



*Located in Carlsbad, California*

## Comprehensive Annual Financial Report For the Years Ended June 30, 2010 and 2009



Recycled water facilities



Batiquitos Pump Station



Batiquitos Pumping System



LEADERS IN  
ENVIRONMENTAL  
PROTECTION

### **Board of Directors as of June 30, 2010**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Allan Juliussen	President	Elected	12/08 - 12/12
Donald Omsted	Vice President	Elected	12/08 - 12/12
Judy Hanson	Director	Elected	12/08 - 12/12
Elaine Sullivan	Director	Elected	12/06 - 12/10
David Kulchin	Director	Elected	12/06 - 12/10

**Leucadia Wastewater District  
Paul J. Bushee, General Manager  
1960 La Costa Avenue  
Carlsbad, California 92009  
(760) 753-0155 – [www.lwwd.org](http://www.lwwd.org)**



LEADERS IN  
ENVIRONMENTAL  
PROTECTION

## **Comprehensive Annual Financial Report**

**For the Years Ended**

**June 30, 2010 and 2009**

**LEUCADIA WASTEWATER DISTRICT**

**1960 La Costa Avenue  
Carlsbad, California 92009**

**Prepared by:**

***Paul J. Bushee, General Manager  
Charles LeMay, Administrative Services Manager  
Richard Duffey, District CPA***

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**Comprehensive Annual Financial Report  
For the Years Ended June 30, 2010 and 2009**

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## **Introductory Section**





LEADERS IN  
ENVIRONMENTAL  
PROTECTION

December 8, 2010

To the Honorable President and Members of the Board of Directors and Customers of the Leucadia Wastewater District:

State law requires that all general-purpose local governments and special districts publish each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Comprehensive Annual Financial Report (CAFR) of the Leucadia Wastewater District (District) for fiscal year ended June 30, 2010 is hereby submitted as required. Diehl, Evans & Company, LLP, a firm of licensed certified public accountants, has audited the Leucadia Wastewater District's financial statements.

This report is organized into three sections: (1) Introductory (2) Financial (3) and Statistical. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, the District's audited basic financial statements with accompanying notes, and Supplementary Information for the purposes of additional analysis. The Statistical section presents unaudited ten-year historical financial, demographic, and statistical information pertinent to the District's operations.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the Leucadia Wastewater District for the fiscal year ended June 30, 2010 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Leucadia Wastewater District's financial statements for the fiscal year ended June 30, 2010 are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

## **PROFILE OF THE DISTRICT**

The Leucadia Wastewater District was formed in April 1959 pursuant to the County Water District Law (Division 12 of the Water Code, Secs 30000 et seq). Established as an Independent Enterprise Special District, the District is authorized to provide wastewater collection and treatment services and to levy rates and fees to support those services. The District is located in coastal northern San Diego County and is approximately 30 miles north of the City of San Diego.

The District provides wastewater service to the Leucadia and Village Park areas of Encinitas, and the La Costa area of Carlsbad. The District encompasses 16 square miles and serves approximately 60,000 residents. Wastewater from the District's service area is transported to the Encina Water Pollution Control Facility where it is treated to federally mandated standards to protect the public health. The Encina plant is a regional facility located in Carlsbad that is jointly owned by the District and five other public entities.

The District also owns and operates the Gafner Water Reclamation Facility, which has a treatment capacity of 1 million gallons per day. Recycled water produced at the Gafner Facility is sold, on a wholesale basis, to the City of Carlsbad. The City of Carlsbad, in turn, purveys the water for use as irrigation on the La Costa Resort & Spa Golf Course.

### ***Governance***

The affairs of the District are directed by a five member Board of Directors elected at large by the registered voters residing in the District. The directors, who are elected, are residents and have the same concerns as their constituents. The board members, who serve four-year staggered terms, are responsible for establishing policy and ordinances, adopting the annual budget, and hiring the District's General Manager. The General Manager is responsible for carrying out the policies and ordinances of the District board and for overseeing the day-to-day operations of the District.

### ***Mission and Vision***

The mission of the Leucadia Wastewater District is:

*To serve the public by collecting, transporting, recycling and treating wastewater in a safe, reliable, efficient, cost effective, and environmentally responsive manner, while providing excellent service to our customers.*

The District's vision is:

*To be a recognized leader in wastewater services, water recycling, and environmental protection.*

## **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Leucadia Wastewater District operates.

### ***Local Economy***

The District's service area is primarily residential, serving as a bedroom community for the greater San Diego area. The local economy also includes commercial activities, tourism, and some horticulture. There is virtually no heavy industry in the service area. The District is at approximately 92% build out and it is anticipated that remaining growth will be from in-fill and occur slowly over the next 10 to 20 years.

San Diego Association of Government's (SANDAG) 2050 Regional Growth Forecast, dated February 26, 2010, estimates that economic and population growth will continue at a steady rate through 2050, although at a slightly slower rate than in the previous 40 years. The current recession has been deep and protracted. As a result, SANDAG updated the region wide projections to reflect current market conditions. These updated projections suggest that the region will approach 4.4 million residents, 1.9 million jobs and 1.5 million housing units by 2050. These are 40%, 33%, and 34% increases over 2008 figures, respectively. For the Encinitas/Carlsbad area, SANDAG is predicting a 21% to 25% increase in population from 2008 to 2050.

In its third quarterly report of 2010, the UCLA Anderson Forecast's outlook for California calls for very sluggish growth with high unemployment. California will slowly come out of the recession. The very slow growth period will remain until next year. The recovery from the recession will be driven by education, healthcare, exports and technology and to a lesser extent growth in the battered residential construction sector.

In July 2010, the University of San Diego's Leading Economic Indicators for San Diego County registered a justified gain of 0.3 percent. Leading the move to the upside were strong gains in local consumer confidence and help wanted advertising. Building permits and the outlook for the national economy were also positive, but to a lesser extent. On the downside, initial claims for unemployment insurance rose sharply, which is a negative, and local stock prices were down slightly. With July's gain, the USD Index has increased for 16 months in a row.

As an independent enterprise special district having the ability to adjust service rates as required, the District's operating revenues are somewhat insulated from the local economy. The District's operating revenues tend to increase with growth periods and stabilize during non-growth periods. As such, the District's revenues grew steadily over the past several years corresponding with the growth within the service area. Conceivably, the greatest threat to operating revenues will be from a significant reduction in the service area population. As the District reaches build out, it is anticipated that growth in District revenues will slow but remain stable.

Capacity fees are collected as new units are connected to the District. During the housing boom of the early 2000's the District experienced very strong revenues from capacity fees. It is anticipated that capacity fee revenues will slow dramatically as the District approaches build out.

Property taxes accounted for approximately 13% and 14% of the District's total revenue for FYE 2010 and 2009, respectively. Due to the current conditions in the housing market, property tax revenues are not expected to increase at prior years historical rates and may remain flat or decrease in the near future due to reduction in values and reassessments. In addition, the recent passage of AB 4.14 and 4.15 suspended Prop 1A, which had provided local revenue protection by prohibiting the State of California from shifting away property tax revenues. As a result \$99,574 was diverted from its 2009-2010 property tax revenue. The diverted funds are to be returned to the District with interest by June 30, 2013.

### ***Long-Term Financial Planning***

The District's Board of Directors is aware of the need to ensure the District's financial stability. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future needs. The cornerstone of these policies is the District's 2008 Comprehensive Financial Plan that forecasts the District's expenditures and revenue needs for the next 20 years. The District utilizes this information to anticipate future expense obligations and to develop programs to ensure these expense obligations are fully funded. The District routinely updates the plan on a five year cycle.

## **RELEVANT FINANCIAL POLICIES**

### ***Reserve Policy***

The District has established a Reserve Fund Policy to anticipate and prepare for future funding requirements as well as for unforeseen events. The Reserve Fund Policy establishes restricted and unrestricted reserves and describes the flow of funds to and from the various reserves. For information regarding District reserves, please refer to Footnotes 1 & 10 of the Basic Financial Statements.

## ***Investment Policy***

The Investment Policy establishes guidelines for the investment of available funds. The Investment Policy incorporates the Prudent Investor Standards. The primary objectives, in priority order, of the District's investment activities are the following: 1) safety, 2) liquidity, and 3) yield. The District's funds are invested in a variety of investments, in accordance with California government code, as described in footnote 2 of the Basic Financial Statements. The District minimizes interest rate risk by investing a greater portion of its funds in short term investments and minimizes credit risk by investing a majority of its funds in the highest rated investments or in diversified investment pools.

## **INTERNAL CONTROLS**

The District is responsible for establishing and maintaining an internal control structure designed to ensure that the District's assets are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled for the preparation of financial statements in conformity with GAAP. The internal structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that; 1) the cost of control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

## **MAJOR INITIATIVES**

The District has initiated several major projects to upgrade infrastructure and ensure the adequacy of facilities.

- 1) A Site Improvement Program was completed during the 2009/2010 fiscal year. The project replaced aging and obsolete administrative and operational facilities at the District's headquarters site. The program is designed to meet the District's needs for the next 25 to 50 years.
- 2) The District completed its Asset Management Master Plan in June 2008. The Asset Management Master Plan supersedes the 1999 Wastewater Master Plan and is used to project the District's future capital improvement needs as it transitions from its "growth" mode to its "replacement" mode. Implementation of the Asset Management Master Plan began in fiscal year 2008/2009 and will continue into fiscal year 2010/2011.
- 3) The Satellite Pump Station Force Mains Project is underway to replace ageing force mains in five pump stations where existing force mains are reaching the end of their useful lives. One of the force main replacements, VP5, was completed. Construction on the remaining four force mains began in October of 2009 and is close to completion.
- 4) A force main corrosion study of the District's four major force mains was completed in July 2009 and established a method of evaluating the amount of corrosion affecting each force main. In addition, an evaluation of the external corrosion of the force mains was completed during the fiscal year. Work based on the results of the evaluation to improve the external corrosion protection of the force mains is ongoing. Also included in this project are funds to replace sections of the Batiquitos force mains.
- 5) The District maintains a Lateral Grant Program to repair or replace damaged private laterals. The program reimburses ratepayers, on a 50/50 basis, up to \$3,000, for lateral replacement and backflow prevention installation. The goal of this program is to provide an incentive to District customers to maintain their private laterals. During the fiscal year 2010 the District contributed \$41,827 for the replacement & repair of twenty-two damaged private laterals.

## **INDEPENDENT AUDIT**

The Government Code requires an annual audit of the District's financial records by a Certified Public Accountant. The District selected, through a competitive process, the firm of Diehl, Evans & Company, LLP to conduct the audit. The auditor report on the financial statements and schedules are included in the financial section of this report.

## **AWARDS**

In January 2010, the District was the recipient of the California Sanitation Risk Management Authority's Loss Control Program of the Year Award, which recognizes efforts by an agency for having an outstanding safety program.

## **ACKNOWLEDGEMENTS**

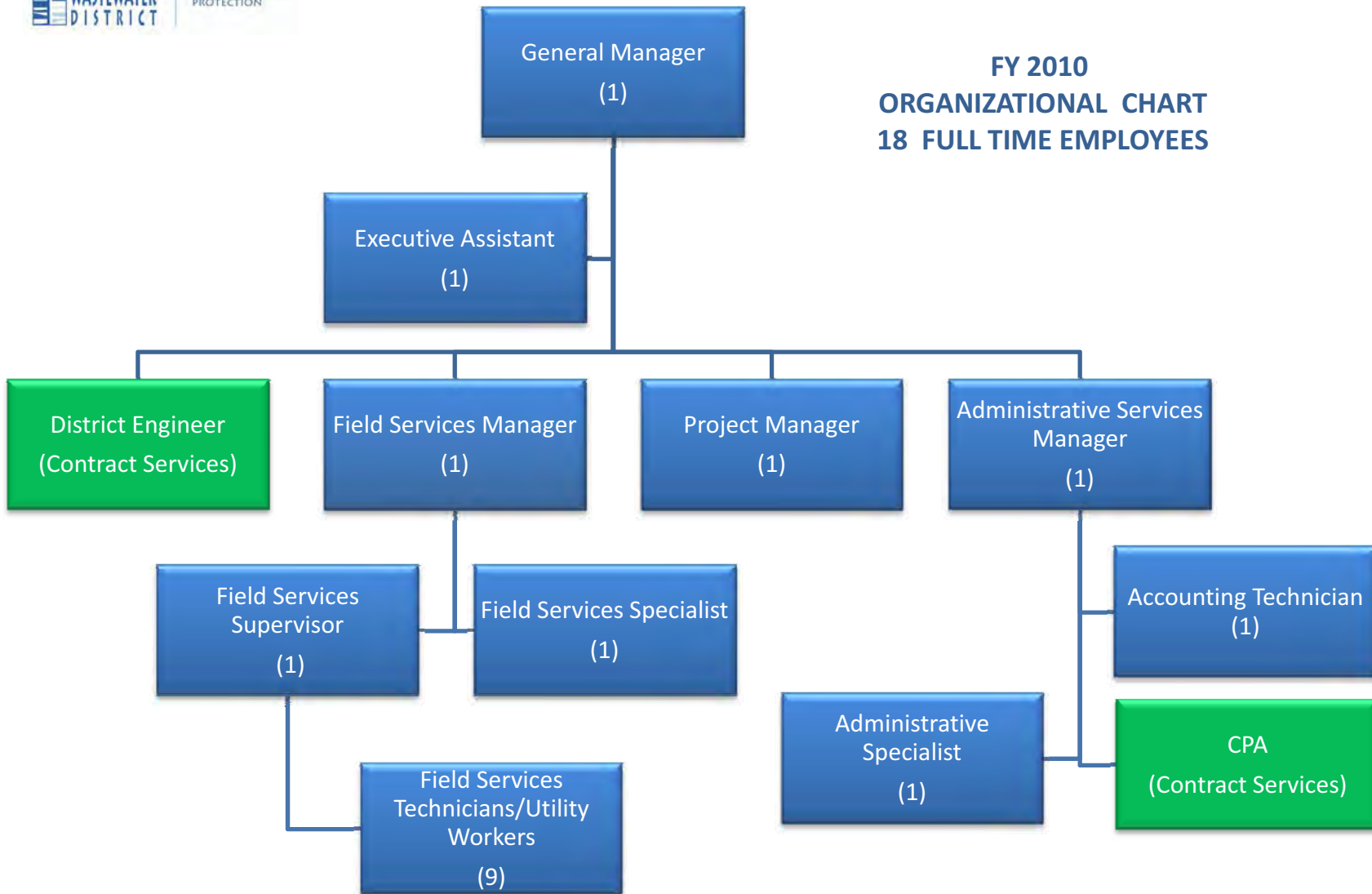
Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. A special note of appreciation goes to Richard Duffey, District CPA, Chuck LeMay, the District's Administrative Services Manager, and Maggie McEniry, the District's Accounting Technician, for their assistance in developing this report. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Leucadia Wastewater District's fiscal policies.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul J. Bushee". The signature is fluid and cursive, with a large initial "P" and "B".

Paul J. Bushee  
General Manager

**FY 2010  
ORGANIZATIONAL CHART  
18 FULL TIME EMPLOYEES**



## **Financial Section**





**DIEHL, EVANS & COMPANY, LLP**  
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\* A PROFESSIONAL CORPORATION

December 8, 2010

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Leucadia Wastewater District  
Carlsbad, California

We have audited the accompanying basic financial statements of Leucadia Wastewater District as of and for the year ended June 30, 2010, as listed in the table of contents. These basic financial statements are the responsibility of the Leucadia Wastewater District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of Leucadia Wastewater District as of June 30, 2009 were audited by other auditors whose report dated September 25, 2009 expressed an unqualified opinion on those statements.

We conducted our audit 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Leucadia Wastewater District as of June 30, 2010, and 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Other Post-Employment Benefit Plan – schedule of funding progress for OPEB, as identified in the accompanying table of contents, 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 an opinion on the accompanying basic financial statements of Leucadia Wastewater District. The Introductory Section, the Supplementary Information in the Financial Section, and the Statistical Section, as identified in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The Combining Schedule of Changes in Net Assets for the Year Ended June 30, 2010, the Combining Schedule of Changes in Net Assets for the Year Ended June 30, 2009, and the Combining Schedule of Operating Revenues and Expenses for the Years Ended June 30, 2010 and June 30, 2009 are 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, for the year ended June 30, 2010, has been subjected to the auditing procedures applied in the audit of the basic 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 for the year ended June 30, 2010 is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section, the Schedule of Use of Capacity Charges in the Supplementary Section of the Financial Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Diehl, Evans and Company, LLP*

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended June 30, 2010 and 2009

Management's Discussion and Analysis (MD&A) offers readers of the Leucadia Wastewater District's (District) financial statements a narrative overview of the District's financial activities for the fiscal year (FY) ended June 30, 2010. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of financial position and results of operations, a current-to-prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt.

### FINANCIAL HIGHLIGHTS

- The District's net assets for FY ended June 30, 2010 decreased by \$630,849 or 0.5% over the prior year, primarily due to a net operating loss (after depreciation) of \$1.8 million and a loss on disposal of capital assets of \$1.1 million. This was partially offset by property tax revenue, interest income, capacity fees, and contributed capital assets.
- The District's wastewater service charge was increased 10% to \$234.74/EDU/Year for FY ended June 30, 2010.
- The District added 119 equivalent dwelling units (EDU's) during the FY ended June 30, 2010 bringing the total connected EDU's to 27,725, a 0.4% increase over the prior year's total.
- Development activity in the District's service area created \$295,326 worth of capital contributions (dedicated facilities of 0.2 miles) and \$307,518 in capacity charges.
- The District's total operating revenue increased by \$761,259 or 12% during the FY ended June 30, 2010. Wastewater service charges increased 11.6% due to a 10% increase in sewer service rates and 0.4% increase in the number of customers. There was also a 25.8% increase in recycled water sales due to an increase in the calculated rate charged and an increase in the deliverable reclaimed water.
- Property taxes decreased \$47,230 or 3.8% for FY ended June 30, 2010, primarily as a result of decreased assessed valuations.
- Interest and investment earnings were down 55% due to a 10% decrease in investments and cash equivalents and a 53% drop in the yearly average investment yield.
- The District's operating expenses (before depreciation) increased \$103,500 or 1.8% due to increases in: personnel costs, self insurance costs, and repair & maintenance costs. These increases were partially offset by decreases in: chemical costs, public information costs, electricity costs (partially as the result of the solar incentive receipts), funding requirements for the OPEB retirement health plan, professional services costs, and treatment costs for the Encina Joint System.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's financial statements. The District's basic financial statements reflect the combined results of the Operating and Capital Programs and include four components: 1) Statements of Net Assets; 2) Statements of Revenues, Expenses, and Changes in Net Assets; 3) Statements of Cash Flows; and 4) Notes to the Financial Statements. In addition to the basic financial statements, supplemental information is also provided.

The financial statements accompanying this MD&A present the financial position, results of operations, and changes in cash flow during the FY ending June 30, 2010. These financial statements have been prepared

## Leucadia Wastewater District

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using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

### *Statements of Net Assets*

The Statements of Net Assets present information on the District's *assets* (investments in resources) and *liabilities* (obligations to creditors), 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 District is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when establishing financial position.

Assets in excess of liabilities (net assets) were \$124,605,605 and \$125,236,454 as of June 30, 2010 and 2009, respectively.

### *Statements of Revenues, Expenses, and Changes in Net Assets*

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the District's net assets changed during the fiscal year. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets. This statement measures the results of the District's operations for the year and can be used to determine if the District has successfully recovered all of its costs through user fees and other charges.

Operating revenues and expenses are related to the District's core activities (providing wastewater services, and processing and delivering recycled water). Non-operating revenues and expenses are not directly related to the core activities of the District (e.g. interest income, interest expense, property taxes, gain or loss on sale of assets). For FY ended June 30, 2010 net assets decreased \$630,849, which is subtracted from the beginning net assets of \$125,236,454 to arrive at ending total net assets of \$124,605,605.

### *Statements of Cash Flows*

The Statements of Cash Flows present information regarding the District's use of cash during the year. It reports cash receipts, cash payments, and net changes in cash resulting from operations, financing and investing activities. The Statements of Cash Flows provides answers to such questions as: *Where did cash come from?: What was cash used for?: and What was the change in the cash balance during the reporting period?*

District cash flow for the FY ended June 30, 2010 has been categorized into one of the following activities: operating, non-capital and related financing, capital and related financing, or investing. The total of these categories represents a decrease in cash and cash equivalents of \$4,810,066, which is subtracted from beginning cash and cash equivalents of \$32,472,816, to arrive at ending cash and cash equivalents of \$27,662,750. The largest contributing factor in the decrease in cash was the acquisition and construction of capital assets in the amount of \$6,062,481. The ending cash and cash equivalents are represented on the Statement of Net Assets as the following: unrestricted cash and cash equivalents of \$24,570,646, current restricted cash and cash equivalents of \$41,220, and noncurrent restricted cash and cash equivalents of \$3,050,884. Cash equivalents managed directly by the District consist of investments in the California Local Agency Investment Fund (LAIF), the California Asset Management Program (CAMP), and the San Diego County Investment Pool.

## **ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The District's financial position remains strong even with the small decrease in total assets and total net assets. The District's cash, cash equivalents, and investments decreased to pay for increased construction activity. Amounts invested in capital assets increased, while the amount of long-term debt decreased and remains relatively low.

# Leucadia Wastewater District

The District's total net assets decreased \$630,849 or 0.5%, primarily due to two reasons. The first one is the operating loss of \$1,803,048 which includes the non-cash depreciation expense of \$2,966,857. Depreciation is the systematic allocation of a capital asset's cost to expense over a specific period of time. Operating income before depreciation expense was actually positive in the amount of \$1,163,809. The second one is the loss on the disposition of expired fixed assets in the amount of \$1,095,299. Partially offsetting the decrease in net assets was non-operating revenue from property taxes and interest income in the amount of \$1,855,612, and capital contributions from capacity charges and contributed capital assets in the amount of \$602,844.

The District spent \$6,138,224 for the acquisition and construction of capital assets, primarily for the District Site Improvement Program and the Satellite Pump Station Force mains Project. The District received \$307,518 in capacity charges to partially offset these expenditures. Capacity fees represent a system buy-in charge and are collected in the Capital Replacement Reserve for construction of facilities and improvements identified in the 2008 Asset Management Master Plan.

The District continues to provide core services to its customers at one of the lowest unit costs in the region. The District's wastewater service charge was \$19.56 per EDU per month for the fiscal year ended June 30, 2010.

One of the most important questions about District finances is whether as a whole the District is better off or worse off as a result of the year's activities? Based on the information from the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows; the District's financial position is slightly weaker but remains strong.

## CURRENT-TO-PRIOR-YEAR ANALYSIS

### *Analysis of Net Assets*

**FIGURE 1. NET ASSETS**

	FY 2010	FY 2009	Change Amount	%
<b>ASSETS</b>				
Current Assets	\$ 29,893,139	\$ 33,776,120	\$ (3,882,981)	-11.5%
Non-Current Assets	13,402,134	14,351,173	(949,039)	-6.6%
Capital Assets, Net	88,122,483	85,438,055	2,684,428	3.1%
<b>Total Assets</b>	<b>\$ 131,417,756</b>	<b>\$ 133,565,348</b>	<b>\$ (2,147,592)</b>	<b>-1.6%</b>
<b>LIABILITIES</b>				
Current Liabilities	\$ 4,459,888	\$ 5,471,175	\$ (1,011,287)	-18.5%
Non Current Liabilities	2,352,263	2,857,719	(505,456)	-17.7%
<b>Total Liabilities</b>	<b>\$ 6,812,151</b>	<b>\$ 8,328,894</b>	<b>\$ (1,516,743)</b>	<b>-18.2%</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	\$ 83,253,950	\$ 80,465,519	\$ 2,788,431	3.5%
Restricted	3,703,768	4,599,835	(896,067)	-19.5%
Unrestricted	37,647,887	40,171,100	(2,523,213)	-6.3%
<b>Total Net Assets</b>	<b>\$ 124,605,605</b>	<b>\$ 125,236,454</b>	<b>\$ (630,849)</b>	<b>-0.5%</b>

Figure 1 above presents a summary of the District's Statement of Net Assets. The District's Net Assets as of June 30, 2010 totaled \$124,605,605 compared with \$125,236,454 as of June 30, 2009, a decrease of 0.5%. Net assets are accumulated from revenues, expenses, and contributed capital combined with the beginning balance of net assets as presented in the Statement of Revenues, Expenses, and Changes in Net Assets. In accordance with generally accepted accounting principles, capital assets are recorded at historical cost.

Total assets decreased by \$2.1 million or 1.6%. This decrease was primarily due to a \$4.9 million decrease in total cash, cash equivalents, and investments which were used to help fund the \$6.1 million expenditures for the acquisition and construction of capital assets. This decrease in total assets was partially offset by an increase of \$2.7 million in net capital assets, which resulted from the increase in capital expenditures less additional depreciation expense of \$3.0 million and disposition of capital assets of \$1.1 million. Total liabilities decreased by \$1.5 million or 18.2%. The decrease of total liabilities was largely attributable to a decrease in construction liabilities due to near completion of the Site Improvement Project plus a \$505,456 reduction in non-current liabilities as the District continues to pay down its long-term debt obligations.

**FIGURE 2. SELECTED FINANCIAL RATIOS**

<b>Ratio</b>	<b>FY 2010</b>	<b>FY 2009</b>
Current Ratio	6.7	6.2
Capital Assets to Long-Term Liabilities	37.46 / 1	29.90 / 1
<b>Total Debt to Equity</b>	<b>1 / 18.29</b>	<b>1 / 15.04</b>

Figure 2 illustrates how effectively the District can meet its current obligation, and the margin of safety to creditors. The current ratio (current assets divided by current liabilities) indicates the District can pay 6.7 times its current debt from current assets. The District’s current ratio of 6.7 indicates a high degree of solvency and a strong current position. The capital assets to long-term liabilities ratio indicates that for every dollar of debt the District has \$37.46 in capital assets (infrastructure, land, building, vehicles, equipment, furniture, etc). The District’s capital assets to long-term liabilities ratio continues to improve as the District continues to pay down its long-term debt and to finance capital projects with capacity fees and capital replacement reserves. The District maximizes a pay-as-you-go method and minimizes the use of debt to finance capital projects. Another key indicator that the District’s financial position is strong is that the debt-to-equity ratio continues to be very favorable as the District’s assets have increased. For every \$1 of debt at June 30, 2010 the District had \$18.29 in net assets (equity), which is up from the ratio of \$1 of debt to \$15.04 in net assets the District had at June 30, 2009. This ratio also indicates a high degree of solvency and the ability to obtain additional financing if needed.

***Analysis of Revenues and Expenses***

A comparative analysis of the District’s revenues and expenses is presented in Figure 3. Highlights are discussed below.

- Operating revenue increases were primarily the result of a 10% increase in the wastewater service charges and a 0.4% increase in the number of customers from FY June 30, 2009 to 2010. There was also a 25.8% increase in recycled water sales due to an increase in the calculated rate charged and an increase in the deliverable reclaimed water.
- Operating expense increases were attributable to several factors, including increases in: personnel costs, self insurance costs, and repair & maintenance costs. These increases were partially offset by decreases in: chemical costs, public information costs, electricity costs (partially as the result of the solar incentive receipts), professional services costs, treatment costs for the Encina Joint System, and decreased funding requirements for the OPEB retirement health plan.
- Interest and investment earnings was down 55% due to a 10% decrease in investments and cash equivalents and a 53% drop in the yearly average investment yield. The District participates in three different investment pools and in the CAMP Individual Portfolio program. As of June 30, 2010 the CAMP individual portfolio contained laddered investments in US Treasury notes and US government sponsored agency notes and bonds totaling \$10.2 million.

# Leucadia Wastewater District

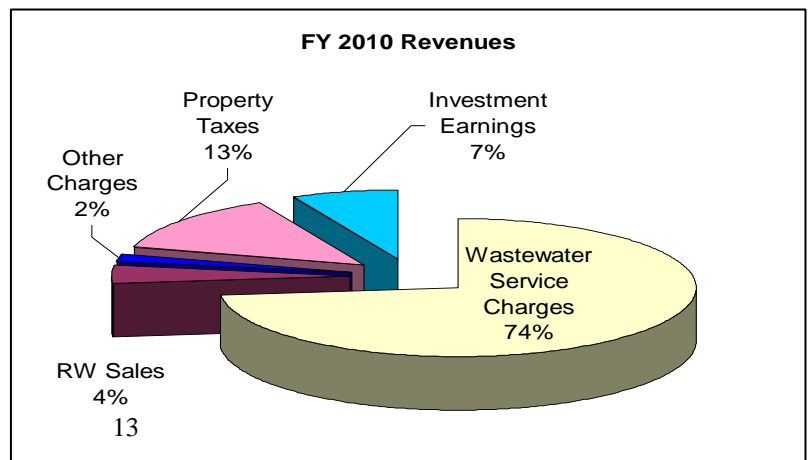
- Capacity charges were up 47% as a result of an increase in private development activity over the depressed level of private development activity in the prior year. Also, contributions from capacity charges remain low as the District transitions from a growth oriented mode to a replacement oriented mode. Capital contributions were down 67% as a result of slowed private development projects in prior years.
- Property taxes decreased 3.8% due to decreases in assessed valuations.
- The majority of the loss on sale/disposal of assets was the result of the replacement of aging buildings with the site improvement program and the termination of the reclaimed water expansion project design.

**FIGURE 3. COMPARATIVE ANALYSIS OF REVENUE AND EXPENSES**

	FY 2010	FY 2009	FY 2010-2009 Change	
			Amount	%
<b>OPERATIONS</b>				
Operating revenues	\$ 7,089,681	\$ 6,328,422	761,259	12.0%
Operating expenses	5,925,872	5,822,372	103,500	1.8%
Net Income from Operations	1,163,809	506,050	657,759	130.0%
Depreciation expense	2,966,857	2,713,390	253,467	9.3%
Operating Income (Loss)	(1,803,048)	(2,207,340)	404,292	-18.3%
<b>NON-OPERATIONS</b>				
Property taxes	1,199,025	1,246,255	(47,230)	-3.8%
Investment income	656,587	1,468,487	(811,900)	-55.3%
Interest expense - long term debt	(193,479)	(218,861)	25,382	-11.6%
Gain/(Loss) on sale/disposition of capital assets	(1,095,299)	(289,588)	(805,711)	278.2%
Other non-operating income	10,650	10,013	637	6.4%
Other non-operating expenses	(8,129)	(8,108)	(21)	0.3%
Total non-operating revenues/(expenses), net	569,355	2,208,198	(1,638,843)	-74.2%
Net Income (loss) before capital contributions	(1,233,693)	858	(1,234,551)	-143887%
<b>CAPITAL CONTRIBUTIONS</b>				
Change in Net Assets	(630,849)	1,817,675	(2,448,524)	-134.7%
Beginning Net Assets	125,236,454	123,418,779	1,817,675	
Ending Net Assets	\$ 124,605,605	\$ 125,236,454	\$ (630,849)	

**Revenues:**

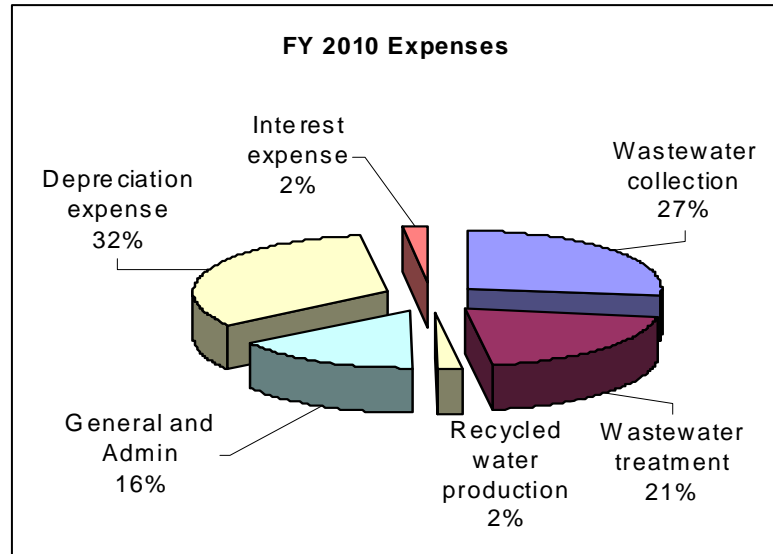
Revenues for Fiscal Year (FY) 2010 totaled \$8,955,943 and are presented here in graphical format. As can be seen, wastewater service charges continue to be a major funding source representing 74% of the District's revenues. Other significant sources of revenue are investment income at 7% and property taxes at 13%.



# Leucadia Wastewater District

## Expenses:

Expenses for Fiscal Year (FY) 2010 totaled \$9,094,337. Depreciation represents the largest component at 32% of the expenses. Wastewater Collection (27%), Wastewater Treatment (21%), and General and Administrative (16%) are the next largest expenses. The Wastewater Treatment component represents the costs for treatment at the Encina Joint System based on the District's ownership and usage of those facilities.



## RESTRICTIONS, COMMITMENTS, AND LIMITATIONS

### District Reserves:

In February 2009, the District adopted its Revised Reserve Fund Policy. To reflect the District's compliance with GASB 34, the Policy categorizes the District reserves into two general types: 1) Restricted Reserves and 2) Unrestricted Reserves. The Policy also established target amounts for the reserves and described the flow of funding to and from the reserves. A brief overview of the various reserve designations is provided as follows:

### Restricted Reserves:

Restricted reserves are those that have conditions or restrictions placed on their use by outside sources such as creditors, laws, regulations, etc. The District's Reserve Fund Policy established two restricted reserves: 1) the Capital Improvement Reserve and 2) the Debt Service Reserve.

During FY ended June 30, 2010, there was a net reduction in the Capital Improvement Reserve of \$896,067, or 23%, due to the continued implementation of the District's growth related capital projects.

The District is a member of the Encina Financing Joint Powers Authority (EFJPA) and, as such, issued Wastewater Revenue Bonds in 1997 to fund the Encina Wastewater Authority's Phase IV Expansion. The District owns approximately 20% of the Encina treatment facility. As required by the Bond's Trust Indenture, the District is required to maintain one year's bond payment. The District established the Debt Service Reserve to hold these funds.

The restricted reserve balances as of June 30, 2010 are as follows:

<u>Restricted Reserve Designation</u>	<u>Reserve Balance</u>
Capital Improvement Reserve	\$ 3,050,884
Debt Service Reserve	<u>652,884</u>
Total	<u>\$ 3,703,768</u>

# Leucadia Wastewater District

## *Unrestricted Reserves:*

Unrestricted reserves have no outside restrictions or conditions and the use of these funds is at the discretion of the Board of Directors. The District maintains five separate unrestricted reserve designations covering operations, debt service, capital replacement, water recycling, and emergencies. During FY 2010, the Replacement Reserve, which funds the refurbishment and replacement of the District’s facilities, had a decrease of \$2.1M or about 9%. This decrease was due to approximately \$5.1M in capital replacement expenses; offset by deposits into the Replacement Reserve from the buy-in portion (100%) of the capacity fees, property taxes, and interest income. The *unrestricted* Debt Service Custodial Reserve, which was designated to pay down the Encina Phase IV Revenue Bonds, had a reduction of \$527,130 or 13.9% during FY 2010 as the District continues to pay down its bond debt in this area. The unrestricted reserve balances as of June 30, 2010 are as follows:

<u>Unrestricted Reserve Designation</u>	<u>Reserve Balance</u>
Operations Reserve	\$ 2,184,722
Debt Service Custodial Reserve	3,253,840
Replacement Reserve	21,554,781
Water Recycling Reserve	3,154,544
Emergency Reserve	<u>7,500,000</u>
Total	<u>\$37,647,887</u>

Overall, the District’s restricted and unrestricted reserves totaled \$41,351,655 as of June 30, 2010. This is a decrease of \$3,419,280 from the prior year, which is mostly the result of the District’s funding of its anticipated capital projects during the year; partially offset by its positive operating income before depreciation, plus interest income and property taxes. The remaining reserve balances show that the District remains in a strong financial position to fund the remaining balance of the estimated \$107M in capital projects over the next 20 years as identified in the District’s 2008 Comprehensive Financial Plan.

## **CAPITAL ASSETS AND LONG-TERM DEBT**

### *Capital Assets:*

At the end of FY ended June 30, 2010 the District’s investment in capital assets amounted to \$88,122,483 , net of accumulated depreciation of \$37,721,632. This investment in capital assets includes land, buildings, donated subsurface lines, collection and transmission facilities, equipment, vehicles, construction-in-progress, and the District’s share of treatment and disposal facilities of the Encina Joint System. Development activity in the District’s service area and implementation of the Capital Improvement Program projects identified in the Asset Management Master Plan resulted in contributions to the District’s infrastructure. The following list provides a summary of significant additions to capital assets during the year:

Contributed Subsurface Lines	\$ 295,326
Pump Station Improvements	66,064
Collection Lines	185,830
District Site Improvement Program	2,694,851
Satellite Pump Station and Forcemain Project	2,314,256
Forcemain Corrosion Project	51,334
Vehicles and Equipment	147,026
Encina Joint System	<u>678,862</u>
Total	<u>\$ 6,433,549</u>

Additional information on the District’s capital assets can be found in note 3 “Capital Assets” of this report.



**Long Term Debt:**

Total existing long-term debt obligations amount to \$2,833,670 at June 30, 2010. Reductions in long-term debt for the year were as follows:

<u>Long-term Debt Obligation</u>	<u>Payments/ Reductions</u>	<u>Balance June 30, 2010</u>
State Water Reclamation Loan	\$ 51,209	\$ 173,130
Revenue Refunding Bonds	480,000	2,795,000
Less: Unamortized refunding costs	<u>(32,929)</u>	<u>(134,460)</u>
 Total Long-term debt	 <u>\$ 498,280</u>	 <u>\$ 2,833,670</u>

Additional information on the District’s Long Term Debt can be found in note 9 “Long-Term Debt” of this report.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The District considered the recommendations from the 2008 Comprehensive Financial Plan Update, the 2008 Asset Management Master Plan, and the following economic factors in establishing the FY 2011 budget amounts and fees:

- A declining level of growth within the District, estimating the addition of 50 equivalent dwelling units (EDU) in fiscal year 2011.
- The need to replace or rehabilitate existing, aging District infrastructure.
- Continuing economic uncertainties, and the volatility of revenues such as property taxes and interest income.
- Rising costs of employee insurances and retirement benefits.
- Emerging regulatory and environmental pressures.

As a result of these factors, the FY ended June 30, 2011 budget includes:

- An increase for annual wastewater service charges of \$23.47 to \$258.21/EDU/Year.
- Capacity Fee charges were unchanged at \$3,732 per EDU.
- \$4,088,218 in appropriations for capital improvement and replacement projects.
- A 0% increase in personnel costs due to reduced labor costs.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our Board of Directors, citizens, customers, ratepayers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the funds it receives and the stewardship of the facilities it owns and operates. If you have questions about this report or need additional information, contact the District General Manager at the Leucadia Wastewater District, 1960 La Costa Avenue, Carlsbad, California 92009, (760) 753-0155, or visit our website at [www.lwwd.org](http://www.lwwd.org).

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# LEUCADIA WASTEWATER DISTRICT

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## STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 24,570,646	\$ 27,779,749
Restricted cash and cash equivalents (Note 2)	41,220	746,116
Investments (Note 2)	4,730,643	4,751,101
Accrued interest receivable	120,179	184,300
Accounts receivable – wastewater service charges	2,295	5,178
Accounts receivable – property taxes	1,026	1,195
Accounts receivable – due from other governments	370,955	254,254
Accounts receivable – other	5,519	3,376
Prepaid expenses and other deposits	50,656	50,851
	<u>29,893,139</u>	<u>33,776,120</u>
Total Current Assets		
Non-Current Assets:		
Restricted cash and cash equivalents (Note 2)	3,050,884	3,946,951
Investments (Note 2)	8,754,357	8,798,228
Restricted investments (Note 2)	652,884	652,884
Deposits with Encina Wastewater Authority (Note 4)	906,849	906,849
Capital assets, net (Note 3)	88,122,483	85,438,055
Bond issuance costs (Note 6)	37,160	46,261
	<u>101,524,617</u>	<u>99,789,228</u>
Total Non-Current Assets		
	<u>131,417,756</u>	<u>133,565,348</u>
Total Assets		

(Continued)

See accompanying independent auditors' report and notes to basic financial statements.

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# LEUCADIA WASTEWATER DISTRICT

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## STATEMENTS OF NET ASSETS (Continued)

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,504,070	\$ 2,207,409
Restricted accounts payable and accrued expenses	41,220	746,116
Accrued salaries and wages	18,813	54,455
Developer deposits	80,551	86,755
Accrued interest payable	61,172	71,696
Deferred revenue (Note 7)	2,034,863	1,640,586
Long-term liabilities - due within one year		
Compensated absences (Note 8)	166,454	132,949
State loan payable – current portion (Note 9)	52,745	51,209
Revenue refunding bonds payable – current portion (Note 9)	500,000	480,000
 Total Current Liabilities	 <u>4,459,888</u>	 <u>5,471,175</u>
Non-Current Liabilities:		
Long-term liabilities - due in more than one year		
Compensated absences (Note 8)	71,338	56,978
State loan payable (Note 9)	120,385	173,130
Revenue refunding bonds payable (Note 9)	2,160,540	2,627,611
 Total Non-Current Liabilities	 <u>2,352,263</u>	 <u>2,857,719</u>
 Total Liabilities	 <u>6,812,151</u>	 <u>8,328,894</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	83,253,950	80,465,519
Restricted for debt service	652,884	652,884
Restricted for capital projects	3,050,884	3,946,951
Unrestricted	37,647,887	40,171,100
 Total Net Assets	 <u>\$ 124,605,605</u>	 <u>\$ 125,236,454</u>

## LEUCADIA WASTEWATER DISTRICT

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### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES</b>		
Wastewater service charges	\$ 6,557,352	\$ 5,876,806
Recycled water sales	384,698	305,867
Other charges and services	147,631	145,749
	<hr/>	<hr/>
Total Operating Revenues	7,089,681	6,328,422
	<hr/>	<hr/>
<b>OPERATING EXPENSES</b>		
Wastewater collection	2,463,484	2,112,688
Wastewater treatment – Encina Joint System	1,874,697	2,044,144
Recycled water production	167,920	145,465
General and administrative	1,419,771	1,520,075
	<hr/>	<hr/>
Total Operating Expenses	5,925,872	5,822,372
	<hr/>	<hr/>
Operating Income Before Depreciation Expense	1,163,809	506,050
Depreciation expense	(2,966,857)	(2,713,390)
	<hr/>	<hr/>
Operating Income (Loss)	(1,803,048)	(2,207,340)
	<hr/>	<hr/>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Property taxes	1,199,025	1,246,255
Interest and investment earnings	656,587	1,468,487
Interest expense – long-term debt	(193,479)	(218,861)
Gain/(loss) on sale/disposition of capital assets	(1,095,299)	(289,588)
Other nonoperating revenues	10,650	10,013
Other nonoperating expenses	(8,129)	(8,108)
	<hr/>	<hr/>
Total Nonoperating Revenues, net	569,355	2,208,198
	<hr/>	<hr/>
Income (Loss) Before Capital Contributions	(1,233,693)	858
	<hr/>	<hr/>
Capital Contributions:		
Capacity charges	307,518	209,737
Developers and others	295,326	1,607,080
	<hr/>	<hr/>
Total Capital Contributions	602,844	1,816,817
	<hr/>	<hr/>
Change in Net Assets	(630,849)	1,817,675
	<hr/>	<hr/>
Total Net Assets, Beginning of Year	125,236,454	123,418,779
	<hr/>	<hr/>
Total Net Assets, End of Year	<u>\$ 124,605,605</u>	<u>\$ 125,236,454</u>

See accompanying independent auditors' report and notes to basic financial statements.

# LEUCADIA WASTEWATER DISTRICT

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## STATEMENTS OF CASH FLOWS For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers for wastewater sales and service	\$ 6,976,241	\$ 6,230,466
Cash paid to vendors and suppliers for materials and services	(5,728,611)	(4,321,052)
Cash paid to employees for salaries and wages	(1,599,282)	(1,479,116)
	<u>(351,652)</u>	<u>430,298</u>
Net Cash Provided (Used) by Operating Activities		
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from property taxes	1,199,194	1,247,294
	<u>1,199,194</u>	<u>1,247,294</u>
Net Cash Provided by Noncapital and Related Financing Activities		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(6,062,481)	(8,029,134)
Deposits with Encina Wastewater Authority	-	(172,890)
Principal paid on long-term debt	(531,209)	(509,717)
Interest paid on long-term debt	(161,973)	(186,735)
Proceeds from capacity fees	307,518	209,737
Proceeds from the sale of capital assets	5,500	65,694
	<u>(6,442,645)</u>	<u>(8,623,045)</u>
Net Cash (Used) by Capital and Related Financing Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	7,301,541	9,553,379
Purchases of investments	(7,237,212)	(7,993,413)
Interest and investment earnings	720,708	1,609,313
	<u>785,037</u>	<u>3,169,279</u>
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(4,810,066)	(3,776,174)
Cash and Cash Equivalents, Beginning of Year	32,472,816	36,248,990
Cash and Cash Equivalents, End of Year	<u>\$ 27,662,750</u>	<u>\$ 32,472,816</u>

(Continued)

See accompanying independent auditors' report and notes to basic financial statements.

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## LEUCADIA WASTEWATER DISTRICT

### STATEMENTS OF CASH FLOWS (Continued)

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Reconciliation of operating income (loss) to net cash flows provided (used) by operating activities:</b>		
Operating income (loss)	\$ (1,803,048)	\$ (2,207,340)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	2,966,857	2,713,390
Other nonoperating revenues (expense), net	2,521	1,905
Changes in operating assets and liabilities:		
(Increase)Decrease in operating assets:		
Accounts receivable – wastewater sales	2,883	2,118
Accounts receivable – due from other governments	(116,701)	(102,190)
Accounts receivable – other	(2,143)	211
Prepaid expenses and other deposits	195	(3,697)
Increase(Decrease) in operating liabilities:		
Accounts payable and accrued expenses – unrestricted	(703,339)	37,317
Accounts payable and accrued expenses – restricted	(704,896)	-
Accrued salaries and wages	(35,642)	(391)
Compensated absences	47,865	13,569
Developer deposits	(6,204)	(24,594)
Total adjustments	<u>1,451,396</u>	<u>2,637,638</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (351,652)</u>	<u>\$ 430,298</u>

#### Financial Statement Classification

##### Cash and cash equivalents

###### Current assets:

Cash and cash equivalents	\$ 24,570,646	\$ 27,779,749
Restricted cash and cash equivalents	41,220	746,116

###### Non-current assets:

Restricted cash and cash equivalents	<u>3,050,884</u>	<u>3,946,951</u>
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Total Cash and Cash Equivalents	<u>\$ 27,662,750</u>	<u>\$ 32,472,816</u>
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#### Supplemental Disclosures:

##### Noncash Investing and Financing Activities:

Capital assets contributed by developers and others	\$ 295,326	\$ 1,607,080
Change in fair value of investments	\$ 33,541	\$ 1,503

June 30, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Organization and Operations of the Reporting Entity:

Leucadia Wastewater District (formerly known as Leucadia County Water District) was formed in 1959. The District provides sewer collection and treatment services to portions of the incorporated cities of Encinitas and Carlsbad. The District provides recycled water on a wholesale basis to the City of Carlsbad for use as irrigation on the La Costa Resort & Spa Golf Course. The District serves a land area of approximately sixteen square miles.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no component units.

b. Basis of Accounting and Measurement Focus:

"Measurement focus" is a term used to describe *which* transactions are recorded within the various financial statements. "Basis of accounting" refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting." Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating revenues, such as wastewater service charges, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

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 of providing wastewater services to its customers on a continuing basis be financed or recovered primarily through user charges (wastewater service charges), capital grants and similar funding.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):****c. Financial Reporting:**

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses, and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also recommends that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 20, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

**d. Assets, Liabilities and Net Assets:****1. Use of Estimates:**

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

**2. Cash and Cash Equivalents:**

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**3. Investments and Investment Policy:**

The District has adopted an investment policy authorizing the District's General Manager to deposit funds in financial institutions.

Changes in fair value that occur during a 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 or sale of investments.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

## d. Assets, Liabilities and Net Assets (Continued):

## 4. Accounts Receivable:

The District has made no provision for uncollectible receivables as all accounts are considered to be collectible as of June 30, 2010 and 2009.

## 5. Federal and State Capital and Operating Grants:

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the statement of net assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

## 6. Prepaid Expenses:

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

## 7. Restricted Assets:

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly are shown as restricted assets on the accompanying statements of net assets. Bond reserve funds set aside from bond proceeds are restricted for future debt service payments and collected capacity charges are set aside for certain capital projects. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

## 8. Capital Assets:

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$2,000 if they have an expected useful life of more than one year. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	10 - 50 years
Subsurface lines	50 - 150 years
Sewage collection facilities	2 - 150 years
Sewage treatment facilities	5 - 40 years
Sewage transmission facilities	5 - 100 years
Water reclamation facilities	3 - 50 years
Equipment	3 - 15 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Assets, Liabilities and Net Assets (Continued):

9. Ownership in Encina Joint System:

The District records ownership in the Encina Wastewater Authority as a component of capital assets. Investment in the Encina Joint System is broken down into completed plant and equipment and construction in process. Completed plant and equipment is capitalized at a percentage of ownership of accumulated expenditures made by the Encina Wastewater Authority. Ownership percentages are determined by joint agreement at the time the assets are acquired. Construction in process is recorded as the accumulation of actual payments made by the District. Depreciation is calculated on the same basis as Note 1.D.8. See notes 3 and 4 for further information.

10. Deferred Charges:

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

11. Compensated Absences:

The District’s personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are fully vested. Cash payment of unused vacation and 75% of unused sick leave are available to those qualified employees when retired or terminated. Annually, during November, each employee who has accumulated more than 176 hours sick leave may elect to be paid for 75% of that time in excess of 176 hours.

12. Developer Deposits:

Developer deposits are received from developers during construction of new sewer connections for inspection fees and plan checks. Any deposits held at the completion of the construction are refunded to the developer.

13. Property Taxes:

Property tax in California is levied in accordance with Article XIII A of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government. The District’s property tax calendar for the fiscal year ended June 30, 2010 was as follows:

Lien date	January 1
Levy date	July 1
Due date	
First installment	November 1
Second installment	February 1
Delinquent date	
First installment	December 10
Second installment	April 10

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):****d. Assets, Liabilities and Net Assets (Continued):****14. Net Assets:**

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- Restricted Net Assets – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

**15. Wastewater Service:**

Wastewater service revenues are collected by the County of San Diego through an assessment on customers’ property tax bills.

**16. Capital Contributions:**

Capital contributions represent cash and capital asset additions contributed to the District by granting agencies, or real estate developers desiring services that require capital expenditures or capacity commitment.

**17. Budgetary Policies:**

The District adopts an annual budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is used to account for commitments related to ongoing capital related projects.

## 2. CASH AND INVESTMENTS:

Cash and investments as of June 30, are classified in the accompanying financial statements as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 24,570,646	\$ 27,779,749
Restricted cash and cash equivalents	41,220	746,116
Investments	4,730,643	4,751,101
Restricted cash and cash equivalents - non current	3,050,884	3,946,951
Investments - non-current	8,754,357	8,798,228
Restricted investments - non-current	<u>652,884</u>	<u>652,884</u>
Total Cash and Investments	<u>\$41,800,634</u>	<u>\$46,675,029</u>

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

	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 500	\$ 500
Deposits with financial institutions	339,770	427,492
Investments	<u>41,460,364</u>	<u>46,247,037</u>
Total cash and investments	<u>\$41,800,634</u>	<u>\$46,675,029</u>

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

## 2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the California Government Code and the District's Investment Policy (Continued):

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio*	Maximum Investment in One Issuer
State and Local Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years**	75%	None
U.S. Government Sponsored Entities	5 years**	75%	None
Banker's Acceptances	180 days	10%	30%
Commercial Paper	270 days	10%	10%
Non-Negotiable Certificates of Deposit	1 year	10%	None
Negotiable Certificates of Deposit	5 years	10%	None
Medium-Term Notes	5 years	10%	None
Repurchase Agreements	30 days	10%	None
Money Market Mutual Funds	N/A	10%	10%
San Diego County Pooled Investment Fund	N/A	75%	None
California Local Agency Investment Fund (LAIF)	N/A	75%	None
California Asset Management Program (CAMP)	N/A	75%	None

\* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

\*\* Except when authorized by the District's legislative body in accordance with Government Code Section 53601

## Investments Authorized by Debt Agreements:

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The debt agreement for the District's revenue refunding bonds (see note 8) authorizes the bond trustee to invest reserve funds in investment contracts with a maturity up to the maturity date of the outstanding debt.

## 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. 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).

**2. CASH AND INVESTMENTS (CONTINUED):****Custodial Credit Risk (Continued):**

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District had deposits with bank balances of \$440,072 and \$429,228 as of June 30, 2010 and 2009, respectively. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

**Investment in State Investment Pool:**

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

**Investment in California Asset Management Program:**

The California Asset Management Program (CAMP) is a public joint powers authority which provides California Public Agencies with investment management services for surplus funds and comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of tax-exempt financings. The CAMP currently offers the Cash Reserve Portfolio, a short-term investment portfolio, as a means for Public Agencies to invest these funds. Public Agencies that invest in the Pool ("Participants") purchase shares of beneficial interest. Participants may also establish individual, professionally managed investment accounts ("Individual Portfolios") by separate agreement with the Investment Advisor. The District participates in the Cash Reserve Portfolio and has also established a professionally managed individual portfolio through CAMP.

Investments in the pools and individual portfolios are made only in investments in which Public Agencies generally are permitted by California statute. The CAMP may reject any investment and may limit the size of a participant's account. The pool seeks to maintain, but does not guarantee, a constant net asset value of \$1.00 per share. A participant may withdraw funds from of its Pool accounts at any time by check or wire transfers. Requests for wire transfers must be made by 9:00 AM that day. Fair value of the pool is determined by the fair value per share of the pool's underlying portfolio.

## 2. CASH AND INVESTMENTS (CONTINUED):

## Investment in San Diego County Investment Pool:

The District is a voluntary participant in the San Diego County Treasurer's Pooled Money Fund which is managed by San Diego County Treasurer-Tax Collector's office on behalf of the County of San Diego, school districts, colleges, special districts, and local agencies in San Diego.

Permissible investments in the pool are made in accordance with California State law. The maximum effective duration for the portfolio is 1.5 years. Before a participant can withdraws funds from the Pool it must submit a withdrawal request 2 working days prior to its desired withdrawal date. Also, the County Treasurers' Office must insure that any withdrawals will not adversely affect the interest of all other depositors in the Pool.

## 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 rate 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 matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Investments at June 30, 2010:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Resolution Funding Corp. Coupon Strips	\$ 3,312,870	\$ 684,627	\$ 677,431	\$ 1,950,812	\$ -
U.S. Treasury Notes	2,019,452	1,004,766	1,014,686	-	-
Government National Mortgage Association Pools	21,740	-	-	-	21,740
Federal Farm Credit Bank Bonds	1,028,125	-	1,028,125	-	-
Federal Home Loan Bank Global Bonds	2,542,187	-	2,542,187	-	-
Federal Home Loan Mortgage Corp. Global Ref. Notes	1,024,063	1,024,063	-	-	-
Federal Home Loan Mortgage Corp. Global Notes	1,010,313	-	-	1,010,313	-
Federal National Mortgage Association Global Benchmark Notes	1,007,500	1,007,500	-	-	-
Federal National Mortgage Association Global Notes	1,518,750	1,009,687	-	509,063	-
Local Agency Investment Fund (LAIF)	17,276,893	17,276,893	-	-	-
California Asset Management Program (CAMP)	2,400,530	2,400,530	-	-	-
San Diego County Pool	7,645,057	7,645,057	-	-	-
Held by bond trustee:					
Investment contract	652,884	-	-	652,884	-
<b>Total</b>	<b>\$ 41,460,364</b>	<b>\$ 32,053,123</b>	<b>\$ 5,262,429</b>	<b>\$ 4,123,072</b>	<b>\$ 21,740</b>

## 2. CASH AND INVESTMENTS (CONTINUED):

## Interest Rate Risk (Continued):

Investments at June 30, 2009:

Investment Type	Total	Remaning Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Resolution Funding Corp. Coupon Strips	\$ 3,262,012	\$ 95,654	\$ 678,070	\$ 1,911,070	\$ 577,218
Resolution Funding Corporation	587,877	587,877	-	-	-
U.S. Treasury Notes	1,990,790	-	996,410	994,380	-
Government National Mortgage Association Pools	23,016	14	-	-	23,002
Federal Farm Credit Bank Bonds	1,011,250	-	-	1,011,250	-
Federal Home Loan Bank Discount Note	999,118	999,118	-	-	-
Federal Home Loan Bank Global Bonds	1,038,125	1,038,125	-	-	-
Federal Home Loan Mortgage Corp. Global Ref. Notes	1,584,609	1,013,125	571,484	-	-
Federal Home Loan Mortgage Corp. Global Notes	1,008,158	-	1,008,158	-	-
Federal National Mortgage Association Global Benchmark Notes	2,044,376	1,017,188	1,027,188	-	-
Local Agency Investment Fund (LAIF)	27,123,801	27,123,801	-	-	-
California Asset Management Program (CAMP)	4,810,242	4,810,242	-	-	-
San Diego County Pool	110,779	110,779	-	-	-
Held by bond trustee:					
Investment contract	652,884	-	-	-	652,884
Total	<u>\$ 46,247,037</u>	<u>\$ 36,795,923</u>	<u>\$ 4,281,310</u>	<u>\$ 3,916,700</u>	<u>\$ 1,253,104</u>

## 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, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

## 2. CASH AND INVESTMENTS (CONTINUED):

## Credit Risk (Continued):

Credit ratings of investments as of June 30, 2010, were as follows:

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	AA	Not Rated
Resolution Funding Corp. Coupon Strips	\$ 3,312,870	N/A	\$ 3,312,870	\$ -	\$ -	\$ -
U.S. Treasury Notes	2,019,452	N/A	2,019,452	-	-	-
Government National Mortgage Association Pools	21,740	N/A	21,740	-	-	-
Federal Farm Credit Bank Bonds	1,028,125	AAA	-	1,028,125	-	-
Federal Home Loan Bank Global Bonds	2,542,187	AAA	-	2,542,187	-	-
Federal Home Loan Mortgage Corp. Global Ref. Notes	1,024,063	AAA	-	1,024,063	-	-
Federal Home Loan Mortgage Corp. Global Notes	1,010,313	AAA	-	1,010,313	-	-
Federal National Mortgage Association Global Benchmark Notes	1,007,500	AAA	-	1,007,500	-	-
Federal National Mortgage Association Global Notes	1,518,750	AAA	-	1,518,750	-	-
Local Agency Investment Fund (LAIF)	17,276,893	N/A	-	-	-	17,276,893
California Asset Management Program (CAMP)	2,400,530	N/A	-	2,400,530	-	-
San Diego County Pool	7,645,057	N/A	-	7,645,057	-	-
Held by bond trustee:						
Investment contract	652,884	A	-	-	652,884	-
<b>Total</b>	<b>\$ 41,460,364</b>		<b>\$ 5,354,062</b>	<b>\$ 18,176,525</b>	<b>\$ 652,884</b>	<b>\$ 17,276,893</b>

Credit ratings of investments as of June 30, 2009, were as follows:

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	AA	Not Rated
Resolution Funding Corp. Coupon Strips	\$ 3,262,012	N/A	\$ 3,262,012	\$ -	\$ -	\$ -
Resolution Funding Corporation	587,877	N/A	587,877	-	-	-
U.S. Treasury Notes	1,990,790	N/A	1,990,790	-	-	-
Government National Mortgage Association Pools	23,016	N/A	23,016	-	-	-
Federal Farm Credit Bank Bonds	1,011,250	AAA	-	1,011,250	-	-
Federal Home Loan Bank Discount Note	999,118	AAA	-	999,118	-	-
Federal Home Loan Bank Global Bonds	1,038,125	AAA	-	1,038,125	-	-
Federal Home Loan Mortgage Corp. Global Ref. Notes	1,584,609	AAA	-	1,584,609	-	-
Federal Home Loan Mortgage Corp. Global Notes	1,008,158	AAA	-	1,008,158	-	-
Federal National Mortgage Association Global Benchmark Notes	2,044,376	AAA	-	2,044,376	-	-
Local Agency Investment Fund (LAIF)	27,123,801	N/A	-	-	-	27,123,801
California Asset Management Program (CAMP)	4,810,242	N/A	-	4,810,242	-	-
San Diego County Pool	110,779	N/A	-	110,779	-	-
Held by bond trustee:						
Investment contract	652,884	A	-	-	652,884	-
<b>Total</b>	<b>\$ 46,247,037</b>		<b>\$ 5,863,695</b>	<b>\$ 12,606,657</b>	<b>\$ 652,884</b>	<b>\$ 27,123,801</b>

## 2. CASH AND INVESTMENTS (CONTINUED):

## Concentration of Credit Risk:

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

Issuer	Investment Type	Reported Amount	
		2010	2009
Resolution Funding Corp. Coupon Strips	U.S. Govt Sponsored Entities	\$3,312,870	\$3,272,671
Federal Home Loan Mortgage Corporation	U.S. Govt Sponsored Entities	\$2,034,376	\$2,592,767
Federal Home Loan Bank	U.S. Govt Sponsored Entities	\$2,542,187	\$ -
Federal National Mortgage Association	U.S. Govt Sponsored Entities	\$2,526,250	\$ -

## 3. CAPITAL ASSETS:

Changes in capital assets for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 12,878	\$ -	\$ -	\$ 12,878
Construction-in-process - Encina	1,653,593	1,100,174	-	2,753,767
Construction-in-process	<u>13,739,232</u>	<u>5,312,334</u>	<u>(15,518,558)</u>	<u>3,533,008</u>
Total non-depreciable assets	<u>15,405,703</u>	<u>6,412,508</u>	<u>(15,518,558)</u>	<u>6,299,653</u>
Depreciable assets:				
Sewer collection facilities	25,153,612	98,712	-	25,252,324
Sewage treatment facilities	367,577	-	(229,287)	138,290
Sewage transmission facilities	12,989,037	688,493	-	13,677,530
Advanced water treatment facility	4,835,638	79,592	(27,712)	4,887,518
Donated subsurface lines	28,061,862	295,327	-	28,357,189
Vulcan sewer line	210,889	-	-	210,889
Office building	610,834	13,877,329	(604,235)	13,883,928
Equipment	1,788,018	54,786	(185,428)	1,657,376
Encina Joint System	<u>31,605,129</u>	<u>9,991</u>	<u>(135,702)</u>	<u>31,479,418</u>
Total depreciable assets	<u>105,622,596</u>	<u>15,104,230</u>	<u>(1,182,364)</u>	<u>119,544,462</u>
Accumulated depreciation:				
Sewer collection facilities	(7,955,925)	(865,255)	-	(8,821,180)
Sewage treatment facilities	(295,735)	(4,610)	229,287	(71,058)
Sewage transmission facilities	(4,012,900)	(322,060)	-	(4,334,960)
Advanced water treatment facility	(1,958,313)	(148,977)	22,373	(2,084,917)
Donated subsurface lines	(6,942,882)	(438,089)	-	(7,380,971)
Vulcan sewer line	(83,955)	(3,966)	-	(87,921)
Office building	(345,195)	(282,489)	347,875	(279,809)
Equipment	(1,136,676)	(144,894)	185,381	(1,096,189)
Encina Joint System	<u>(12,858,663)</u>	<u>(756,517)</u>	<u>50,553</u>	<u>(13,564,627)</u>
Total accumulated depreciation	<u>(35,590,244)</u>	<u>(2,966,857)</u>	<u>835,469</u>	<u>(37,721,632)</u>
Total depreciable assets, net	<u>70,032,352</u>	<u>12,137,373</u>	<u>(346,895)</u>	<u>81,822,830</u>
Total capital assets, net	<u>\$ 85,438,055</u>	<u>\$ 18,549,881</u>	<u>\$ (15,865,453)</u>	<u>\$ 88,122,483</u>

In FY 2010, major capital assets additions during the year included the District Site Improvement Project, the Satellite Pump Station Forcemains Replacement Project, the Asset Management System Implementation Project, the 101 Trunk Sewer Replacement Project, the Batiquitos Pump Station Gravity Line, the Meadows 3 Pump Station Decommissioning Project, the Batiquitos Pump Station Rehabilitation Project, and the Forcemain Corrosion Prevention Project. The District Site Improvement Project and the Batiquitos Pump Station Gravity Line were completed by year end and transferred out of construction in process.

## 3. CAPITAL ASSETS (CONTINUED):

Changes in capital assets for 2009 were as follows:

	Balance 2008	Additions/ Transfers	Deletions/ Transfers	Balance 2009
Non-depreciable assets:				
Land	\$ 12,878	\$ -	\$ -	\$ 12,878
Construction-in-process - Encina	475,847	1,177,746	-	1,653,593
Construction-in-process	<u>6,136,467</u>	<u>8,826,158</u>	<u>(1,223,393)</u>	<u>13,739,232</u>
Total non-depreciable assets	<u>6,625,192</u>	<u>10,003,904</u>	<u>(1,223,393)</u>	<u>15,405,703</u>
Depreciable assets:				
Sewer collection facilities	23,886,025	1,267,587	-	25,153,612
Sewage treatment facilities	690,545	-	(322,968)	367,577
Sewage transmission facilities	12,974,196	14,841	-	12,989,037
Advanced water treatment facility	4,835,638	-	-	4,835,638
Donated Subsurface lines	26,454,782	1,607,080	-	28,061,862
Vulcan sewer line	210,889	-	-	210,889
Office building	666,904	6,599	(62,669)	610,834
Equipment	1,422,659	428,326	(62,967)	1,788,018
Encina Joint System	<u>32,813,318</u>	<u>19,739</u>	<u>(1,227,928)</u>	<u>31,605,129</u>
Total depreciable assets	<u>103,954,956</u>	<u>3,344,172</u>	<u>(1,676,532)</u>	<u>105,622,596</u>
Accumulated depreciation:				
Sewer collection facilities	(7,080,264)	(875,661)	-	(7,955,925)
Sewage treatment facilities	(568,153)	(34,739)	307,157	(295,735)
Sewage transmission facilities	(3,695,272)	(317,628)	-	(4,012,900)
Advanced water treatment facility	(1,808,866)	(149,447)	-	(1,958,313)
Subsurface lines	(6,510,362)	(432,520)	-	(6,942,882)
Vulcan sewer line	(79,988)	(3,967)	-	(83,955)
Office building	(357,419)	(16,454)	28,678	(345,195)
Equipment	(1,079,923)	(119,720)	62,967	(1,136,676)
Encina Joint System	<u>(12,727,884)</u>	<u>(759,560)</u>	<u>628,781</u>	<u>(12,858,663)</u>
Total accumulated depreciation	<u>(33,908,131)</u>	<u>(2,709,696)</u>	<u>1,027,583</u>	<u>(35,590,244)</u>
Total depreciable assets, net	<u>70,046,825</u>	<u>634,476</u>	<u>(648,949)</u>	<u>70,032,352</u>
Total capital assets, net	<u>\$ 76,672,017</u>	<u>\$ 10,638,380</u>	<u>\$ (1,872,342)</u>	<u>\$ 85,438,055</u>

In 2009, major capital assets additions during the year included the District Site Improvement Project, the Meadows 3 Pump Station Decommissioning Project, the Leucadia Pump Station Upgrade, the Gibraltar Gravity Sewer Rehabilitation, the Asset Management System Implementation Project, the Satellite Pump Station Force Main Replacement Project, the 101 Trunk Sewer Replacement, the Batiquitos Pump Station Gravity Line, and the Force Main Corrosion Prevention Project. The Leucadia Pump Station Upgrade, the Mineral Scale Mitigation Project, the Asset Management System, the Gibraltar Gravity Sewer Rehabilitation, and the Installation of the Permanent Flow Meters were completed by year end and transferred out of construction-in-process.

## 3. CAPITAL ASSETS (CONTINUED):

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at June 30, are as follows:

	<u>2009</u>	<u>2010</u>
Reclaimed water expansion project	\$ 790,931	\$ -
Site improvement project	11,182,478	-
Asset management program implementation	47,822	76,506
Satellite pump station force main	939,123	3,308,747
Gravity sewer rehabilitation	51,388	-
Batiquitos PS gravity line	618,493	-
Batiquitos PS rehabilitation	-	50,825
Meadows 3 PS decommissioning	31,800	47,040
Force main corrosion prevention project	74,298	49,890
Miscellaneous projects	2,899	-
Construction-in-process	<u>\$ 13,739,232</u>	<u>\$ 3,533,008</u>

## 4. ENCINA JOINT SYSTEM

The Encina Joint System is a sewage treatment and ocean outfall disposal facility owned jointly by the Cities of Carlsbad, Encinitas, and Vista, the Buena Sanitation District, the Vallecitos Water District, and the Leucadia Wastewater District. The investment in the Encina Joint System is recorded as a component of the District's capital assets (see note 3). Ownership percentages are determined by joint agreement at the time the assets are acquired. As of June 30, 2010, the Member Agencies have the following approximate ownership interest:

City of Vista	22%
City of Carlsbad	25%
Buena Sanitation District	8%
Vallecitos Water District	20%
Leucadia Wastewater District	20%
City of Encinitas	5%

## 5. ENCINA WASTEWATER AUTHORITY:

The Encina Wastewater Authority (EWA) is a Joint Powers Authority formed by the Member Agencies to operate and administer the Encina Joint System and is responsible for the management, maintenance and operations of the joint system. EWA may be terminated as the operator/administrator at the discretion of the member agencies. As the operator/administrator EWA bills the member agencies for their share of the operating costs of the Encina Joint System based on their ownership and usage. The Encina Wastewater Authority does not recognize any operating income or loss (before depreciation). Net operating expenditures in excess of users' assessments are treated as accounts receivable on the Authority's books and charged to users' accounts in the following year. In addition, EWA requires member agencies to maintain various reserves on deposit with EWA. At June 30, 2010, Leucadia Wastewater District was required to maintain an operating reserve of \$203,400, an inventory reserve of \$172,890, and a capital reserve of \$530,559 for a total of \$906,849.

The latest available financial statements of the Joint System, dated June 30, 2009 and 2008 (available directly from the Authority, 6200 Avenida Encinas, Carlsbad, California 92011) show the following:

	<u>2009</u>	<u>2008</u>
Total assets	\$ 132,177,221	\$ 129,616,982
Total liabilities	<u>5,197,839</u>	<u>7,773,645</u>
Total net assets	<u>\$ 126,979,382</u>	<u>\$ 121,843,337</u>
Increase(decrease) in net assets	<u>\$ 5,136,045</u>	<u>\$ 21,786,357</u>

## 6. BOND ISSUANCE COSTS:

Bond issuance costs relate to the issuance costs of the 1997 Revenue Refunding Bonds. The balance is being amortized over a 17.5 year period. Bond issuance costs net balances at June 30 are as follows:

	<u>2010</u>	<u>2009</u>
Bond issue costs	\$ 63,291	\$ 63,291
Bond discount	95,968	95,968
Accumulated amortization	<u>(122,099)</u>	<u>(112,998)</u>
Bond issue costs, net	<u>\$ 37,160</u>	<u>\$ 46,261</u>

## 7. DEFERRED REVENUE:

The deferred revenue balance relates to credits applied to the District's proportional share of contributions for capital expenditures related to the expansion of the Encina Joint System. In anticipation of the completion of Phase V and subsequent purchase of capacity by other member agencies of the Encina Joint System in 2010, the District's proportional investment in, and cost sharing percentages will be adjusted according to the terms of the authorizing agreement.

## 8. COMPENSATED ABSENCES:

Compensated absences are comprised of unpaid vacation leave, sick leave and compensating time off which are accrued when benefits are fully vested. The District's liability for compensated absences is determined annually.

Balance 2009	Earned	Taken	Balance 2010	Current Portion	Long-Term Portion
\$ 189,927	\$ 167,892	\$ (120,027)	\$ 237,792	\$ 166,454	\$ 71,338

Balance 2008	Earned	Taken	Balance 2009	Current Portion	Long-Term Portion
\$ 176,358	\$ 153,795	\$ (140,226)	\$ 189,927	\$ 132,949	\$ 56,978

## 9. LONG-TERM DEBT:

Changes in long-term debt amounts for the 2010 fiscal year were as follows:

	Balance 2009	Additions	Payments/ Deletions	Balance 2010	Due Within One Year
Long-term debt:					
State loan payable	\$ 224,339	\$ -	\$ (51,209)	\$ 173,130	\$ 52,745
Bonds payable	3,275,000	-	(480,000)	2,795,000	500,000
Less: deferred amount on refunding	(167,389)		32,929	(134,460)	
Total long-term debt	\$ 3,331,950	\$ -	\$ (498,280)	\$ 2,833,670	\$ 552,745

Changes in long-term debt amounts for the 2009 fiscal year were as follows:

	Balance 2008	Additions	Payments/ Deletions	Balance 2009	Due Within One Year
Long-term debt:					
State loan payable	\$ 274,056	\$ -	\$ (49,717)	\$ 224,339	\$ 51,209
Bonds payable	3,735,000	-	(460,000)	3,275,000	480,000
Less: deferred amount on refunding	(200,318)		32,929	(167,389)	
Total long-term debt	\$ 3,808,738	\$ -	\$ (476,788)	\$ 3,331,950	\$ 531,209

## 9. LONG-TERM DEBT (CONTINUED):

State Loan Payable:

## 1993 State Water Reclamation Loan:

On April 1, 1993, the District entered into a contract with the California State Water Resources Control Board to provide a loan for design and construction of the Gafner Water Reclamation Project. The State Board loaned the District the amount of \$835,000. The loan interest rate is 3% per annum with interest accruing as of the date of each disbursement. The loan is to be repaid by April 1, 2013.

Future debt service requirements for the 1993 State Water Reclamation Loan are as follows:

For the Year Ended June 30,	Principal	Interest	Total
2011	\$ 52,745	\$ 5,194	\$ 57,939
2012	54,327	3,612	57,939
2013	55,957	1,982	57,939
2014	10,101	49	10,150
Total	173,130	\$ 10,837	\$ 183,967
Less current portion	(52,745)		
Total non-current	\$ 120,385		

Bonds Payable:

## 1997 Series A Wastewater Revenue Refunding Bonds:

On February 15, 1997, the District was involved with the issuance of the 1997 Series A Wastewater Revenue Refunding Bonds. The bonds were issued by the Encina Financing Joint Powers Authority for the purpose of providing funds to refinance a portion of the cost of acquiring and constructing improvements to the Encina Wastewater Authority. Two member agencies, Leucadia Wastewater District and City of Carlsbad, refunded and defeased their obligations with respect to the 1989 Series A Wastewater Revenue Bonds. Two other member agencies, the Buena Sanitation District and City of Vista refunded their obligations with respect to the 1989 bonds from available funds. Two remaining member agencies, City of Encinitas and Vallecitos Water District provided their portion of the costs of improvements in the form of cash contributions. The financial statements of the Authority can be obtained at the City of Carlsbad's City Hall.

The following is a table of the bonds issued by each member and their approximate share in the additional capacity:

Member	Bond Amount Issued	Approximate Share
City of Carlsbad	\$ 11,080,000	59.44%
Leucadia Wastewater District	7,560,000	40.56%
	\$ 18,640,000	100.00%

## 9. LONG-TERM DEBT (CONTINUED):

## 1997 Series A Wastewater Revenue Refunding Bonds (Continued):

The District issued \$7,560,000 in revenue bonds with interest rates varying from 4% to 5.125% to advance refund \$7,212,474 of outstanding 1989 Series A Wastewater Revenue Bonds with interest rates varying from 6.1% to 6.942%. The net proceeds of \$7,400,741 (after payment of \$159,259 in underwriting fees, insurance and other issuance costs) plus an additional \$870,925 of 1989 Series A sinking fund monies were deposited pursuant to the Escrow Agreement and invested in direct obligations of the United States paying principal and interest in amounts and at times sufficient to pay the Purchasers' obligations with respect to the 1989 Bonds through August 1, 1999 and to refund such obligations on August 1, 1999 together with a premium of 2.0%. As a result, the 1989 bonds are considered defeased and the liability for those bonds has been removed from the District.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$576,257. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2014 on a straight line method. The District completed the advance refunding to reduce its total debt service payments over the next 18 years by \$699,197 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$297,500. The balance on the amount outstanding on the defeased debt (1989 Wastewater Revenue Bonds) was paid in full as of August 1, 1999.

Future debt service requirements are as follows:

For the Year Ended June 30,	Principal	Interest	Total
2011	\$ 500,000	\$ 130,431	\$ 630,431
2012	530,000	104,037	634,037
2013	555,000	76,234	631,234
2014	590,000	46,894	636,894
2015	620,000	15,888	635,888
Total	2,795,000	\$ 373,484	\$ 3,168,484
Less current portion	(500,000)		
Less: deferred amount on refunding	(134,460)		
Total non-current	\$ 2,160,540		

## 10. NET ASSETS:

Calculation of net assets as of June 30, were as follows:

	<u>2010</u>	<u>2009</u>
Net investment in capital assets:		
Capital assets, net	\$ 88,122,483	\$ 85,438,055
Deferred revenue	(2,034,863)	(1,640,586)
State loan payable – current portion	(52,745)	(51,209)
Revenue refunding bonds payable – current portion	(500,000)	(480,000)
State loan payable – non-current portion	(120,385)	(173,130)
Revenue refunding bonds payable – non-current portion	<u>(2,160,540)</u>	<u>(2,627,611)</u>
Total net investment in capital assets	<u>83,253,950</u>	<u>80,465,519</u>
Restricted net assets:		
Restricted for debt service	652,884	652,884
Restricted for capital projects	<u>3,050,884</u>	<u>3,946,951</u>
Total restricted net assets	<u>3,703,768</u>	<u>4,599,835</u>
Unrestricted net assets:		
Reserve for operations	2,184,722	2,130,676
Reserve for debt service	3,253,840	3,780,970
Reserve for capital replacement	21,554,781	23,697,523
Reserve for water recycling	3,154,544	3,061,931
Reserve for emergencies	<u>7,500,000</u>	<u>7,500,000</u>
Total unrestricted net assets	<u>37,647,887</u>	<u>40,171,100</u>
Total net assets	<u>\$ 124,605,605</u>	<u>\$ 125,236,454</u>

For internal purposes, the Board of Directors adopted a reserve policy to reserve unrestricted net assets. The reserves are meant to reflect the intentions of the Board for those net assets not legally restricted.

**11. DEFERRED COMPENSATION SAVINGS PLAN:**

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. The District currently matches up to 2% of the employees' compensation up to a maximum of 2% of the Social Security wage base limit.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by the District's two deferred compensation plans at June 30, 2010 and 2009 amounted to \$714,398 and \$607,249, respectively.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

**12. DEFINED BENEFIT PENSION PLAN:**Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS, 3% at 60 Risk Pool Retirement Plan is 8% of their annual covered salary. Presently the District pays 7% of the contributions required of District employees on their behalf and the employees pay the remaining 1%. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2010, 2009 and 2008 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For Fiscal years 2010, 2009 and 2008, the District's annual employer contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

## 12. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Three-Year Trend Information for CalPERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
June 30, 2008	\$ 185,811	100%	-	16.047%
June 30, 2009	\$ 212,298	100%	-	16.050%
June 30, 2010	\$ 238,923	100%	-	16.564%

Funding Status

As of June 30, 2004, the District's miscellaneous plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

## 13. OTHER POST EMPLOYMENT BENEFITS:

Plan Description – Eligibility

The District provides post-employment health benefits in accordance with a resolution approved by the Board of Directors, to all employees who retire from the District. The plan is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. Currently, there are four retired employees who have met these eligibility requirements and are therefore receiving the benefits. The total payments made for these benefits for retired employees for the year ended June 30, 2010 and 2009 was \$4,944 and \$4,752, respectively.

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2010</u>	<u>2009</u>
Active plan members	21	21
Retirees and beneficiaries receiving benefits	4	4
Separated plan members entitled to but not yet receiving benefits -	-	-
Total plan membership	<u>25</u>	<u>25</u>

Plan Description – Benefits

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Retirees may enroll in any plan available through the District's CalPERS medical plan. The contribution requirement of Plan members and the District are established and may be amended by the Board of Directors. As a member of the CalPers medical plan the District is required to participate in its post employment medical benefit plan. The District currently pays the CalPERS minimum required employer contribution (\$105 per month in 2010 and indexed to medical CPI) for retirees electing coverage.

## 13. POST EMPLOYMENT BENEFITS (CONTINUED):

Funding Policy

The District is required to contribute the Annual Required Contribution of the Employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. The District chose to amortize the unfunded actuarial liability over one year by completely funding the unfunded actuarial liability in the fiscal year ending June 30, 2009.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the District's annual OPEB cost for the years ending June 30, 2010 and 2009, the amount actually contributed to the plan, and changes in the District's net OPEB obligation based on the most recent actuarial valuation dated July 1, 2008:

	2010	2009
Annual Required Contribution (ARC)	\$ 10,941	\$ 181,509
Interest on net OPEB obligation	-	-
Annual OPEB cost (expense)	10,941	181,509
Contributions made	(10,941)	(181,509)
Increase in net OPEB obligation	-	-
Net OPEB obligation - beginning of year	-	-
Net OPEB obligation - end of year	\$ -	\$ -

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2010, 2009 and 2008 were as follows:

Three-Year Trend Information for CERBT**			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 10,941	100%	\$ -
6/30/2009	\$ 181,509	100%	\$ -
6/30/2008	*	*	*

\* GASB 45 was implemented in fiscal year 2009.

\*\* CERBT is California Employers' Retiree Benefit Trust

## 13. POST EMPLOYMENT BENEFITS (CONTINUED):

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, based on the most recent actuarial valuation was as follows:

Actuarial Accrued Liability (AAL)	\$	182,754
Actuarial Value of Plan Assets	\$	182,754
Unfunded Actuarial Accrued Liability (UAAL)	\$	-
Funded Ratio (Actuarial Value of Plan Assts/AAL)		100.00%
Covered Payroll (Active Plan Members)	\$	1,599,282
UAAL as a Percentage of Covered Payroll		0.00%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2008
Actuarial cost method	Project unit credit with service prorate
Amortization method	Level-dollar method on a closed basis
Remaining amortization period	1 year as of the valuation date
Asset valuation method	No GASB eligible plan assets on valuation date
Actuarial assumptions:	
Investment rate of return	7.75%
Inflation - discount rate	5.5% to 9.0% for the first 8 years and 5.0% thereafter
Individual salary growth	3.25%

## 14. 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; injuries to employees; and natural disasters. The District is a member of the California Sanitation Risk Management Authority (CSRMA), an intergovernmental risk sharing joint powers authority currently operating as a common risk management and loss prevention program for 60 California sanitation districts. The District pays an annual premium to CSRMA for its public liability and workers compensation risk coverage. The Agreement for formation of the CSRMA provides that CSRMA will be self-sustaining through member premiums and will provide specific excess insurance through commercial companies. The CSRMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process. At June 30, 2010, the District participated in the self-insurance programs of the CSRMA as follows:

General and automotive liability - including errors and omissions and employment practices liability (EPL): The District is self-insured through the CSRMA up to \$750,000 with a \$50,000 deductible (\$25,000 for EPL) per occurrence. A combination of excess insurance and re-insurance is purchased above the \$750,000 self-insured layer to \$10,000,000 with another \$15,000,000 of excess liability through CSRMA.

Workers' Compensation and Employer's Liability - The District is self-insured through the CSRMA up to \$750,000 with a deductible of \$0 per claim. The District purchased through CSRMA, additional excess workers' compensation coverage of \$50,000,000 and excess employer's liability coverage of \$1,000,000.

In addition to the above, the District also has the following insurance coverage:

Employee Dishonesty Coverage - up to \$50,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage with a deductible of \$1,000 per claim.

Special Form Property Coverage - up to \$20,076,637 with a deductible of \$10,000 per claim.

Mobile Equipment Coverage - for the replacement cost up to \$968,632 occurrence, subject to a deductible of \$2,000 per claim.

Public Officials Personal Liability - up to \$100,000 each occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies, subject to the terms.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2010, 2009 and 2008. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2010, 2009 and 2008.

## 15. COMMITMENTS AND CONTINGENCIES:

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction. The District has committed to approximately \$777,824 in open construction contracts as of June 30, 2010. These include the following:

Project Name	Total Approved Contract(s)	Construction Costs to Date	Remaining Obligation
Office site master plan development	\$ 13,400	\$ 3,525	\$ 9,875
Satellite pump station force main	3,118,964	2,403,901	715,063
Asset management system implementation	69,882	69,255	627
Batiquitos pump station rehabilitation	51,690	51,677	13
Groundwater feasibility study	45,960	34,181	11,779
Forcemain corrosion study	23,900	21,280	2,620
As needed GIS services	7,200	7,196	4
Grading plan check	28,368	27,001	1,367
SSMP	8,000	5,983	2,017
General engineering	120,000	89,028	30,972
Mitigation monitoring & reporting program	62,115	58,628	3,487
Total	\$ 3,549,479	\$ 2,771,655	\$ 777,824

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

## 16. SUBSEQUENT EVENT:

During the fiscal year ending June 30, 2011 the District paid the balance remaining on the 1997 Series A Wastewater Revenue Refunding Bonds and the balance remaining on the 1993 State Water Reclamation Loan in full.

**Required Supplementary Information**

## Schedule of Funding Progress for OPEB

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 159,030	\$ 159,030	0.00%	\$ 1,312,000	12.12%
6/30/2009	\$ 176,757	\$ 176,757	\$ -	100.00%	\$ 1,479,116	0.00%
6/30/2010	\$ 182,754	\$ 182,754	\$ -	100.00%	\$ 1,599,282	0.00%

## **Supplementary Information**

**LEUCADIA WASTEWATER DISTRICT**

**COMBINING SCHEDULE OF CHANGES IN NET ASSETS**  
For the Year Ended June 30, 2010

	Restricted			Unrestricted, Reserved For					Total Net Assets
	Invested in Capital Assets	Debt Service	Capital Improvements	Operations	Debt Service	Capital Replacement	Water Recycling	Emergencies	
Balance, June 30, 2009	\$ 80,465,519	\$ 652,884	\$ 3,946,951	\$ 2,130,676	\$ 3,780,970	\$ 23,697,523	\$ 3,061,931	\$ 7,500,000	\$ 125,236,454
Net operating income (loss)	-	-	-	(1,840,581)	-	-	37,533	-	(1,803,048)
Contributed capital, sewer lines	295,326	-	-	-	-	-	-	-	295,326
Capacity fees	-	-	-	-	-	307,518	-	-	307,518
Net additions to Utility plant and equipment	4,961,682	-	(944,467)	-	-	(5,032,922)	(79,592)	-	(1,095,299)
Redemption of long-term debt	498,280	-	-	-	(625,354)	(9,101)	(57,305)	-	(193,480)
Depreciation charged to net income	(2,966,857)	-	-	2,817,880	-	-	148,977	-	-
Investment income allocated	-	34,897	48,400	36,500	146,980	242,311	43,000	104,500	656,588
Property taxes	-	-	-	-	-	1,199,025	-	-	1,199,025
Miscellaneous non-operating income	-	-	-	-	-	2,521	-	-	2,521
Transfers	-	(34,897)	-	(959,753)	(48,756)	1,147,906	-	(104,500)	-
Balance, June 30, 2010	<u>\$ 83,253,950</u>	<u>\$ 652,884</u>	<u>\$ 3,050,884</u>	<u>\$ 2,184,722</u>	<u>\$ 3,253,840</u>	<u>\$ 21,554,781</u>	<u>\$ 3,154,544</u>	<u>\$ 7,500,000</u>	<u>\$ 124,605,605</u>

See accompanying independent auditors' report.

**LEUCADIA WASTEWATER DISTRICT**

**COMBINING SCHEDULE OF CHANGES IN NET ASSETS**  
For the Year Ended June 30, 2009

	Restricted			Unrestricted, Reserved For					Total Net Assets
	Invested in Capital Assets	Debt Service	Capital Improvements	Operations	Debt Service	Capital Replacement	Water Recycling	Emergencies	
Balance, June 30, 2008	\$ 72,109,791	\$ 652,884	\$ 6,659,846	\$ 1,583,404	\$ 4,261,626	\$ 27,725,565	\$ 2,925,663	\$ 7,500,000	\$ 123,418,779
Net operating income (loss)	-	-	-	(2,163,585)	-	-	(43,755)	-	(2,207,340)
Contributed capital, sewer lines	1,607,080	-	-	-	-	-	-	-	1,607,080
Capacity fees	-	-	-	-	-	209,737	-	-	209,737
Net additions to Utility plant and equipment	8,985,250	-	(2,868,595)	-	-	(6,406,242)	-	-	(289,587)
Redemption of long-term debt	476,788	-	-	-	(629,225)	(9,101)	(57,324)	-	(218,862)
Depreciation charged to net income	(2,713,390)	-	-	2,563,943	-	-	149,447	-	-
Investment income allocated	-	-	155,700	53,200	232,953	715,234	87,900	223,500	1,468,487
Property taxes	-	-	-	-	-	1,246,255	-	-	1,246,255
Miscellaneous non-operating income	-	-	-	-	-	1,905	-	-	1,905
Transfers	-	-	-	93,714	(84,384)	214,170	-	(223,500)	-
Balance, June 30, 2009	<u>\$ 80,465,519</u>	<u>\$ 652,884</u>	<u>\$ 3,946,951</u>	<u>\$ 2,130,676</u>	<u>\$ 3,780,970</u>	<u>\$ 23,697,523</u>	<u>\$ 3,061,931</u>	<u>\$ 7,500,000</u>	<u>\$ 125,236,454</u>

See accompanying independent auditors' report.

**LEUCADIA WASTEWATER DISTRICT****COMBINING SCHEDULE OF OPERATING REVENUES AND EXPENSES**

For the years ended June 30, 2010 and 2009

	2010			
	General	Wastewater	Recycled Water	Total
<b>OPERATING REVENUES</b>				
Wastewater service charges	\$ -	\$ 6,557,352	\$ -	\$ 6,557,352
Recycled water sales	-	-	384,698	384,698
Other charges and services	75,266	72,365	-	147,631
Total operating revenues	<u>75,266</u>	<u>6,629,717</u>	<u>384,698</u>	<u>7,089,681</u>
<b>OPERATING EXPENSES</b>				
Wastewater collection	-	2,463,484	-	2,463,484
Wastewater treatment – Encina Joint System	-	1,874,697	-	1,874,697
Recycled water production	-	-	167,920	167,920
General and administrative	1,419,771	-	-	1,419,771
Total operating expenses	<u>1,419,771</u>	<u>4,338,181</u>	<u>167,920</u>	<u>5,925,872</u>
Operating income before depreciation expense	(1,344,505)	2,291,536	216,778	1,163,809
Depreciation Expense	-	(2,817,880)	(148,977)	(2,966,857)
Operating loss	<u><u>\$(1,344,505)</u></u>	<u><u>\$ (526,344)</u></u>	<u><u>\$ 67,801</u></u>	<u><u>\$(1,803,048)</u></u>
	2009			
	General	Wastewater	Recycled Water	Total
<b>OPERATING REVENUES</b>				
Wastewater service charges	\$ -	\$ 5,876,806	\$ -	\$ 5,876,806
Recycled water sales	-	-	305,867	305,867
Other charges and services	80,158	65,591	-	145,749
Total operating revenues	<u>80,158</u>	<u>5,942,397</u>	<u>305,867</u>	<u>6,328,422</u>
<b>OPERATING EXPENSES</b>				
Wastewater collection	-	2,112,688	-	2,112,688
Wastewater treatment – Encina Joint System	-	2,044,144	-	2,044,144
Recycled water production	-	-	145,465	145,465
General and administrative	1,520,075	-	-	1,520,075
Total operating expenses	<u>1,520,075</u>	<u>4,156,832</u>	<u>145,465</u>	<u>5,822,372</u>
Operating income before depreciation expense	(1,439,917)	1,785,565	160,402	506,050
Depreciation Expense	-	(2,563,943)	(149,447)	(2,713,390)
Operating loss	<u><u>\$(1,439,917)</u></u>	<u><u>\$ (778,378)</u></u>	<u><u>\$ 10,955</u></u>	<u><u>\$(2,207,340)</u></u>

See accompanying independent auditors' report.

**LEUCADIA WASTEWATER DISTRICT**

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**SCHEDULE OF USE OF CAPACITY CHARGES**

For the year ended June 30, 2010

				Capital Improvement Fund
	<u>Status</u>	<u>% Funded by Capacity Charges</u>	<u>Amount</u>	
Balance at June 30, 2009				\$ 3,946,951
Capacity charges collected				307,518
Less: buy-in portion				(307,518)
Capital improvements expended:				
Site improvement program	Completed	33%	\$ (889,301)	
101 trunk sewer replacement	In progress	50%	(1,990)	
Batiquitos pump station gravity line	Completed	25%	(17,500)	
Force main corrosion prevention project	In progress	33%	(17,111)	
Related capital overhead	In progress	17%	<u>(18,565)</u>	(944,467)
Interest income earned				<u>48,400</u>
Balance at June 30, 2010				<u><u>\$ 3,050,884</u></u>

Capital improvement projects anticipated for the fiscal year 2010/2011 to be funded from capacity charges:

- Site improvement program
- Force main corrosion prevention project

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## **Statistical Section**



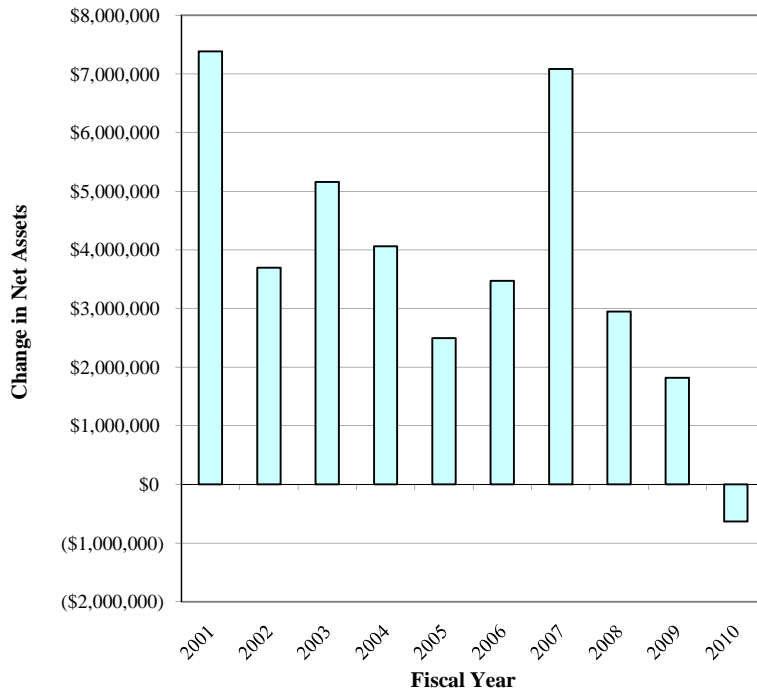
This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

**Table of Contents**

	<b><u>Page No.</u></b>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	54-57
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, wastewater service.	58-62
Debt Capacity These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	63-64
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	65
Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.	66-67

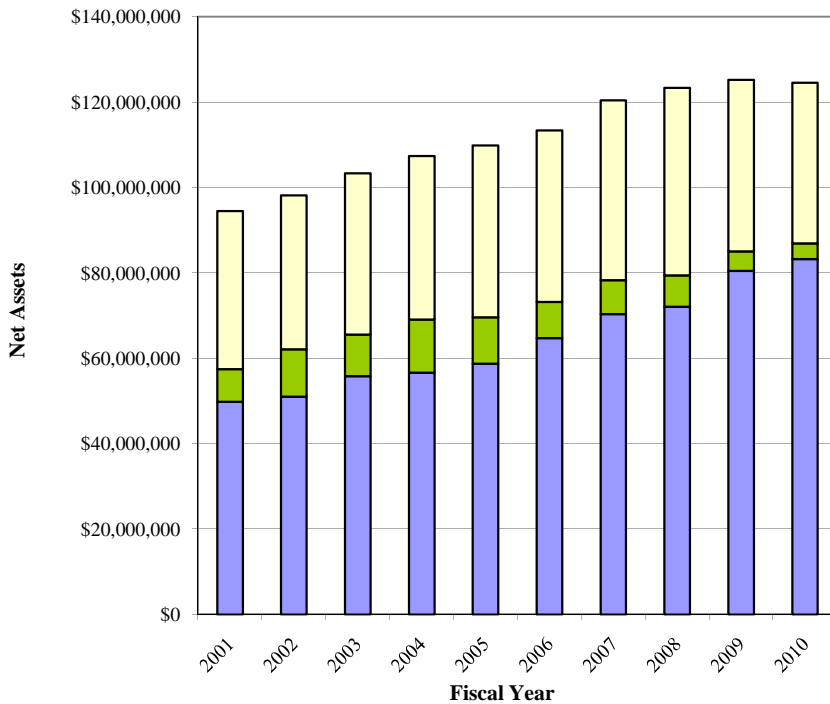
**LEUCADIA WASTEWATER DISTRICT**  
**Changes in Net Assets and Net Assets by Component**  
**Last Ten Fiscal Years**

	Fiscal Year				
	2001	2002	2003	2004	2005
Changes in net assets:					
Operating revenues (see Schedule 2)	\$ 4,158,379	\$ 4,152,596	\$ 4,863,839	\$ 5,545,400	\$ 5,669,498
Operating expenses (see Schedule 3)	(3,123,347)	(3,136,036)	(3,771,143)	(3,909,999)	(4,474,469)
Depreciation and amortization	(1,806,531)	(1,927,086)	(2,143,507)	(2,202,412)	(2,222,338)
<b>Operating income(loss)</b>	<u>(771,499)</u>	<u>(910,526)</u>	<u>(1,050,811)</u>	<u>(567,011)</u>	<u>(1,027,309)</u>
Non-operating revenues(expenses):					
Property taxes	646,023	692,823	743,499	815,393	252,203
Investment income	3,275,335	2,120,759	1,889,311	407,019	1,374,501
Gain/(Loss) on sale/disposition of assets	9,075	95,836	(185,693)	(91,878)	(341,850)
Interest expense	(390,241)	(373,772)	(374,252)	(334,221)	(313,891)
Other revenue/(expense), net	(31,916)	1,118	332,850	5,990	(4,608)
Total non-operating revenues(expenses), ne	<u>3,508,276</u>	<u>2,536,764</u>	<u>2,405,715</u>	<u>802,303</u>	<u>966,355</u>
<b>Net income before capital contributions</b>	2,736,777	1,626,238	1,354,904	235,292	(60,954)
Capital contributions	<u>4,647,189</u>	<u>2,070,398</u>	<u>3,802,196</u>	<u>3,828,557</u>	<u>2,556,634</u>
<b>Changes in net assets</b>	<u><u>7,383,966</u></u>	<u><u>3,696,636</u></u>	<u><u>5,157,100</u></u>	<u><u>4,063,849</u></u>	<u><u>2,495,680</u></u>
Net assets by component:					
Invested in capital assets, net of related debt	49,834,440	50,996,071	55,852,226	56,673,339	58,759,158
Restricted	7,618,602	11,153,670	9,695,052	12,452,810	10,863,946
Unrestricted	<u>37,050,067</u>	<u>36,050,004</u>	<u>37,809,567</u>	<u>38,294,545</u>	<u>40,293,270</u>
<b>Total net assets</b>	<u><u>\$ 94,503,109</u></u>	<u><u>\$ 98,199,745</u></u>	<u><u>\$ 103,356,845</u></u>	<u><u>\$ 107,420,694</u></u>	<u><u>\$ 109,916,374</u></u>



Schedule 1

Fiscal Year				
2006	2007	2008	2009	2010
\$ 5,666,101	\$ 5,761,526	\$ 5,811,481	\$ 6,328,422	\$ 7,089,681
(4,584,206)	(4,732,399)	(5,026,098)	(5,822,372)	(5,925,872)
(2,338,438)	(2,529,790)	(2,597,179)	(2,713,390)	(2,966,857)
(1,256,543)	(1,500,663)	(1,811,796)	(2,207,340)	(1,803,048)
367,495	1,141,068	1,216,757	1,246,255	1,199,025
1,623,061	2,625,446	2,748,087	1,468,487	656,587
(75,287)	(168,020)	(91,265)	(289,588)	(1,095,299)
(291,501)	(267,416)	(242,917)	(218,861)	(193,479)
18,900	11,834	10,872	1,905	2,521
1,642,668	3,342,912	3,641,534	2,208,198	569,355
386,125	1,842,249	1,829,738	858	(1,233,693)
3,083,994	5,240,312	1,119,957	1,816,817	602,844
3,470,119	7,082,561	2,949,695	1,817,675	(630,849)
64,754,256	70,364,874	72,109,791	80,465,519	83,253,950
8,481,119	7,937,238	7,312,730	4,599,835	3,703,768
40,151,148	42,166,972	43,996,258	40,171,100	37,647,887
\$ 113,386,523	\$ 120,469,084	\$ 123,418,779	\$ 125,236,454	\$ 124,605,605



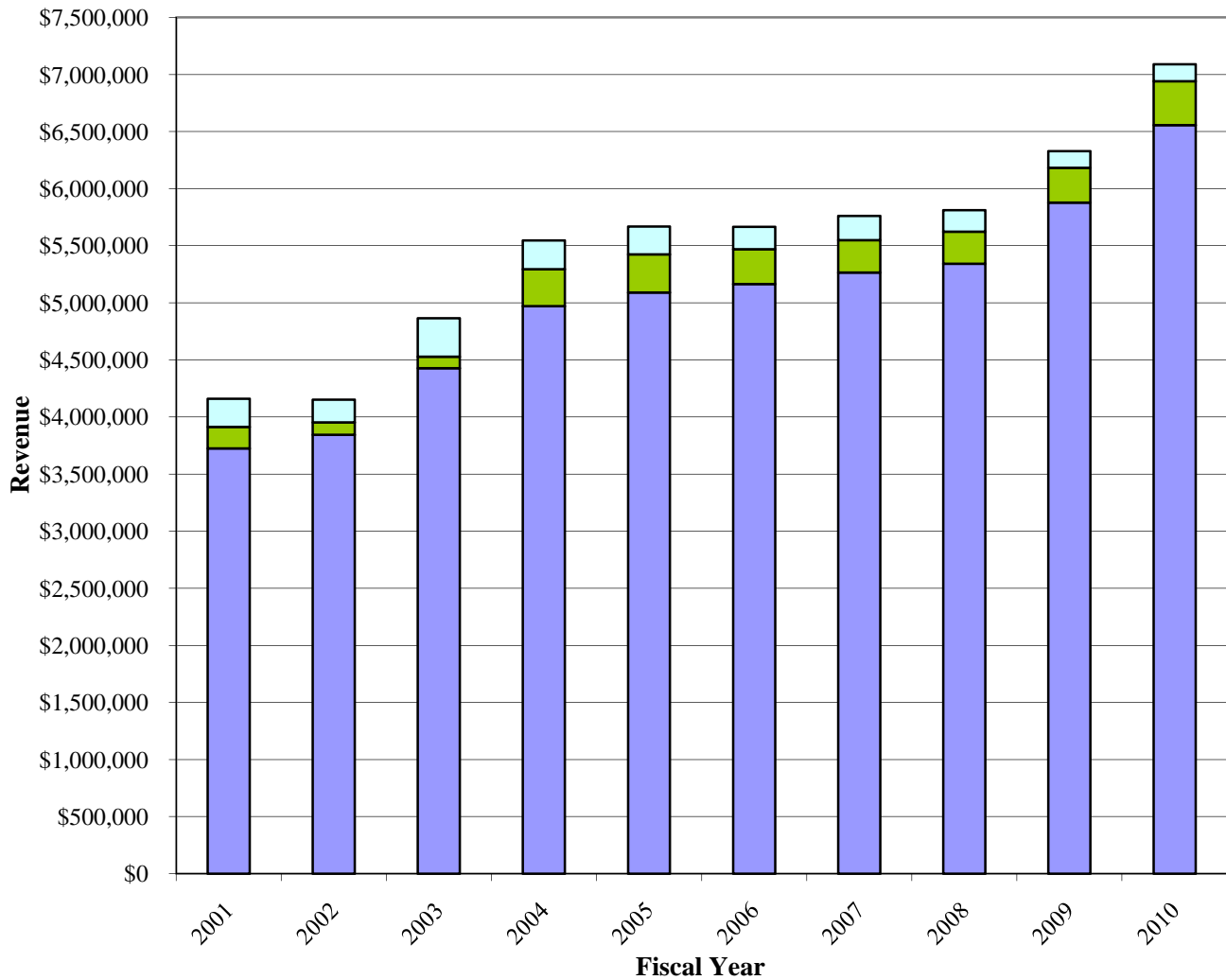
**LEUCADIA WASTEWATER DISTRICT**

**Operating Revenue By Source**

Last Ten Fiscal Years

Schedule 2

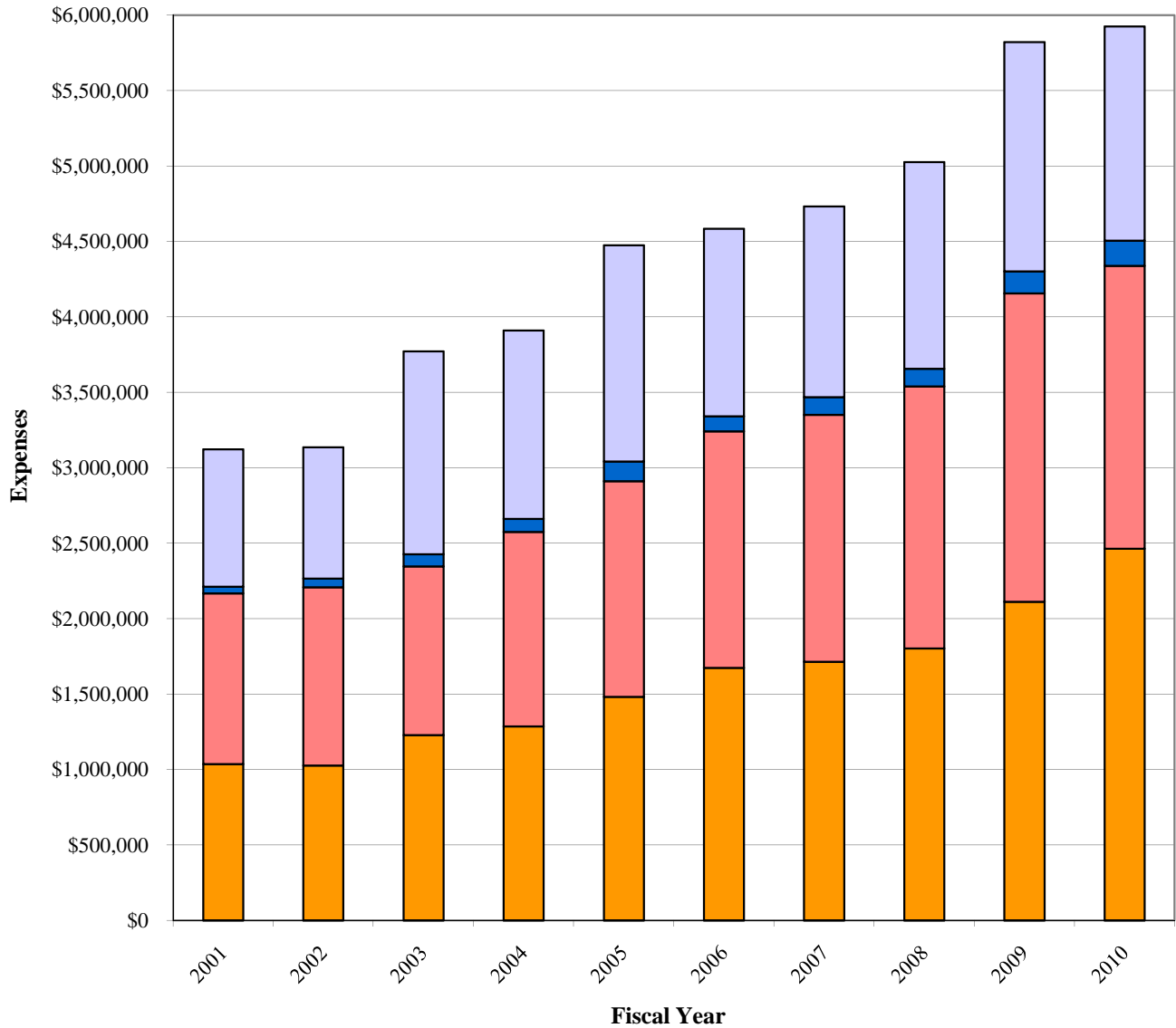
<b>Fiscal Year</b>	<b>Wastewater Service Charges</b>	<b>Recycled Water Sales</b>	<b>Other Operating Revenue</b>	<b>Total Operating Revenue</b>
2001	3,724,508	188,407	245,464	4,158,379
2002	3,843,425	109,819	199,352	4,152,596
2003	4,426,454	102,438	334,947	4,863,839
2004	4,970,775	324,576	250,049	5,545,400
2005	5,090,934	334,612	243,952	5,669,498
2006	5,164,247	305,562	196,292	5,666,101
2007	5,264,418	284,281	212,827	5,761,526
2008	5,341,554	280,731	189,196	5,811,481
2009	5,876,806	305,867	145,749	6,328,422
2010	6,557,352	384,698	147,631	7,089,681



**LEUCADIA WASTEWATER DISTRICT**  
**Operating Expenses by Activity**  
**Last Ten Fiscal Years**

Schedule 3

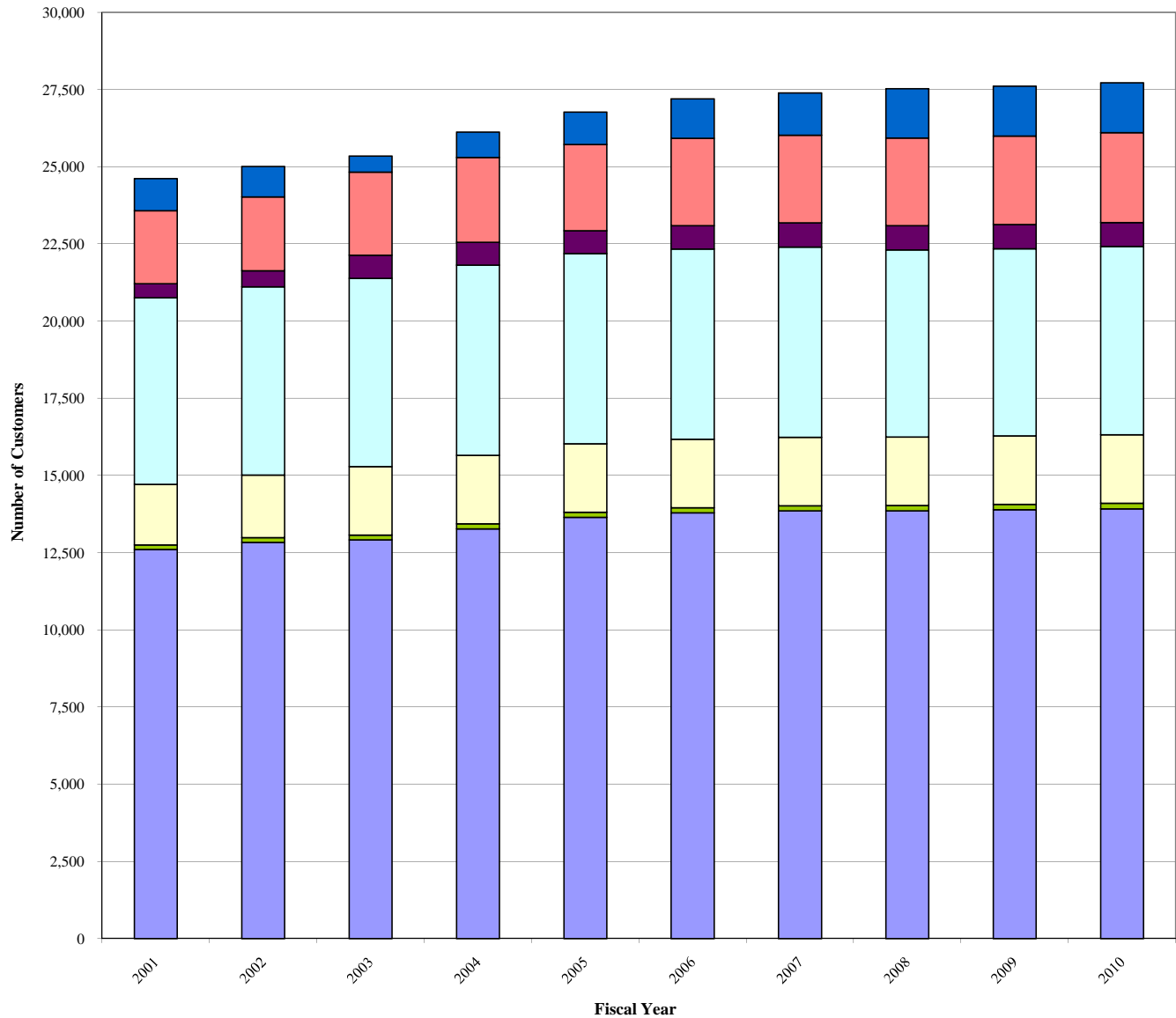
<b>Fiscal Year</b>	<b>Wastewater Collection</b>	<b>Wastewater Treatment</b>	<b>Recycled Water Production</b>	<b>General and Administrative</b>	<b>Total Operating Expenses</b>
2001	1,035,749	1,131,537	43,968	912,093	3,123,347
2002	1,027,348	1,180,624	57,663	870,401	3,136,036
2003	1,228,240	1,118,030	80,468	1,344,405	3,771,143
2004	1,286,298	1,288,721	85,961	1,249,019	3,909,999
2005	1,482,063	1,428,570	132,039	1,431,797	4,474,469
2006	1,674,716	1,567,195	99,276	1,243,019	4,584,206
2007	1,714,617	1,637,552	115,977	1,264,253	4,732,399
2008	1,802,934	1,736,671	117,048	1,369,445	5,026,098
2009	2,112,688	2,044,144	145,465	1,520,075	5,822,372
2010	2,463,484	1,874,697	167,920	1,419,771	5,925,872



**LEUCADIA WASTEWATER DISTRICT**  
**Equivalent Dwelling Units by Type at Fiscal Year-End<sup>(1)</sup>**  
**Last Ten Fiscal Years<sup>(2)</sup>**

Schedule 4

Fiscal Year	Customer Type							Total
	Single Family Residential	Single Family with Accessory Unit	Apartments	Condominiums and Duplexes	Rest Homes	Commercial	Other	
2001	12,601.43	147.94	1,968.10	6,042.20	448.87	2,366.76	1,038.25	24,613.55
2002	12,835.53	152.59	2,030.85	6,096.20	521.77	2,387.46	985.71	25,010.11
2003	12,918.53	155.69	2,215.62	6,100.20	740.13	2,698.80	516.92	25,345.89
2004	13,275.53	159.69	2,215.62	6,164.20	740.13	2,745.51	826.99	26,127.67
2005	13,648.53	160.69	2,215.62	6,164.20	740.13	2,794.70	1,048.05	26,771.92
2006	13,789.57	166.69	2,215.62	6,164.20	758.49	2,829.50	1,276.18	27,200.25
2007	13,852.53	167.69	2,215.62	6,164.20	782.00	2,838.00	1,375.59	27,395.63
2008	13,858.13	170.69	2,219.62	6,059.64	782.73	2,838.75	1,598.77	27,528.33
2009	13,894.13	172.69	2,219.62	6,058.20	783.73	2,870.75	1,607.81	27,606.93
2010	13,922.53	177.02	2,221.62	6,095.20	780.73	2,910.59	1,617.21	27,724.90



**Notes:**

- (1) The District charges its customers a flat rate per equivalent dwelling unit (EDU) and the fee appears on the customers' annual property tax bills.
- (2) Number of customers as of June 30 of fiscal year.

**LEUCADIA WASTEWATER DISTRICT**  
**Wastewater Service Charges<sup>(1)</sup>**  
**Last Ten Fiscal Years**

**Schedule 5**

<b>Price Per EDU Per Month/Per Fiscal Year</b>									
<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
12.92	12.92	14.67	16.17	16.17	16.17	16.17	16.17	17.78	19.56

**EDU's:**

	<b>EDU Factors</b>
Single Family	1.0
Apartments, Condominiums, Duplexes and Townhouses	1.0 per living unit
Mobile Home or Trailer Park	1.0 per space
Motel or Hotel without Kitchen	0.33 per living unit
Hotel or Motel with Kitchen	0.55 per living unit
Guest House without Kitchen	0.0 per living unit
Guest House with Kitchen and Bathroom	1.0 per living unit
Medical Care or Elder Care Facilities:	
Multiple dwelling without kitchen but with community eating facilities	0.40 per individual bed
Multiple dwelling with kitchen and with community eating facilities	0.80 per living unit
Multiple dwelling with kitchen but with no community eating facilities	1.0 per living unit
Single dwelling with kitchen regardless of community eating facilities	1.0 per living unit
Churches and Theaters, per 115 seating capacity	1.0
Elementary Schools, per 60 pupils or fraction thereof	1.0
Junior High Schools, per 50 pupils or fraction thereof	1.0
High Schools, per 30 pupils or fraction thereof	1.0
Self-service laundries, per wash machine	0.75
Food Establishments, Restaurants or Taverns with seating	1.0 per each 7 seats
Food Establishments or Restaurants without seating	2.6
Bars with seating - no food service	1.0 per 16 seats
Auto service stations - 4 or less gas pumps	2.0
Auto service stations - more than 4 gas pumps	3.0
Auto service stations - per washing rack/pit/floor drain (additional)	2.0
Car washes	Per Review
Banks, per 3,000 sf or fraction thereof	1.0
Other commercial and industrial users - first 1,000 square feet	1.0
Other commercial and industrial users - each additional 1,000 up to 5,000 sf	0.40
Other commercial and industrial users - plus each additional 1,000 over 5,000 sf	0.60

EDU's = Equivalent Dwelling Units

**Notes:**

(1) Rates as of June 30 of each fiscal year.

**LEUCADIA WASTEWATER DISTRICT**  
**Principal Customers**  
**Current Fiscal Year and Five Years Ago**

**Schedule 6**

<b>Customer</b>	<b>2010</b>		<b>2005</b>	
	<b>EDU's</b>	<b>Percentage of Total</b>	<b>EDU's</b>	<b>Percentage of Total</b>
La Costa Glen	723	2.61%	391	1.46%
La Costa Hotel & Spa	474	1.71%	474	1.77%
La Costa Racquet Club	424	1.53%	424	1.58%
Encinitas Town Center	276	1.00%	276	1.03%
The Forum @ Carlsbad	234	0.84%	233	0.87%
Mission Ridge Apartments	196	0.71%	196	0.73%
Camino Village Plaza	174	0.63%	174	0.65%
Riviera Mobile Home Park	158	0.57%	158	0.59%
Encinitas Village	151	0.54%	151	0.56%
Colonial Apartments	145	0.52%	145	0.54%
Weigand Plaza II	131	0.47%	131	0.49%
Plaza de la Costa Real	128	0.46%	128	0.48%
Total EDU's: Principal customers	<u>3,214</u>	<u>11.59%</u>	<u>2,881</u>	<u>10.76%</u>
Total Equivalent Dwelling Units	<u>27,725</u>	<u>100.00%</u>	<u>26,772</u>	<u>100.00%</u>

EDU's = Equivalent Dwelling Units

**Note:** Data for largest customers is not available prior to 2005.

**Source:** Leucadia Wastewater District Operations Department

**LEUCADIA WASTEWATER DISTRICT**  
**Assessed Value of Taxable Property**  
**Last Seven Years**

**Schedule 7**

<b>Fiscal Year</b>	<b>Secured</b>	<b>Unsecured</b>	<b>Total Assessed Value</b>
2004	6,881,515,609	73,578,627	6,955,094,236
2005	7,762,339,156	87,673,405	7,850,012,561
2006	8,629,065,666	100,360,102	8,729,425,768
2007	9,600,695,316	135,634,012	9,736,329,328
2008	10,402,670,851	144,821,834	10,547,492,685
2009	11,042,803,662	115,846,754	11,158,650,416
2010	10,869,334,361	146,872,240	11,016,206,601

Data prior to 2004 is unavailable

**Source:** County of San Diego Tax Assessor

**Note:** In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of properties may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the property value is re-assessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

**LEUCADIA WASTEWATER DISTRICT**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

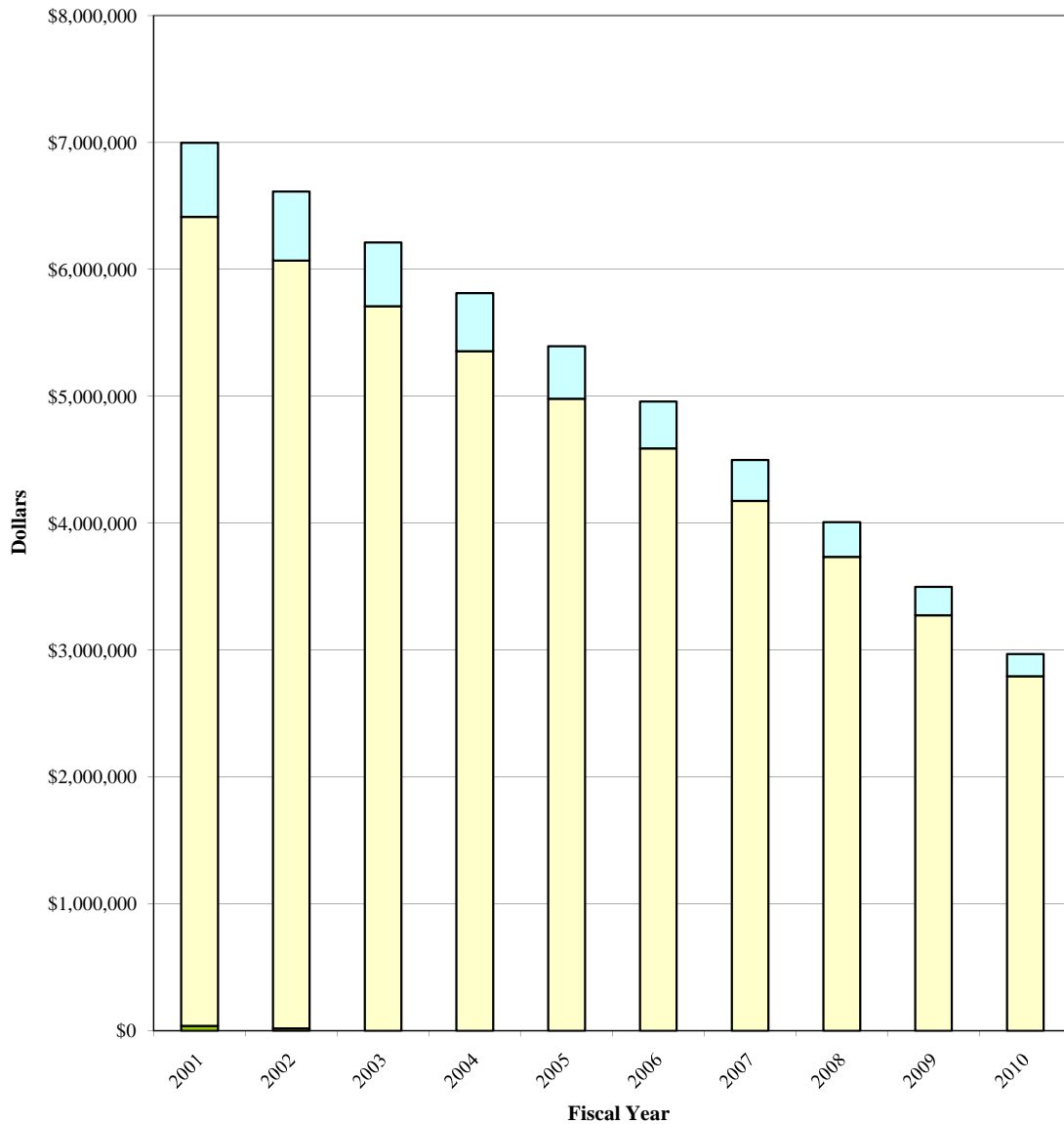
Schedule 8

<b>Fiscal Year</b>	<b>Current Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Current Taxes</b>	<b>Prior Year Tax Collections</b>	<b>Percent of Current Taxes</b>	<b>SB1096 Property Tax Shift</b>	<b>Net Collections</b>	<b>Prop 1A Receivable from State</b>
2001	653,631	644,754	98.6%	8,809	1.3%	-	653,563	-
2002	702,819	697,467	99.2%	7,316	1.0%	-	704,783	-
2003	753,721	746,663	99.1%	9,904	1.3%	-	756,567	-
2004	830,005	818,762	98.6%	11,011	1.3%	-	829,773	-
2005	946,130	926,322	97.9%	15,771	1.7%	(680,520)	261,574	-
2006	1,060,070	1,037,363	97.9%	22,178	2.1%	(680,520)	379,021	-
2007	1,160,031	1,143,701	98.6%	16,814	1.4%	-	1,160,515	-
2008	1,236,432	1,214,199	98.2%	18,113	1.5%	-	1,232,313	-
2009	1,270,177	1,256,629	98.9%	10,185	0.8%	-	1,266,814	-
2010	1,236,268	1,221,045	98.8%	10,049	0.8%	-	1,231,094	99,574

**LEUCADIA WASTEWATER DISTRICT**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

Schedule 9

Fiscal Year	Special Assessment Bonds Payable	Bonds Payable	Loans Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2001	40,000	6,375,000	583,809	6,998,809	138.07	0.41%
2002	20,000	6,050,000	543,384	6,613,384	125.58	0.36%
2003	-	5,710,000	501,747	6,211,747	113.38	0.32%
2004	-	5,355,000	458,860	5,813,860	103.82	0.27%
2005	-	4,980,000	414,687	5,394,687	94.04	0.23%
2006	-	4,590,000	369,189	4,959,189	84.77	0.20%
2007	-	4,175,000	322,326	4,497,326	75.68	0.17%
2008	-	3,735,000	274,056	4,009,056	65.95	0.14%
2009	-	3,275,000	224,339	3,499,339	57.20	0.13%
2010	-	2,795,000	173,130	2,968,130	48.80	0.11%



**LEUCADIA WASTEWATER DISTRICT**

**Debt Coverage**

**Last Ten Fiscal Years**

**Schedule 10**

<b>Fiscal Year</b>	<b>Net Revenues<sup>(1)</sup></b>	<b>Operating Expenses<sup>(2)</sup></b>	<b>Net Available Revenues</b>	<b>Debt Service<sup>(3)</sup></b>			<b>Coverage Ratio</b>
				<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2001	8,056,896	(3,123,347)	4,933,549	369,247	390,241	759,488	6.50
2002	7,063,132	(3,136,036)	3,927,096	385,425	373,772	759,197	5.17
2003	7,643,806	(3,771,143)	3,872,663	396,637	374,252	770,889	5.02
2004	6,681,924	(3,909,999)	2,771,925	417,887	334,221	752,108	3.69
2005	6,949,744	(4,474,469)	2,475,275	419,173	313,891	733,064	3.38
2006	7,600,270	(4,584,206)	3,016,064	435,498	291,501	726,999	4.15
2007	9,371,854	(4,732,399)	4,639,455	461,863	267,416	729,279	6.36
2008	9,695,932	(5,026,098)	4,669,834	488,269	242,917	731,186	6.39
2009	8,755,481	(5,822,372)	2,933,109	509,717	218,861	728,578	4.03
2010	7,852,515	(5,925,872)	1,926,643	531,209	193,479	724,688	2.66

**Notes:**

(1) Net revenues include all operating revenues of the District as well as nonoperating revenues, net of nonoperating expenses.

(2) Operating expenses exclude depreciation expense.

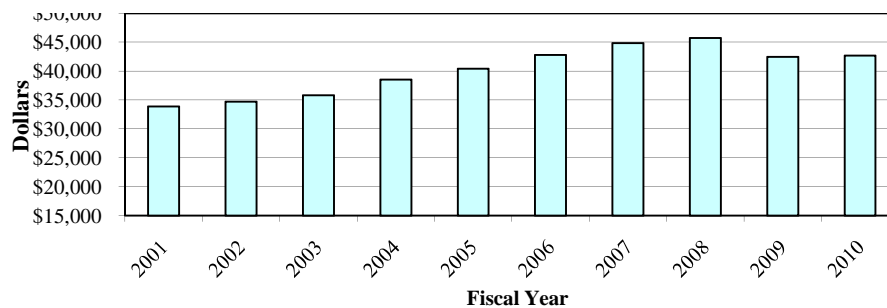
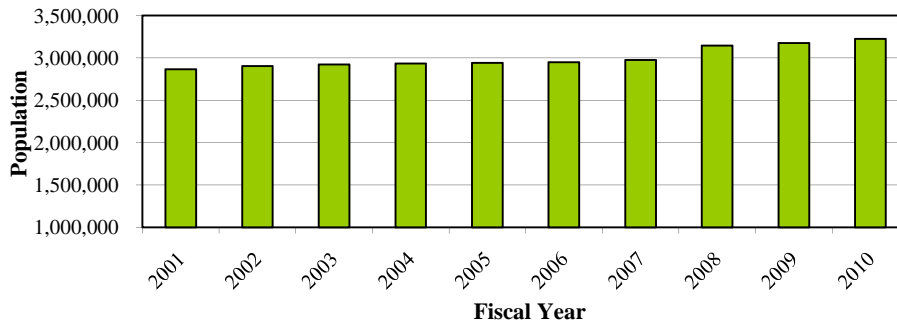
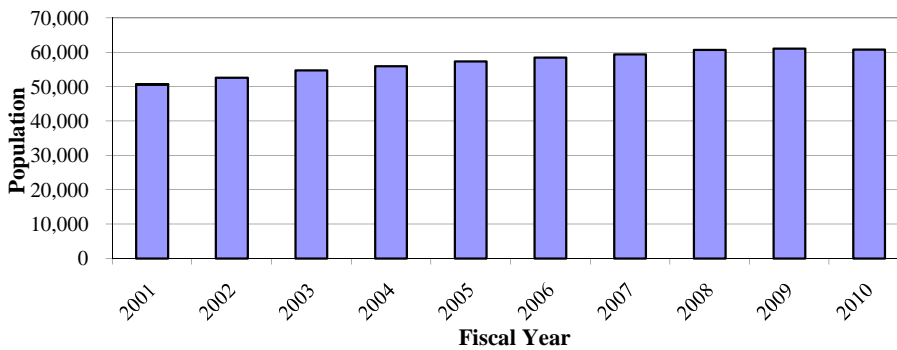
(3) Debt includes 1993 State Water Reclamation Loan and 1997 Series A Wastewater Revenue Refunding Bonds.

**Source:** Leucadia Wastewater District Accounting Department

**LEUCADIA WASTEWATER DISTRICT**  
**Demographics and Economic Statistics**  
**Last Ten Calendar Years**

Schedule 11

Year	County of San Diego <sup>(2)</sup>				
	District Service Population <sup>(1)</sup>	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2001	50,692	4.3%	2,864,593	97,009,480	33,865
2002	52,664	5.3%	2,901,719	100,655,726	34,688
2003	54,788	5.7%	2,921,810	104,630,453	35,810
2004	55,999	5.1%	2,933,929	113,062,259	38,536
2005	57,368	4.5%	2,941,658	118,793,000	40,383
2006	58,500	4.2%	2,948,362	126,194,000	42,801
2007	59,425	4.6%	2,974,861	133,369,000	44,832
2008	60,792	6.0%	3,146,274	143,873,000	45,728
2009	61,173	10.2%	3,173,407	134,696,000	42,445
2010	60,821	10.7%	3,224,400	137,525,000	42,651



Sources: California Department of Finance and CaliforniaLaborMarketInfo

**Notes:**

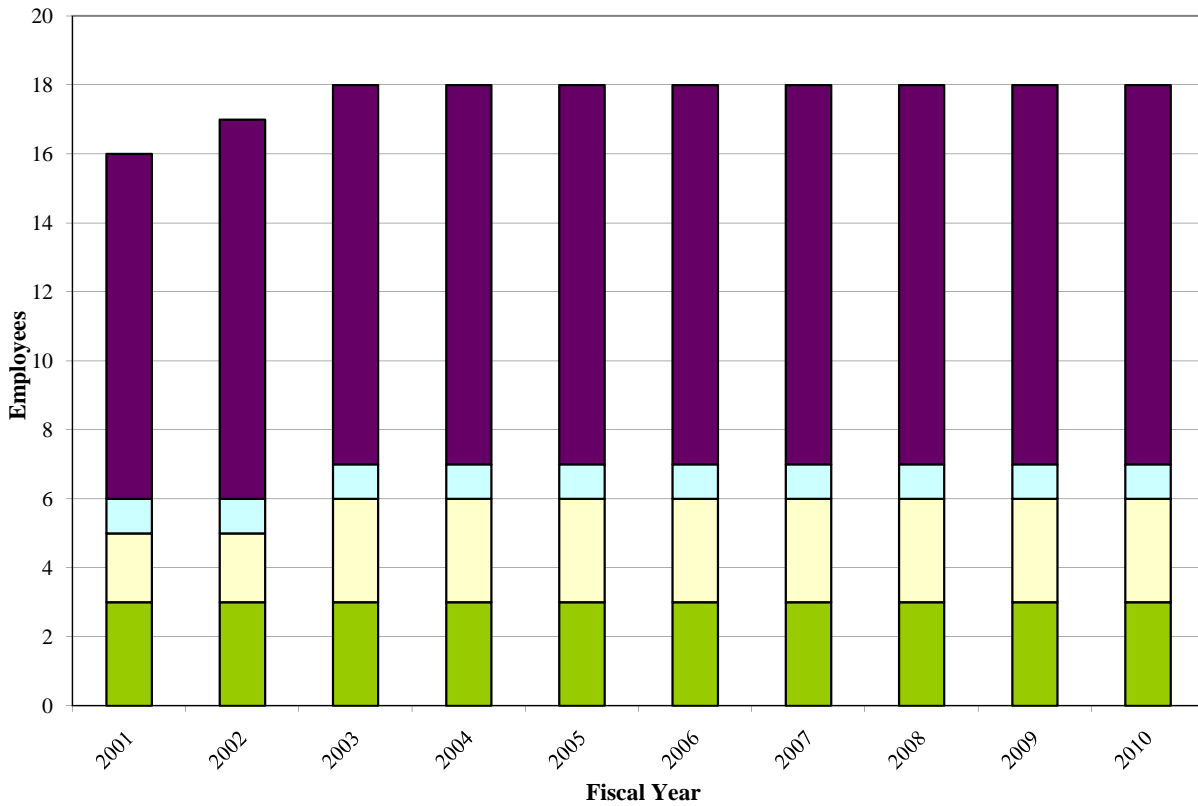
- (1) Estimated population of Leucadia Wastewater District. Source: SANDAG
- (2) County of San Diego data is updated annually. Therefore, the District uses County data because it most accurately represents the conditions and experiences of the District.

**LEUCADIA WASTEWATER DISTRICT**  
**Operating and Capacity Indicators**  
**Last Ten Fiscal Years**

Schedule 12

**Employees**

Department	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Management	3	3	3	3	3	3	3	3	3	3
Administration	2	2	3	3	3	3	3	3	3	3
Project Coordination	1	1	1	1	1	1	1	1	1	1
Field Services	10	11	11	11	11	11	11	11	11	11
Total	16	17	18	18	18	18	18	18	18	18



Source: Leucadia Wastewater District Operations and Accounting Departments

**LEUCADIA WASTEWATER DISTRICT**  
**Operating and Capacity Indicators (Continued)**  
**Last Ten Fiscal Years**

Schedule 12

**Other Operating and Capacity Indicators**

Fiscal Year	Miles of Sewer Lines	Number of Pump Stations	Average Dry Weather Flow (MGD)	Treatment Capacity (MGD)		Total Annual Treatment (MG)
				Liquids	Solids & Outfall	
2001	204	12	4.075	7.11	7.86	1,487
2002	207	12	3.948	7.11	7.86	1,441
2003	208	12	4.087	7.11	7.86	1,492
2004	209	12	4.280	7.11	7.86	1,562
2005	210	12	4.530	7.11	7.86	1,653
2006	211	12	4.410	7.11	7.86	1,610
2007	221	11	4.483	7.11	7.86	1,636
2008	222	11	4.230	7.11	7.86	1,544
2009	222	11	4.120	7.11	7.86	1,504
2010	222	11	4.060	7.11	7.86	1,484

MG - Millions of Gallons

MGD - Millions of Gallons per Day

**Sources:** Leucadia Wastewater District Operations and Accounting Departments