

September 21, 2011

Mr. Michael Ward
162 Los Trancos Circle
Portola Valley, CA 94028

Dear Mr. Ward:

Enclosed are two bound and five unbound copies of our report dated September 21, 2011, covering our audit of the financial statements of the Los Trancos Water District for the fiscal year ended June 30, 2011. We have also separately sent you one PDF copy for distribution to the board members.

Very truly yours,

C. G. UHLENBERG LLP

By _____
Jeffrey J. Ira

JJI/sf

Encl.

LOS TRANCOS COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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LOS TRANCOS COUNTY WATER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Los Trancos County Water District
Portola Valley, California

We have audited the accompanying financial statements of the business-type activities of the Los Trancos County Water District (the "District") as of and for the years ended June 30, 2011 and 2010, which collectively comprise all of the District's basic financial statements. These financial statements are the responsibility of the Los Trancos County Water District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 opinion.

In our opinion, the financial statements referred to above present fairly the financial position of the Los Trancos County Water District, as of June 30, 2011 and 2010, the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is required supplementary information to, although not a part of, the basic financial statements. This is a practice common among many special districts.

October 10, 2011
Redwood City, California

LOS TRANCOS COUNTY WATER DISTRICT

BALANCE SHEETS
JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 233,621	\$ 209,352
Property Taxes Receivable	<u>-</u>	<u>6,844</u>
Total Current Assets	<u>233,621</u>	<u>216,196</u>
TOTAL ASSETS	<u><u>\$ 233,621</u></u>	<u><u>\$ 216,196</u></u>
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	<u>\$ 15,641</u>	<u>\$ 8,000</u>
Total Current Liabilities	<u>15,641</u>	<u>8,000</u>
LONG-TERM LIABILITIES		
Notes Payable	<u>617,762</u>	<u>617,762</u>
Total Long-Term Liabilities	<u>617,762</u>	<u>617,762</u>
Total Liabilities	<u>633,403</u>	<u>625,762</u>
NET ASSETS		
Unrestricted	(399,782)	(409,566)
Total Net Assets	<u>(399,782)</u>	<u>(409,566)</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 233,621</u></u>	<u><u>\$ 216,196</u></u>

The accompanying notes are an integral part of these financial statements.

LOS TRANCOS COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR EACH OF THE FISCAL YEARS ENDED
JUNE 30, 2011 AND JUNE 30, 2010

	<u>2011</u>	<u>2010</u>
OPERATING EXPENSES:		
Administrative expenses	\$ 7,876	\$ 5,685
Services and supplies	23,546	17,755
Insurance	6,169	4,131
Property management	24,760	17,507
Water conservation	4,867	18,563
Water movement	52,677	40,734
Emergency preparedness	107,184	84,969
Water cost discount program	45,680	80,000
	<u>272,759</u>	<u>269,344</u>
OPERATING LOSS	<u>(272,759)</u>	<u>(269,344)</u>
NON-OPERATING INCOME		
Property taxes	276,445	252,270
Miscellaneous collections	5,070	4,381
Interest income	1,028	1,517
	<u>282,543</u>	<u>258,168</u>
NET INCOME	9,784	(11,176)
NET ASSETS - BEGINNING OF YEAR	<u>(409,566)</u>	<u>(398,390)</u>
NET ASSETS - END OF YEAR	<u>\$ (399,782)</u>	<u>\$ (409,566)</u>

The accompanying notes are an integral part of these financial statements.

LOS TRANCOS COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS
FOR EACH OF THE YEARS ENDED
JUNE 30, 2011 AND JUNE 30, 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments for administrative expenses	\$ (7,876)	\$ (5,685)
Payments for services and supplies	(15,905)	(9,755)
Payments for insurance	(6,169)	(4,131)
Payments for property management	(24,760)	(17,507)
Payments for water conservation	(4,867)	(18,563)
Payments for water movement	(52,677)	(40,734)
Payments for emergency preparedness	(107,184)	(84,969)
Payments for water cost discount program	(45,680)	(80,000)
	<u>(265,118)</u>	<u>(261,344)</u>
Net cash used in operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property tax received	283,289	245,426
Miscellaneous collections	5,070	4,381
	<u>288,359</u>	<u>249,807</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	1,028	1,517
	<u>1,028</u>	<u>1,517</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	24,269	(10,020)
Cash and cash equivalents, beginning of year	<u>209,352</u>	<u>219,372</u>
Cash and cash equivalents, end of year	<u>\$ 233,621</u>	<u>\$ 209,352</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (272,759)	\$ (269,344)
Adjustments to reconcile operating loss to cash provided by (used in) operating activities:		
Increase in accounts payable	<u>7,641</u>	<u>8,000</u>
Net cash used in operating activities	<u>\$ (265,118)</u>	<u>\$ (261,344)</u>

The accompanying notes are an integral part of these financial statements.

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

1. ORGANIZATION

Los Trancos County Water District (the District) is a California Special District originally organized to provide water services to Vista Verde, Los Trancos Woods, Blue Oaks, and nearby areas within San Mateo County. The District was formed in January 1955. It ceased operating pumping plants at various locations in April 2005 when the District sold their water transmission and distribution system to California Water Service for \$125,000. Also included was Los Trancos' water supply assurance. This sale consists of all mains, services, tanks, pumps, rights of way and other related assets. The district has retained their property, approximately 5 acres mol in three parcels, and will continue to collect property tax revenue from the County, and use the revenue to maintain their property and make it available to the community, promote water conservation and provide a minimum connection fee credit for residents who do so, to make the watershed fire safe, to improve water movement control and other projects that the community deems beneficial that are within the Water Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the District are summarized below:

Fund Accounting – The District follows enterprise fund accounting principles as appropriate to local special governmental units of this type.

Proprietary Funds – Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The District has elected to not follow subsequent private sector guidance.

Basis of Accounting – The financial statements reflect accrual basis accounting in which income is recognized when earned and expenses are recognized when incurred. Property and equipment are capitalized and depreciated as discussed below.

Revenues and Expenses – Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The District does not have any operating revenues.

Property and Equipment – All property and equipment are valued at historical cost or estimated historical cost if historical cost is not available. Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives ranging from five to thirty-eight years. The District does not have any property and equipment.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

3. CASH AND INVESTMENTS

Cash and investments as of June 30, 2011 and June 30, 2010 were as follows:

	<u>2011</u>	<u>2010</u>	<u>Rating</u>
Union Bank of California:			
Checking	\$ 7,097	\$ 8,700	NA
Local Agency Investment Fund	<u>226,524</u>	<u>207,496</u>	Not Rated
Total Cash and Investments	<u>\$ 233,621</u>	<u>\$ 216,196</u>	

The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure a district's deposits by pledging first trust deed mortgage notes having a value of at least 150% of a district's total first trust deed mortgage notes having a value of at least 150% of a district's total deposits. The deposits include uninsured and/or uncollateralized deposits held by trustees for the District.

The District's deposits are insured up to \$250,000 per depositor per bank by Federal Deposit Insurance Corporation (FDIC). The bank balances, before reconciling items, for the checking account at June 30, 2011 and June 30, 2010 were \$7,097 and \$8,700, respectively. Differences between book balances and bank balances are a result of reconciling items such as deposits in transit and outstanding checks. As of June 30, 2011 and June 30, 2010, the District's Union Bank accounts were fully insured by FDIC.

External Investment Pool

The District invests in the California State Treasurer's Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2011 and June 30, 2010, LAIF had approximately \$71 billion and \$71 billion in investments, respectively.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The District's investments with LAIF at June 30, 2011 and June 30, 2010, included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows.

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2011 the District had \$226,524 invested in LAIF, which had invested 5.01% of the pool investments funds in Structured Notes and Asset-Backed Securities. The District valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor is the result of dividing all LAIF participants' total aggregate fair value (66,489,270,508) by total aggregate amortized cost (66,384,617,119) resulting in a factor of 1.001576470.

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

As of June 30, 2010 the District had \$207,496 invested in LAIF, which had invested 5.42% of the pool investments funds in Structured Notes and Asset-Backed Securities. The District valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor is the result of dividing all LAIF participants' total aggregate fair value (69,555,776,591) by total aggregate amortized cost (69,441,630,091) resulting in a factor of 1.001643776.

Marketing Investments to Fair Value (GASB 31)

Under GASB 31, the District must adjust the carrying value of its investments to reflect their fair market value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year. The District has determined the adjustment to fair market value is immaterial as of both June 30, 2011 and June 30, 2010.

4. CHANGES IN LONG-TERM LIABILITIES

The \$617,762 Loan from Developers does not have scheduled payments due at this time. No payments are due on the loan until thirty-two houses in the Property have been constructed. After such time as 32 houses have been constructed, the District will pay off the loan at the rate of \$9,000 on a quarterly basis of \$2,250. The first payment of \$2,250 will be due at the end of the first full calendar quarter during which at least 32 houses were constructed and are paying for water service for the entire quarter. After such time as thirty-six houses have been constructed, the District will pay off the loan at the rate of \$11,000 per year, on a quarterly basis of \$2,750. The loan is secured by developer fees. The District did not make any loan principle or interest payments for the years ended June 30, 2011 and 2010.

5. INSURANCE

The District carries insurance coverage through Farallon Associates. The insurance policy includes liability coverage in the amount of \$1,000,000 with general aggregate coverage at \$2,000,000 with a deductible of \$5,000. The directors and officers are covered with fiduciary liability in the amount of \$1,000,000 with a \$1,000 deductible.

6. REVENUES

During the fiscal year ended June 30, 2011, the District collected \$276,445 of property tax revenues, of which \$16,739 was property tax revenues from fiscal year ended June 30, 2009.