006

TABLE OF CONTENTS

	PAGE
I. INDEPENDENT AUDITORS' REPORT	i
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	ii - x
III. BASIC FINANCIAL STATEMENTS	
Statements of Net Assets	1
Statements of Revenues, Expenses and Changes in Net Assets	2
Statements of Cash Flows	3 - 4
Notes to Financial Statements	5 - 18
IV. REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for PERS	19
V. OTHER SUPPLEMENTAL INFORMATION	
Schedule of Operating Expenses - 2007	20
Schedule of Operating Expenses - 2006	21

INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Sanitary District
Indio, California

We have audited the accompanying financial statements of the business-type activities of the Valley Sanitary District, as of and for the years ended June 30, 2007 and 2006, which 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 an opinion 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Valley Sanitary District, as of June 30, 2007 and 2006, and the respective changes in financial position and its cash flows for the years then ended in conformity with generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2007 on our consideration of the District's internal control over financial reporting and our test of District's compliance with certain 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 on the results of that testing and not to provide an opinion on the 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 read in conjunction with this report in considering the results of our audit.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* and *Required Supplementary Information* is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Valley Sanitary District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Teaman Ramirez & Smith

December 7, 2007

Management's Discussion and Analysis

As management of the Valley Sanitary District, we offer readers of the Valley Sanitary District's financial statements this narrative overview and analysis of the financial activities of the Valley Sanitary District for the fiscal years ending June 30, 2007 and 2006. 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 at the close of the most recent fiscal year by \$70,496,110 and \$65,148,786 at the close of the June 30, 2007 and 2006 fiscal years. Of this amount, \$14,072,593 and \$25,235,840 as of June 30, 2007 and 2006, 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 \$5,347,324 and \$17,601,584 as of June 30, 2007 and 2006, respectively. Approximately 8% and 47% as of June 30, 2007 and 2006 of this increase is attributable to a one-time infusion of resources from connection fees.
- The Valley Sanitary District's total liabilities increased by \$12,922,835 (4.67 percent) and \$983,619 (0.55 percent) during June 30, 2007 and 2006. The key factors in this increase were the \$12,915,000 due to COPS loan and \$405,785 increase in accounts payable and other liabilities, \$132,050 due to bondholders, and a \$530,000 payment on the wetlands loan.

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) government-wide 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 activities* 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.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 5-18 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Valley Sanitary District's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 19 of this report.

The Schedule of Operating Expenses presents the functional expense items by activities and is presented immediately following the required supplementary information on pensions. The Schedule of Operating Expenses can be found on pages 20 and 21 of this report.

Government-wide 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 \$70,496,110 and \$65,148,786 as of June 30, 2007 and 2006, respectively.

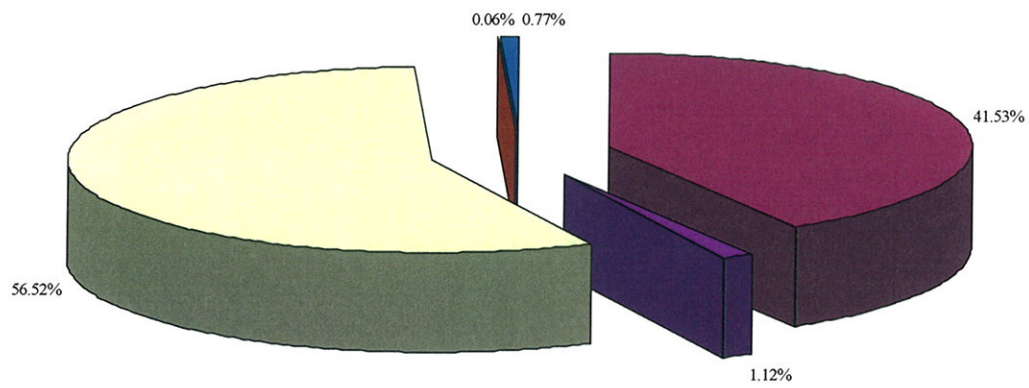
By far the largest portion of the Valley Sanitary District's net assets (51 percent) and (52 percent) during June 30, 2007 and 2006 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. 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.

VALLEY SANITARY DISTRICT'S NET ASSETS

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current Assets	\$ 37,041,520	\$ 33,171,573	\$ 21,758,356
Noncurrent Assets	48,714,259	34,729,009	27,555,439
Other Assets	<u>427,306</u>	<u>12,344</u>	<u>13,928</u>
Total Assets	<u>\$ 86,183,085</u>	<u>\$ 67,912,926</u>	<u>\$ 49,327,723</u>
Current Liabilities	\$ 2,848,725	\$ 2,462,482	\$ 977,594
Noncurrent Liabilities	<u>12,838,250</u>	<u>301,658</u>	<u>802,927</u>
Total Liabilities	<u>\$ 15,686,975</u>	<u>\$ 2,764,140</u>	<u>\$ 1,780,521</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 35,799,259	\$ 34,199,009	\$ 26,154,446
Restricted	7,709,258	5,713,937	
Unrestricted	<u>26,987,593</u>	<u>25,235,840</u>	<u>21,392,756</u>
Total Net Assets	<u>\$ 70,496,110</u>	<u>\$ 65,148,786</u>	<u>\$ 47,547,202</u>

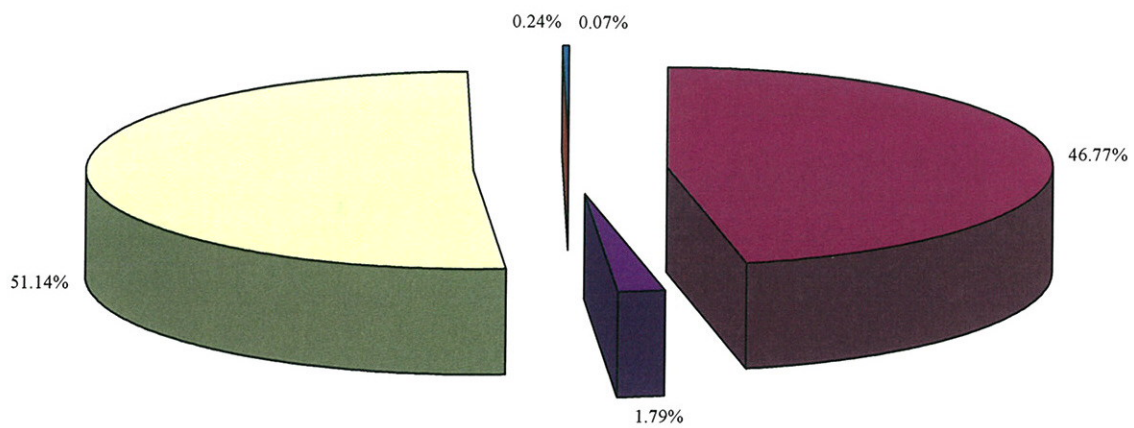
At the end of the current fiscal year, the Valley Sanitary District is able to report positive balances in all three categories of net assets. The same situation held true for the prior two fiscal years.

Assets 2007



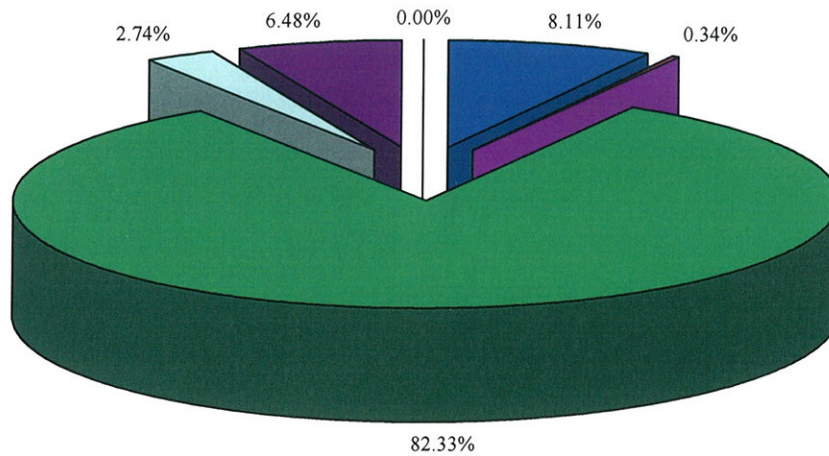
■ Cash and Investments ■ Receivables □ Capital Assets, Net ■ Inventory ■ Prepaid Expenses and Other Assets

Assets 2006



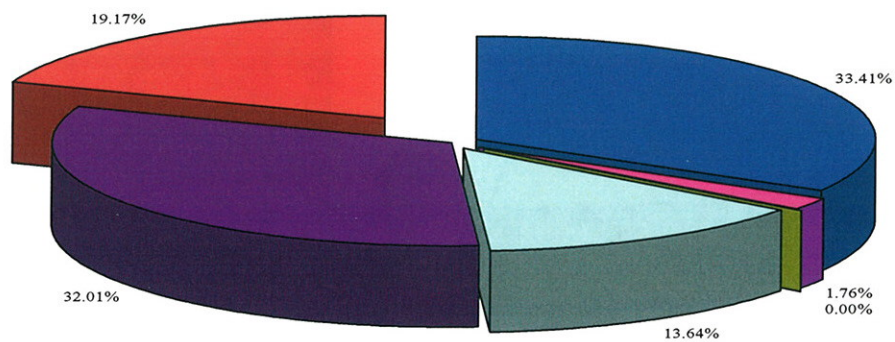
■ Cash and Investments ■ Receivables □ Capital Assets, Net ■ Inventory ■ Prepaid Expenses

Liabilities 2007



Accounts Payable	Accrued Salaries and Related Liabilities
COPS Payable	Compensated Absences Payable
Due to Bondholders	Wetlands Loan Payable

Liabilities 2006



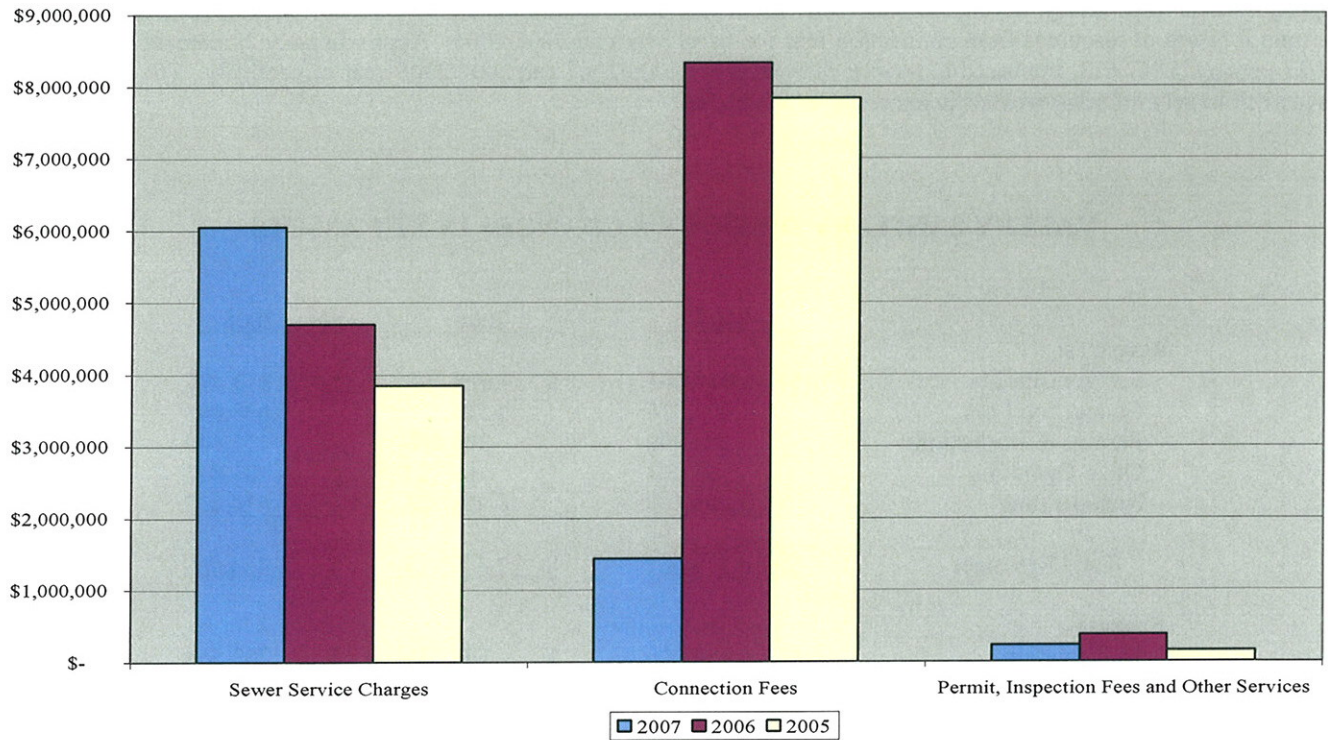
Accounts Payable	Accrued Salaries and Related Liabilities
Other Liabilities	Compensated Absences Payable
Due to Bondholders	Wetlands Loan Payable

The District's net assets increased by \$5,347,324 and \$17,601,584 as of June 30, 2007 and 2006, respectively. Approximately 83 percent (\$6,884,000) and 91 percent (\$6,969,660) decreased in connection fees and contribution from property owners respectively, during the 2006/2007 fiscal year end. Approximately 47 percent (\$8,325,576) is attributable to one time infusion of resources from connection fees for fiscal year end 2005/2006. Approximately 29 percent (\$1,355,696) and 22 percent (\$847,613) increased in service charges in the 2006/2007 and 2005/2006 year respectively. The remainder of this growth largely reflects revenues in excess of expenditures.

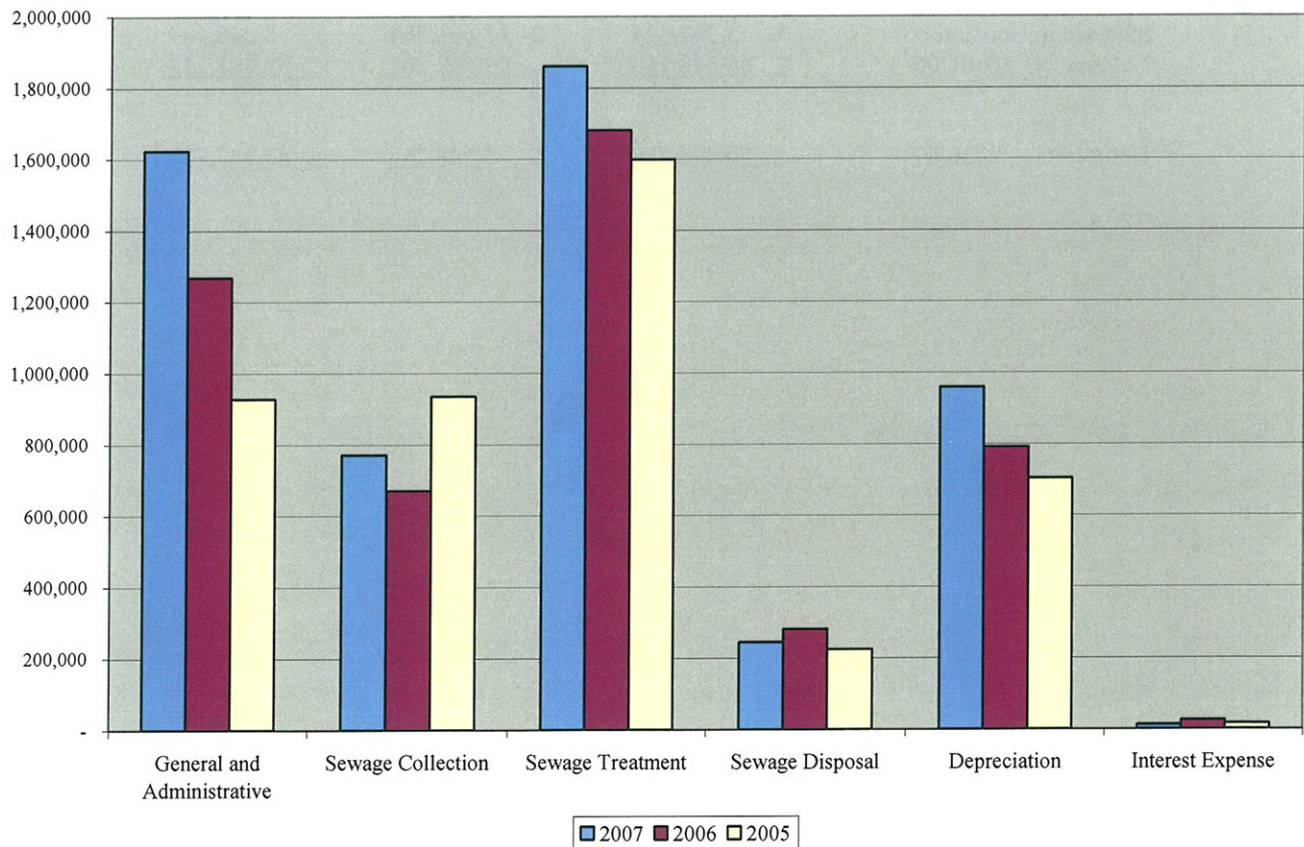
VALLEY SANITARY DISTRICT'S CHANGES IN NET ASSETS

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:			
Service Charges	\$ 6,054,004	\$ 4,698,308	\$ 3,850,695
Connection Fees	1,441,576	8,325,576	7,833,088
Permits & Inspections	160,990	305,280	117,649
Other Operating	67,904	69,121	37,815
Nonoperating	<u>3,095,188</u>	<u>8,921,826</u>	<u>614,822</u>
Total Revenues	<u>\$ 10,819,662</u>	<u>\$ 22,320,111</u>	<u>\$ 12,454,069</u>
Expenses:			
Depreciation	\$ 959,006	\$ 790,880	\$ 703,556
Administrative	1,635,925	1,293,411	944,076
Sewage Collection	771,638	671,181	934,367
Sewage Treatment	1,860,478	1,681,163	1,598,413
Sewage Disposal	<u>245,291</u>	<u>281,892</u>	<u>225,188</u>
Total Expenses	<u>\$ 5,472,338</u>	<u>\$ 4,718,527</u>	<u>\$ 4,405,600</u>
Increase in Net Assets	\$ 5,347,324	\$ 17,601,584	\$ 8,048,469
Net Assets — 07/01/06	<u>65,148,786</u>	<u>47,547,202</u>	<u>39,498,733</u>
Net Assets — 06/30/07	<u>\$ 70,496,110</u>	<u>\$ 65,148,786</u>	<u>\$ 47,547,202</u>

Operating Revenues



Operating Expenses



Capital Asset and Debt Administration

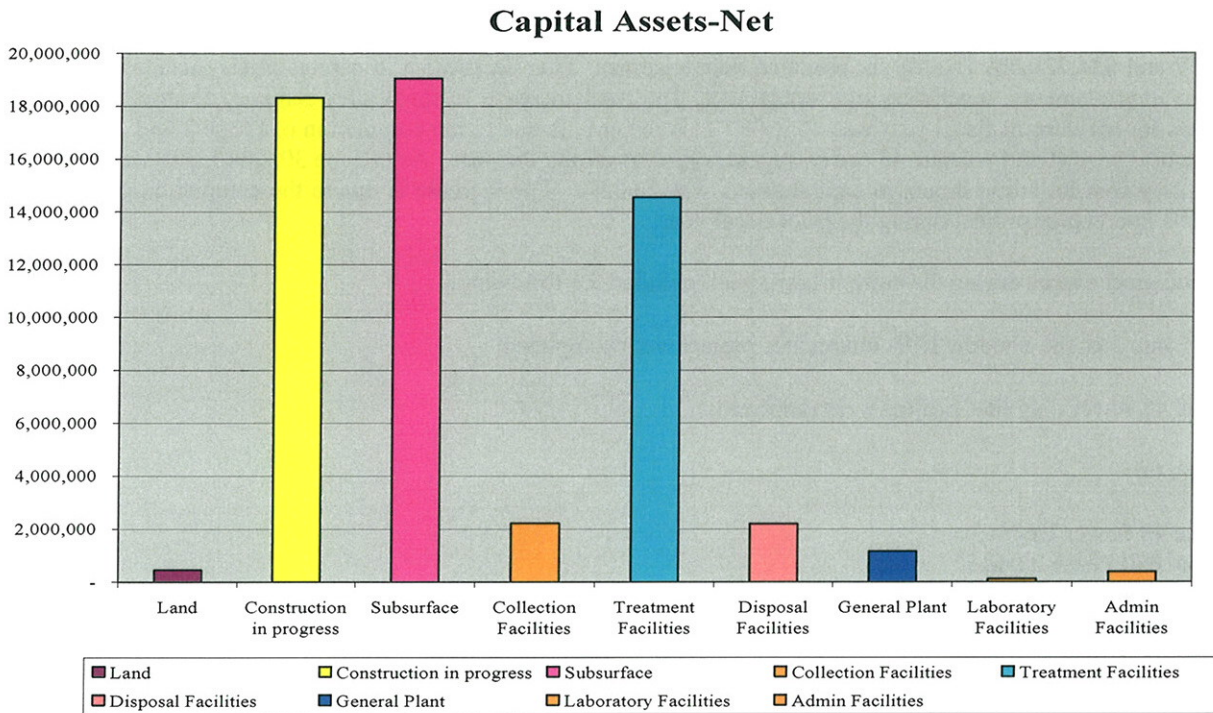
Capital assets. The Valley Sanitary District's investment in capital assets as of June 30, 2007 and June 30, 2006 amounts to \$48,714,259 and \$34,729,009 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. The total increase in the Valley Sanitary District's investment in capital assets for the current fiscal year was 40.26%. This increase is due to the completion of Phase 2 and 3 of the Shadow Hills Interceptor project and Avenue 48 sewer upgrades project during the year. As of June 30, 2006, the total increase in the Valley Sanitary District's investment in capital assets was 27.68%. The increase is due to the completion of Phase I of the Shadow Hills Interceptor project during the prior fiscal year.

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

- Phase 2 and 3 of the Shadow Hills interceptor project were completed.
- Avenue 48 sewer upgrades project was completed.
- Designs for:
 - Avenue 48 Sewer Upgrades
 - Shadow Hill Phase 2 and 3
- 2003 Caterpillar TH46OB Telehandler
- Fiberglass Building for Samplers
- Reactor Down Come Pipe-Zimpro
- Mill/Drill Machine
- Vaughan Chopper Pump
- 2007 Ford F150
- HP Laser Jet 425n Printer
- Thermo Electron Incubator
- Frame/Covers
- Traffic Control Light Bar
- Incubator 120VAC 60HZ

VALLEY SANITARY DISTRICT'S CAPITAL ASSETS Net of Depreciation

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Land	\$ 448,364	\$ 484,364	\$ 448,364
Construction in Progress	18,321,301	9,214,701	5,875,615
Subsurface	18,319,086	13,334,717	8,715,592
Collection Facilities	1,051,292	845,938	861,248
Treatment Facilities	8,797,853	9,155,462	9,528,757
Disposal Facilities	1,500,345	1,493,819	1,498,250
General Plant	190,675	150,904	181,875
Laboratory Facilities	18,722	15,841	16,681
Admin Facilities	<u>66,621</u>	<u>69,263</u>	<u>73,064</u>
Total	<u>\$ 48,714,259</u>	<u>\$ 34,729,009</u>	<u>\$ 27,199,446</u>



Additional information on the Valley Sanitary District's capital assets can be found in note 7 on page 13 of this report.

Long-term Debt. At the end of June 30, 2007 and 2006, the District had total long-term debt of \$13,258,250 and \$301,658. This debt was incurred to help fund Phase I of the District's Treatment Plan expansion and for the construction of the Wetlands project. The term of the certificate runs through 2027 and has a variable rate of interest. Repayment of the debt is funded through the connection capacity fees of the District.

VALLEY SANITARY DISTRICT'S OUTSTANDING DEBT

	<u>2007</u>	<u>2006</u>
Certificates of Participation	\$ 12,915,000	\$
Wetlands Loan		<u>530,000</u>
Total	<u>\$ 12,915,000</u>	<u>\$ 530,000</u>

The District's total debt increased \$12,385,000 as a result of a \$530,000 principal payment and \$12,915,000 COPS issue during the June 30, 2007 fiscal year. During 2005/2006 the District's total debt decreased by \$515,000 due to a principal payment on the Wetlands loan.

Additional information on the Valley Sanitary District's long-term debt can be found in notes 11 - 13 on pages 14, 15 and 16 of this report.

Economic Factors and Next Year's Budgets and Rates

Development within the District's service area continues but at a slower pace this year and is expected to continue with expansion into the Shadow Hills area. However, construction throughout Southern California has slowed substantially compared with prior years.

The annual sewer use fee will be increased to \$232 per year (\$19.33 per month) from the current level of \$215 per year (\$17.92 per month) for the fiscal year 2007-08. The connection capacity charge will be increased from \$3,565 to \$3,654 per unit of service for the 2008 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.

Valley Sanitary District
Statements of Net Assets
June 30, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and Investments (Notes 1 and 3)	\$ 27,062,885	\$ 24,633,207
Restricted: Cash with Fiscal Agent (Notes 1 and 3)	8,726,007	7,128,636
Accounts Receivable - Net of Allowance for Uncollectibles (Notes 1 and 5)	306,244	721,735
Interest Receivable	323,796	232,626
Taxes and Sewer Charges Receivable (Notes 4 and 6)	325,220	243,561
Inventory of Materials (Note 1)	50,846	44,579
Note Receivable - Current (Note 8)	1,584	1,584
Other Receivables	1,806	1,806
Prepaid Expenses	243,132	163,839
TOTAL CURRENT ASSETS	<u>37,041,520</u>	<u>33,171,573</u>
NONCURRENT ASSETS		
Capital Assets, Net (Notes 1 and 7)	<u>48,714,259</u>	<u>34,729,009</u>
TOTAL NONCURRENT ASSETS	<u>48,714,259</u>	<u>34,729,009</u>
OTHER ASSETS		
Note Receivable - Long-Term (Note 8)	9,964	12,344
Bond Issue Costs (Net of Accumulated Amortization of \$13,139 for 2007 and \$0 for 2006) (Note 9)	249,636	
Underwriters Discount (Net of Accumulated Amortization of \$8,827 for 2007 and \$0 for 2006) (Note 9)	<u>167,706</u>	
TOTAL OTHER ASSETS	<u>427,306</u>	<u>12,344</u>
TOTAL ASSETS	<u>86,183,085</u>	<u>67,912,926</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	1,272,355	923,628
Accrued Salaries and Related Liabilities	53,808	48,740
Compensated Absences Payable (Note 10)	85,813	75,415
Due to Bondholders	1,016,749	884,699
Wetlands Loan Payable - Current Portion (Note 11)		530,000
Certificates of Participation- Current Portion (Note 13)	<u>420,000</u>	
TOTAL CURRENT LIABILITIES	<u>2,848,725</u>	<u>2,462,482</u>
LONG-TERM LIABILITIES		
Certificates of Participation Payable (Note 13)	12,495,000	
Compensated Absences Payable - Long-term (Note 10)	<u>343,250</u>	<u>301,658</u>
TOTAL LONG-TERM LIABILITIES	<u>12,838,250</u>	<u>301,658</u>
TOTAL LIABILITIES	<u>15,686,975</u>	<u>2,764,140</u>
NET ASSETS		
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	35,799,259	34,199,009
Restricted	7,709,258	5,713,937
Unrestricted	<u>26,987,593</u>	<u>25,235,840</u>
TOTAL NET ASSETS	<u>\$ 70,496,110</u>	<u>\$ 65,148,786</u>

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Sewer Service Charges	\$ 6,054,004	\$ 4,698,308
Connection Fees	1,441,576	8,325,576
Permit and Inspection Fees	160,990	305,280
Other Services	<u>67,904</u>	<u>69,121</u>
TOTAL OPERATING REVENUES	<u>7,724,474</u>	<u>13,398,285</u>
OPERATING EXPENSES		
Administrative and Plant		
General and Administrative	1,635,925	1,293,411
Sewage Collection	771,638	671,181
Sewage Treatment	1,860,478	1,681,163
Sewage Disposal	<u>245,291</u>	<u>281,892</u>
Total Administrative and Plant	<u>4,513,332</u>	<u>3,927,647</u>
Other Operating Expenses		
Depreciation	<u>945,867</u>	<u>790,880</u>
Total Other Operating Expenses	<u>945,867</u>	<u>790,880</u>
TOTAL OPERATING EXPENSES	<u>5,459,199</u>	<u>4,718,527</u>
NET OPERATING INCOME (LOSS)	<u>2,265,275</u>	<u>8,679,758</u>
NONOPERATING REVENUES (EXPENSES)		
Property Taxes	622,779	213,425
Homeowners' Tax Relief	7,614	7,902
Investment Income	1,846,072	1,052,290
Contribution from Property Owners	609,464	7,579,124
Bond Issuance Cost	(13,139)	
Other Revenues	<u>9,259</u>	<u>69,085</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>3,082,049</u>	<u>8,921,826</u>
INCREASE (DECREASE) IN NET ASSETS	5,347,324	17,601,584
NET ASSETS AT BEGINNING OF YEAR	<u>65,148,786</u>	<u>47,547,202</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 70,496,110</u></u>	<u><u>\$ 65,148,786</u></u>

The accompanying notes are an integral part of these statements.

Valley Sanitary District
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts From Customers	\$ 8,073,038	\$ 12,932,349
Cash Payments to Suppliers for Goods and Services	(3,125,635)	(1,381,495)
Cash Payments to Employees for Services	<u>(1,352,765)</u>	<u>(1,201,280)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>3,594,638</u>	<u>10,349,574</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Tax Revenues	622,779	213,425
Homeowners' Tax Relief Revenues	7,614	7,902
Contribution from Property Owners	609,463	7,579,124
Increase in Taxes Receivable	(12,351)	(6,953)
Other Nonoperating Revenues	<u>9,259</u>	<u>69,085</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,236,764</u>	<u>7,862,583</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Decrease in Wetlands Loan Payable	(530,000)	(515,000)
Acquisition and Construction of Capital Assets	(14,944,255)	(8,320,443)
Increase in Certificates of Participation Payable	<u>12,915,000</u>	<u></u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,559,255)</u>	<u>(8,835,443)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	1,846,072	1,052,290
Increase in Interest Receivable	<u>(91,170)</u>	<u>(102,891)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,754,902</u>	<u>949,399</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,027,049	10,326,113
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>31,761,843</u>	<u>21,435,730</u>
CASH AND CASH EQUIVALENTS - END OF YEAR (Notes 1 and 3)	<u><u>\$ 35,788,892</u></u>	<u><u>\$ 31,761,843</u></u>
Cash and Cash Equivalents are reported on the Statement of Net Assets as follows:		
Cash and Investments	\$ 27,062,885	\$ 24,633,207
Restricted: Cash with Fiscal Agent	<u>8,726,007</u>	<u>7,128,636</u>
	<u><u>\$ 35,788,892</u></u>	<u><u>\$ 31,761,843</u></u>

The accompanying notes are an integral part of these statements.

Valley Sanitary District
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Net Operating Income	<u>\$ 2,265,275</u>	<u>\$ 8,679,758</u>
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	945,867	790,880
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(13,047)	(47,124)
(Increase) Decrease in Sewer Charges Receivable	(69,308)	7,346
(Increase) Decrease in Inventory of Materials	(6,267)	10,094
(Increase) Decrease in Note Receivable	2,380	2,380
(Increase) Decrease in Miscellaneous Receivable	428,538	(428,538)
(Increase) Decrease in Bond Issue Costs	(249,636)	
(Increase) Decrease in Underwriters Discount	(167,706)	
(Increase) Decrease in Prepaid Expenses	(79,293)	(163,839)
Increase (Decrease) in Accounts Payable	348,727	587,482
Increase (Decrease) in Accrued Salaries and Related Liabilities	5,068	(9,477)
Increase (Decrease) in Compensated Absences Payable	51,990	35,913
Increase (Decrease) in Due to Bondholders	<u>132,050</u>	<u>884,699</u>
TOTAL ADJUSTMENTS	<u>1,329,363</u>	<u>1,669,816</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 3,594,638</u></u>	<u><u>\$ 10,349,574</u></u>

The accompanying notes are an integral part of these statements.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

<u>NOTES</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
1	Summary of Significant Accounting Policies	6 - 9
2	Property Tax Calendar	9
3	Cash and Investments	9 - 12
4	Unbilled Receivables	12
5	Accounts Receivable	12
6	Taxes and Sewer Charges Receivable	12
7	Capital Assets	13
8	Note Receivable	13
9	Bond Issue and Underwriting Costs	14
10	Compensated Absences Payable	14
11	Wetlands Loan Payable	14
12	Limited Obligation Improvement Bonds	15
13	Certificates of Participation (COPs)	15 - 16
14	Retirement Plan	16
15	Deferred Compensation Plan	16
16	District Employees' Retirement Plan (Defined Benefit Pension Plan)	17
17	Risk Management	17
18	Commitments and Contingencies	18

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

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 63,315 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, 2007 and 2006 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 will be blended with those of the District in these financial statements. There was no activity in the Corporation until the fiscal year 2006-07. Separate financial statements of the Assessment District 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, 2007 and 2006

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 of 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 and Measurements

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 are earned and expenses are recognized in the period incurred.

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. With the implementation of GASB Statement 34 for fiscal year 2007, the District has eliminated the contributed capital and the retained earnings balance sheet accounts from all periods presented. Fund equity is not 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 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.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental enterprise funds. In accordance with GASB Statement 20, the District has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, with the exception of those that conflict with or contradict GASB Pronouncements.

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 disclosure of contingent assets and liabilities 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.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E) Capital Assets

Utility plant in service are stated at cost or estimated in those instances where cost records are not available. The District does not capitalize interest costs incurred on the construction of fixed assets. Depreciation of all exhaustible fixed assets is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method.

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) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the District's investments are stated at fair value except for interest-earning investment contracts (See Note 3).

In applying GASB 31, the District utilized the following methods and assumptions:

- 1) Fair value is based on quoted market prices as of the valuation date;
- 2) The portfolio did not hold investments in any of the following:
 - a) Items required to be reported at amortized cost,
 - b) Items in external pools that are not SEC registered,
 - c) Items subject to involuntary participation in an external pool,
 - d) Items associated with a fund other than the fund to which the income is assigned;
- 3) The gain/loss resulting from valuation will be reported within the revenue account "investment income" on the Statement of Revenues, Expenses and Changes in Net Assets.

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.

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.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of short-term highly liquid investments with maturities of 90 days or less.

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 as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 27,062,885
Restricted:	
Cash with Fiscal Agent	<u>8,726,007</u>
Total Cash and Investments	<u>\$ 35,788,892</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on Hand	\$ 500
Deposits with Financial Institutions	144,133
Investments	<u>35,644,259</u>
Total Cash and Investments	<u>\$ 35,788,892</u>

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

Idle cash investments are authorized under the District's Investment Policy to be invested in 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.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

3) CASH AND INVESTMENTS - Continued

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, 2007, the District had the following investments.

		<u>Maturity Date</u>
Money Market Funds	\$ 833,691	N/A
State Investment Pool	26,084,561	N/A
Held by Bond Trustee:		
U.S. Treasury Bills	4,608,639	N/A
Federal Agency Securities	3,738,835	N/A
Guaranteed Investment Contracts	<u>378,533</u>	
Total	<u>\$ 35,644,259</u>	

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.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Money Market Funds	\$ 833,691	N/A	\$	\$	\$	\$ 833,691
State Investment Pool	26,084,561	N/A				26,084,561
Held by Bond Trustee:						
U.S. Treasury Bills	4,608,639	N/A				4,608,639
Federal Agency Securities	3,738,835			3,738,835		
Guaranteed Investment Securities	<u>378,533</u>			<u>378,533</u>		
Total	<u>\$ 35,644,259</u>		<u>\$ 0</u>	<u>\$ 4,117,368</u>	<u>\$ 0</u>	<u>\$ 31,526,891</u>

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

3) CASH AND INVESTMENTS - Continued

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. 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 are as follows:

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 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.

As of June 30, 2007, there was \$44,133 deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2007, District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Federal Agency Securities	\$ 3,738,835
Guarantee Investment Contract	378,533
U.S. Treasury Bills	<u>4,608,639</u>
Total	<u>\$ 8,726,007</u>

The Treasurer, at his or her discretion, may waive the 110% collateral requirement for deposits which are insured up to \$100,000 by the FDIC.

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).

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

3) CASH AND INVESTMENTS - Continued

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, 2007 was 5.23%. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2007 was \$65,786,597,418 and \$65,756,665,933, respectively. The District's share of the Pool at June 30, 2007 was approximately 0.0396683 percent.

Each district may invest up to \$40,000,000 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. The fair value of the District's investment in this Pool is reported in the accompanying financial statements based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1,501,103,000. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

4) UNBILLED RECEIVABLES

The accompanying financial statements do not reflect unbilled accounts receivable because charges for sewer services are collected by the County of Riverside through the tax roll.

5) ACCOUNTS RECEIVABLE

Accounts receivable primarily consist of sewer use fees - direct billings, connection fees, and reimbursement costs of \$331,142 and an allowance for uncollectibles of 24,898.

6) TAXES AND SEWER CHARGES RECEIVABLE

Taxes and sewer charges receivable at year-end represents the District's allocation of property taxes and sewer use charges collected but not remitted by Riverside County through June 30, 2007. As of June 30, 2007, the District has a receivable due from the County of \$325,220.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

7) CAPITAL ASSETS

Activities relating to capital assets are presented as follows:

	Balance at Beginning of the Year	Additions	Deletions	Balance at the End of the Year
Capital Assets, Not Depreciated				
Land	\$ 448,364	\$	\$	\$ 448,364
Construction in Progress	<u>9,214,701</u>	<u>15,043,592</u>	<u>5,936,992*</u>	<u>18,321,301</u>
Total Capital Assets Not Depreciated	<u>9,663,065</u>	<u>15,043,592</u>	<u>5,936,992</u>	<u>18,769,665</u>
Capital Assets, Being Depreciated				
Subsurface	13,730,671	5,314,880		19,045,551
Sewage Collection Facilities	1,826,515	382,666		2,209,181
Wastewater Treatment Facilities	14,532,433	14,984		14,547,417
Sludge Disposal Facilities	2,165,730	25,999		2,191,729
General Plant Facilities	1,085,141	77,580		1,162,721
Laboratory Facilities	108,587	7,171		115,758
Administration Facilities	<u>381,709</u>	<u>1,237</u>		<u>382,946</u>
Total Capital Assets Being Depreciated	<u>33,830,786</u>	<u>5,824,517</u>	<u>0</u>	<u>39,655,303</u>
Less Accumulated Depreciation:				
Subsurface	395,954	330,511		726,465
Sewage Collection Facilities	980,577	177,312		1,157,889
Wastewater Treatment Facilities	5,376,971	372,593		5,749,564
Sludge Disposal Facilities	671,911	19,473		691,384
General Plant Facilities	934,237	37,809		972,046
Laboratory Facilities	92,746	4,290		97,036
Administration Facilities	<u>312,446</u>	<u>3,879</u>		<u>316,325</u>
Total Accumulated Depreciation	<u>8,764,842</u>	<u>945,867</u>	<u>0</u>	<u>9,710,709</u>
Total Capital Assets Being Depreciated, Net	<u>25,065,944</u>	<u>4,878,650</u>	<u>0</u>	<u>29,944,594</u>
Total Capital Assets, Net	<u>\$ 34,729,009</u>	<u>\$ 19,922,242</u>	<u>\$ 5,936,992</u>	<u>\$ 48,714,259</u>

*Amount includes City of Indio assets.

8) NOTE RECEIVABLE

During 1995-96 the District entered into an agreement with the Coachella Valley Wild Bird Center ("Center") whereby the Center purchased certain improvements from the District. The Center signed a note in the amount of \$38,500. At June 30, 2007, the balance of the note is \$9,964 of which \$1,584 is currently due to the District. The stated interest rate is 6%.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

9) BOND ISSUE AND UNDERWRITING COSTS

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

The bond issue costs associated with the 2006 Certificates of Participation were \$262,775 and are being amortized over 20 years until the year 2026, at an amount of \$13,139 per year.

The Underwriter's cost associated with the 2006 Certificates of Participation were \$176,533 and are being amortized over 20 years until the year 2026, at an amount of \$8,827 per year.

10) 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 determined using salary/wage rates in effect at the time of leaving. Based on retirements and other separations from service, management estimates the total amount to be paid during the fiscal year ended June 30, 2008 will be \$85,813 with the remaining amount of \$343,250 to be paid in subsequent periods.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ 377,073	\$ 321,276	\$ 296,286	\$ 429,063	\$ 85,813*

*Estimated by management.

11) WETLANDS LOAN PAYABLE

The District undertook in fiscal year 1999-00 a wastewater treatment facility expansion project known as the wetlands project. To fund the project the District joined the Wateruse Financing Authority ("Authority"), an existing joint powers authority, for the purpose of accessing an existing bond pool. On January 1, 2000, the Authority issued bonds for which the proceeds could finance the construction of the wetlands. The total loan amount was \$3,405,000. On May 1, 2006 and May 1, 2007, the District made principal payments of \$515,000 and \$530,000 respectively, to reduce the loan balance outstanding to \$0. The terms of the loan are a variable interest rate, amortized over seven years, with payments due on May 1 of each year.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ 530,000	\$	\$ 530,000	\$ 0	\$ 0

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

12) 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 Sanitary 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 Sanitary 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 following limited improvement bonds have been included in the accompanying financial statements.

Future debt service requirements for the bonds are as follows:

<u>For the Year Ended June 30.</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 218,000	\$ 416,377
2009	225,000	409,284
2010	235,000	401,285
2011	240,000	392,555
2012	250,000	383,180
2013-2017	1,410,000	1,746,487
2018-2022	1,770,000	1,379,430
2023 -2027	2,250,000	881,705
2028-2031	<u>2,250,000</u>	<u>241,280</u>
	<u>\$ 8,848,000</u>	<u>\$ 6,251,583</u>

13) 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 certificate. The amount to be initially deposited in the reserve fund is \$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:

Requirements	\$964,900	Actual	\$988,356
--------------	-----------	--------	-----------

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

13) CERTIFICATES OF PARTICIPATION (COPs) - Continued

Future debt service requirements for the certificates are as follows:

<u>For the Year Ended June 30.</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 420,000	\$ 508,471
2009	460,000	493,071
2010	475,000	476,412
2011	495,000	458,831
2012	505,000	440,706
2013-2017	2,850,000	1,903,800
2018-2022	3,460,000	1,286,596
2023 -2027	<u>4,250,000</u>	<u>474,835</u>
	<u>\$ 12,915,000</u>	<u>\$ 6,042,722</u>

14) RETIREMENT PLAN

Effective January 1, 1993, the District adopted Resolution Number 815 establishing 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) (see Note 16). The District contributes 13.752 percent of the employees' compensation to the Plan - \$20,468 for the year ended June 30, 2007. 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 \$345,840 at June 30, 2007. The total covered payroll for the 3 employees participating in the plan for the year ended June 30, 2007 was \$151,134.

15) DEFERRED COMPENSATION PLAN

On August 20, 1996 the provisions of Internal Revenue Code (IRC) Section 457 were amended to require new plans to place all assets and income of the Plan in trust for the exclusive benefit of participants and their beneficiaries. Plans in existence as of the date of this change must place the Plan assets and income in trust by January 1, 1999. Once the assets and income are placed in trust the District no longer owns the amounts deferred by employees and related income. Prior to this IRC Section 457 Amendment, the deferred amounts and related income remained as property of the District until withdrawn by the employee.

During the 1996-97 fiscal year, Valley Sanitary District placed its Deferred Compensation Plan assets and related income in trust as allowed by IRC Section 457 and as a result the asset and corresponding liability are no longer presented in these financial statements. This change had no impact on the District's Fund Equity.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

16) DISTRICT EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

The Valley Sanitary 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 and district ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Participants are required to contribute 8% of their annual covered salary. Also, the District is required to contribute at an actuarially determined rate; the current rate is 13.752% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

For June 30, 2007 the District's annual pension cost of \$155,627 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2004, 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, (c) 3.25% payroll growth compounded annually and (d) individual salary growth merit increases that vary by length of service. Included in (a), (b), (c) and (d) is 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 is being amortized as a level percentage of projected payroll on a closed basis. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS.

Subsequent plan amendments are amortized as a level % of pay over a closed 20-year period. Gains and losses that occur in the operations of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

THREE YEAR TREND INFORMATION FOR PERS			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	117,877	100%	0
6/30/06	126,425	100%	0
6/30/07	155,627	100%	0

17) 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, 2007, the District paid \$149,749 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, 2007, 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.

Valley Sanitary District
Notes to Financial Statements
Years Ended June 30, 2007 and 2006

18) 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, 2007, the total amount of unused credits was \$41,595. Estimated future revenue from connection fees based upon the current fee in effect is approximately \$168,000. 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, 2007.

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 \$190,210 has been collected and reimbursed through June 30, 2007. In the current year \$7,360 was collected and reimbursed.

Victoria Palms Villas Oversize Credits

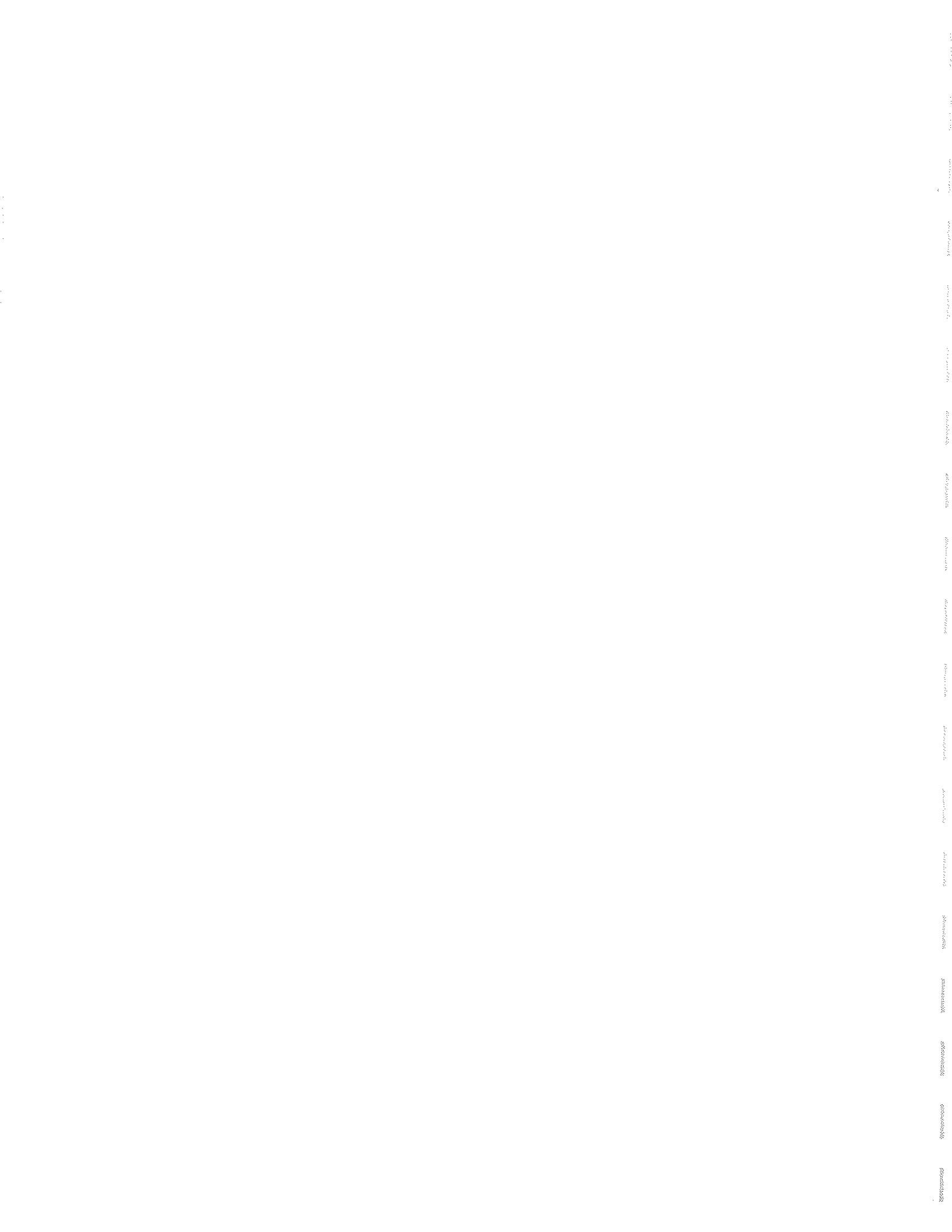
In February 2005, the District authorized oversize credits to Victoria Palms Villas, LLC in the amount of \$16,119. As of June 30, 2007 no credits have been applied leaving a balance remaining of \$16,119 to be issued.

Van Huisen Bret Oversize Credits

In May 2005, the District authorized oversize credits to Van Huisen Bret in the amount of \$3,460. As of June 30, 2007, credits of \$1,776 have been applied leaving a balance remaining of \$1,684 to be issued.

As of June 30, 2007, 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.

REQUIRED SUPPLEMENTARY INFORMATION



Valley Sanitary District
Schedule of Funding Progress for PERS
Year Ended June 30, 2007

SCHEDULE OF FUNDING PROGRESS FOR PERS						
Actuarial Valuation Date	Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability (A - B)	Funded Status (B/A)	Annual Covered Payroll (C)	UAAL as a Percent of Payroll [(A-B/C)]
6/30/02						
Miscellaneous	\$ 978,855	\$ 703,716	\$ 275,142	71.9%	\$ 672,818	40.9%
6/30/03						
Miscellaneous	\$ 1,241,310	\$ 870,198	\$ 371,112	70.1%	\$ 763,148	48.6%
6/30/04						
Miscellaneous	\$ 1,502,165	\$ 1,117,727	\$ 384,438	74.4%	\$ 1,091,253	35.2%

This page intentionally left blank

OTHER SUPPLEMENTAL INFORMATION

Valley Sanitary District
Statement of Operating Expenses
Year Ended June 30, 2007

	General and Administrative	Sewage Collection	Sewage Treatment	Sewage Disposal	Total
Salaries and Wages	\$ 440,364	\$ 310,555	\$ 554,038	\$ 104,865	\$ 1,409,822
Employee Benefits	145,949	104,967	213,111	35,174	499,201
Directors' Fees	11,700				11,700
Insurance	149,749				149,749
Memberships	20,362	450	962	110	21,884
Office Expenses	7,809				7,809
Permits	5,504	4,678	47,003		57,185
Operating Supplies	44,213	1,756	7,187	5,335	58,491
Professional Services	71,110	261,653			332,763
Repairs and Maintenance	51,288	42,582	77,757	30,020	201,647
Travel and Seminars	9,912	2,918	19,439	323	32,592
Utilities and Telephone	41,662	2,573	633,884	41,115	719,234
Chemicals			143,012		143,012
Clothing	1,858	2,539	6,175	978	11,551
Certifications	761	329	1,200	130	2,420
Gas, Oil and Fuel	29,691				29,691
County Charges	10,491				10,491
Contractual Services	55,027	35,200	154,268	26,295	270,790
Publication/Legal Notices	4,712				4,712
Small Tools	749	786	1,357	711	3,603
Research/Monitoring	57,587				57,587
Other Expenses	1,247	652	1,085	235	3,219
Administrative Facilities	470,043				470,043
Cost of Issuance	4,137				4,137
Total	\$ 1,635,925	\$ 771,638	\$ 1,860,478	\$ 245,291	\$ 4,513,332

The above detail does not include depreciation expense of \$959,006 which is stated as a separate line in the Statement of Revenues, Expenses and Changes in Net Assets.

Valley Sanitary District
Schedule of Operating Expenses
Year Ended June 30, 2006

	General and Administrative	Sewage Collection	Sewage Treatment	Sewage Disposal	Total
Salaries and Wages	\$ 348,013	\$ 277,382	\$ 492,165	\$ 110,155	\$ 1,227,715
Employee Benefits	127,098	103,819	193,592	42,392	466,901
Directors' Fees	12,400				12,400
Insurance	192,841				192,841
Memberships	18,790	500	782	200	20,272
Office Expenses	6,904				6,904
Permits	5,308	42	45,037		50,387
Operating Supplies	37,529	1,119	6,716	6,669	52,033
Professional Services	55,671	228,960			284,631
Repairs and Maintenance	26,634	19,001	120,963	49,678	216,276
Travel and Seminars	10,352	2,898	16,082	301	29,633
Utilities and Telephone	37,078	3,796	482,445	40,770	564,089
Chemicals		16,232	202,412		218,644
Clothing	1,065	1,959	6,289	1,343	10,656
Certifications	96	385	1,290		1,771
Gas, Oil and Fuel	32,646				32,646
County Charges	8,938				8,938
Contractual Services	39,661	14,422	99,415	23,715	177,213
Publication/Legal Notices	3,867				3,867
Small Tools	837	156	815	969	2,777
Research/Monitoring	54,132				54,132
Other Expenses	32,674	510	821	200	34,205
Wastewater Treatment			12,339		12,339
Sludge Disposal				5,500	5,500
General Plant	18,151				18,151
Administrative Facilities	1,212				1,212
Cost of Issuance	221,514				221,514
Total	\$ 1,293,411	\$ 671,181	\$ 1,681,163	\$ 281,892	\$ 3,927,647

The above detail does not include depreciation expense of \$790,880 which is stated as a separate line in the Statement of Revenues, Expenses and Changes in Net Assets on Page 2 of this report.