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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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October 31, 2007

Mr. Stanley Gage
455 Old Spanish Trail
Portola Valley, CA 94028

Dear Mr. Gage:

Enclosed is one bound copy of our report dated September 30, 2007, covering our audit of the financial statements of the Los Trancos Water District for the fiscal year ended June 30, 2007. We have also separately sent you one PDF copy for distribution to the board members.

Very truly yours,

C. G. UHLENBERG LLP

By _____
Jeffrey J. Ira

JJI

Encl.

LOS TRANCOS COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
JUNE 30, 2007

* * *

LOS TRANCOS COUNTY WATER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the major funds and remaining fund information of the Los Trancos County Water District (the "District"), California, as of and for the year ended June 30, 2007, which collectively comprise all of the District's basic financial statements. These financial statements are the responsibility of the Los Trancos County Water District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 financial statements referred to above present fairly the financial position of the Los Trancos County Water District, as of June 30, 2007, 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.

September 30, 2007
Redwood City, California

LOS TRANCOS COUNTY WATER DISTRICT

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>JUNE 30,</u>	
	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS:		
Cash and investments	\$ 279,503	\$ 175,650
Accounts receivable	<u> -</u>	<u> -</u>
Total Current Assets	<u>279,503</u>	<u>175,650</u>
TOTAL ASSETS	<u>\$ 279,503</u>	<u>\$ 175,650</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	<u> -</u>	<u>\$ 371</u>
Total Current Liabilities	<u> -</u>	<u>371</u>
LONG-TERM LIABILITIES:		
Notes payable	<u>617,762</u>	<u>617,762</u>
Total Long Term Liabilities	<u>617,762</u>	<u>617,762</u>
Total Liabilities	<u>617,762</u>	<u>618,133</u>
FUND EQUITY:		
Retained earnings	<u>(338,259)</u>	<u>(442,483)</u>
Total Fund Equity	<u>338,254</u>	<u>(442,483)</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 279,503</u>	<u>\$ 175,650</u>

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

LOS TRANCOS COUNTY WATER DISTRICT

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>JUNE 30,</u>	
	<u>2007</u>	<u>2006</u>
OPERATING INCOME:		
Water Sales	-	-
Connections Charges	-	-
Total Operating Income	<u>-</u>	<u>-</u>
OPERATING EXPENSES:		
Administrative expenses	17,541	1,126
Services and supplies	5,603	42,494
Pumping and maintenance	-	155,993
Utilities	-	10,376
Total Operating Expenses	<u>23,144</u>	<u>209,989</u>
OPERATING LOSS	<u>(23,144)</u>	<u>(209,989)</u>
NON-OPERATING INCOME (EXPENSES):		
Property taxes	214,547	175,880
Miscellaneous collections	-	698
Interest income	2,821	2,944
Water cost discount program	<u>(90,000)</u>	<u>(60,000)</u>
Total Non-Operating Income (Expenses)	<u>127,368</u>	<u>-</u>
NET INCOME	104,224	(90,467)
RETAINED EARNINGS - BEGINNING OF YEAR	<u>(442,483)</u>	<u>(352,016)</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ 338,259</u>	<u>\$ 442,483</u>

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

LOS TRANCOS COUNTY WATER DISTRICT

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>JUNE 30,</u>	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (23,144)	\$ (209,989)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Decrease (Increase) in current assets:		
Receivables	-	9,759
(Decrease) Increase in current liabilities:		
Accounts payable	<u>(371)</u>	<u>(2,346)</u>
Net Cash Used for Operating Activities	<u>(23,515)</u>	<u>(202,576)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	<u>2,821</u>	<u>2,944</u>
Net Cash Provided by Financing Activities	<u>2,821</u>	<u>2,944</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Property taxes	214,547	175,880
Miscellaneous collections	-	698
Customer Rebates	<u>(90,000)</u>	<u>(60,000)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>124,547</u>	<u>116,578</u>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	103,853	(83,454)
CASH AND INVESTMENTS AT BEGINNING OF YEAR	<u>175,650</u>	<u>258,704</u>
CASH AND INVESTMENTS AT END OF YEAR	<u>\$ 279,503</u>	<u>\$ 175,650</u>

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

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

1. ORGANIZATION

Los Trancos County Water District (the District) is a California Special District originally organized to provide water services to residential areas in Los Trancos County. The District was formed in January 1955. It ceased operating pumping plants at various locations in May 2005, see note 6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Proprietary Funds – Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

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

Comparative Data – Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position, operations and cash flows.

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

Implemented New Accounting Pronouncements - Governmental Accounting Standards Board ("GASB") Statement No. 40 - *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*.

For the year ended June 30, 2005, state and local governments are required to implement GASB Statement No. 40. The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified are disclosed as well.

3. **CASH AND INVESTMENTS**

Cash and investments as of June 30, 2007 and June 30, 2006 were as follows:

	<u>2007</u>	<u>2006</u>	<u>Rating</u>
Union Bank of California:			
Checking	\$ 190,999	\$ 89,094	NA
Certificate of Deposit – Union Bank	88,504	86,556	Not Rated
 Total Cash and Investments	 <u>\$ 279,503</u>	 <u>\$ 175,650</u>	

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

The District's deposits are fully insured up to \$100,000 by Federal Deposit Insurance Corporation (FDIC). The bank balances, before reconciling items, for the checking account at June 30, 2007 and June 30, 2006 were \$190,999 and \$89,094, respectively. The Certificate of Deposit account at June 30, 2007 and June 30, 2006 were \$88,504 and \$89,094, respectively. Differences between book balances and bank balances are a result of reconciling items such as deposits in transit and outstanding checks. As of June 30, 2007 and June 30, 2006, the District's Union Bank accounts exceeded the FDIC insured amount by \$90,999 and \$75,650, respectively.

California Government Code Section 16429.1 authorizes each local governmental agency to invest funds in the State Treasurer's Local Agency Investment Fund ("LAIF") administered by the California State Treasurer. The total amount invested by all public agencies in LAIF at that date is approximately \$60.5 billion. Of that amount, 91% is invested in non-derivative financial products and 9% in structured notes and asset-backed securities. The Local Investment Advisory Board has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool. The District's investment in LAIF's average maturity is 165 days.

The District also invests in time certificates of deposit that have no interest rate risk but must be held to maturity, which is usually 36 months, and are the District's least liquid investments. For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Marketing Investments to Fair Value (GASB 31)

Under GASB 31, the District must adjust the carrying value of its investments to reflect their fair market value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year. The District has determined the adjustment to fair market value is immaterial as of June 30, 2007.

4. **CHANGES IN LONG-TERM LIABILITIES**

The following table summarizes the changes in the District's long-term liabilities during the fiscal year ended June 30, 2007:

<u>Description</u>	<u>July 1, 2006</u>	<u>Principal Payments</u>	<u>June 30, 2007</u>
Loan from Developers			
\$617,762, 80 years			
0% interest	<u>617,762</u>	-	<u>617,762</u>
	<u>\$ 617,762</u>	<u>\$ (0)</u>	<u>617,762</u>
Less: Current Portion			\$ -
Total Long-term Debt			<u>\$ 617,762</u>

The \$617,762 Loan from Developers does not have scheduled payments due at this time. No payments are due on the loan until thirty-two houses in the Property have connected to the District. After such time as 32 houses have connected, the District will pay off the loan at the rate of \$9,000 on a quarterly basis of \$2,250. The first payment of \$2,250 will be due at the end of the first full calendar quarter during which at least 32 houses were connected and paying for water service for the entire quarter. After such time as thirty-six houses have connected, the District will pay off the loan at the rate of \$11,000 per year, on a quarterly basis of \$2,750.

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

5. INSURANCE

The District carries insurance coverage through Farallon Associates. The insurance policy includes coverage for breakdowns on the boiler and machinery and basic peril coverage for building, equipment and tanks. The coverage for personal injury is in the amount of \$1,000,000 with general aggregate coverage at 2,000,000 with a deductible of \$5,000. The directors and officers are covered with fiduciary liability in the amount of \$1,000,000 with a \$1,000 deductible.

6. SALE TO CALIFORNIA WATER

The District sold their water transmission and distribution system to California Water Service in May 2005 for \$125,000. This sale consists of all mains, services, tanks, pumps and other related assets. Also included would be Los Trancos' water supply assurance. The District has retained their property and will continue to collect property tax revenue from the County. This has been reflected as an extraordinary item on the Statement of Income and Retained Earnings.