

FILE COPY

SAN LORENZO VALLEY WATER DISTRICT

*** * ***

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

*** * ***

June 30, 1998 and 1997

SAN LORENZO VALLEY WATER DISTRICT

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September 4, 1998

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Lorenzo Valley Water District
Boulder Creek, California

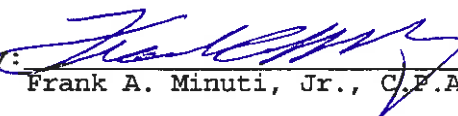
We have audited the accompanying combined balance sheets of San Lorenzo Valley Water District as of June 30, 1998 and 1997 and the related combined statements of income, expenses and changes in retained earnings and cash flows for the years then ended. The financial statements are the responsibility of San Lorenzo Valley Water District. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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.

As more fully described in Note 2 to the financial statements, the audit did not include tests of the historical costs of property and equipment acquired prior to July 1, 1986 because complete records are not available. Accordingly, we do not express an opinion as to the fairness of presentation of property and equipment, accumulated depreciation and equity in plant and equipment.

In our opinion, except for fixed assets, the financial statements referred to above present fairly, in all material respects, the financial position of San Lorenzo Valley Water District as of June 30, 1998 and 1997, and results of its operations and cash flows in conformity with generally accepted accounting principles.

BERGER/LEWIS ACCOUNTANCY CORPORATION

By: 
Frank A. Minuti, Jr., C.P.A.

SAN LORENZO VALLEY WATER DISTRICT
 COMBINED BALANCE SHEETS - ALL PROPRIETARY FUNDS
 June 30, 1998 and 1997

ASSETS	1998	1997
CURRENT ASSETS:		
Cash and Investments (Note 6)	\$ 1,177,969	\$ 1,339,157
Receivables:		
Customer Accounts - Net of Allowance for Uncollectibles	178,091	202,699
Assessments and Miscellaneous Taxes	23,219	12,932
Interest Receivable	23,103	24,747
Federal and State Grants	93,600	3,584
Due from Other Funds (Note 7)	11,064	24,601
Inventory (Note 2)	118,996	96,403
Prepaid Expenses and Deferred Charges	205,514	40,193
Deposits	4,093	4,093
Total Current Assets	1,835,649	1,748,409
RESTRICTED CASH: (Note 6)		
Cash and Investments with Fiscal Agent	61,222	62,817
Connection Deposits Investment (Note 9)	75,536	68,570
Customer Deposits (Note 8)	226,283	221,159
Construction Deposits	3,613	3,613
North Boulder Creek Assessments	235,734	241,997
Total Restricted Cash	602,388	598,156
PROPERTY, PLANT AND EQUIPMENT: (Note 3)		
Land	927,275	927,275
Utility Plant	18,686,453	17,857,346
Buildings, Equipment and Other Assets	1,840,008	1,857,752
Total Property, Plant and Equipment	21,453,736	20,642,373
Less - Accumulated Depreciation	(5,959,870)	(5,403,498)
Construction in Progress	15,493,866	15,238,875
	173,811	460,717
Total Property, Plant and Equipment (Net)	15,667,677	15,699,592
TOTAL ASSETS	\$18,105,714	\$18,046,157

See Independent Auditor's Report and Accompanying
 Notes to Financial Statements

LIABILITIES AND FUND EQUITY

	1998	1997
CURRENT LIABILITIES:		
Accounts Payable	\$ 161,706	\$ 141,304
Due to Other Funds (Note 7)	11,064	24,601
Accrued Expenses	1,288	1,364
Accrued Interest	65,135	68,902
Current Portion of Long-Term Debt (Note 4)	311,986	294,612
Connection and Construction Deposits (Note 9)	79,149	72,183
Customer Deposits (Note 8)	226,283	221,159
Improvement Costs Due to Customers	(4,727)	1,412
Total Current Liabilities	851,884	825,537
LONG-TERM LIABILITIES -		
NET OF CURRENT PORTION: (Note 4)		
Special Assessment Bonds	1,269,550	1,329,550
California Special District Lease Financing	240,000	240,000
Notes Payable	4,459,912	4,487,149
Accrued Vacation and Sick Leave	185,537	173,621
Total Long-Term Liabilities	6,154,999	6,230,320
Total Liabilities	7,006,883	7,055,857
FUND EQUITY:		
Contributed Fixed Assets:		
Utility Plant	350,474	350,474
Storm Improvements	896,504	896,504
Earthquake Improvements	1,324,811	1,324,811
Total Contributed Fixed Assets	2,571,789	2,571,789
Retained Earnings:		
Reserved for Restricted Assets	756,156	756,156
Reserved for Debt Service	288,385	288,385
Reserved for Maintenance	32,646	32,646
Unreserved:		
Designated (Note 10)	4,836,939	4,836,939
Undesignated	2,612,916	2,504,385
Total Retained Earnings	8,527,042	8,418,511
Total Fund Equity	11,098,831	10,990,300
TOTAL LIABILITIES AND FUND EQUITY	\$18,105,714	\$18,046,157

SAN LORENZO VALLEY WATER DISTRICT
 COMBINED STATEMENTS OF INCOME, EXPENSES AND CHANGES IN RETAINED EARNINGS -
 ALL PROPRIETARY FUNDS

For the Years Ended June 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
OPERATING INCOME:		
Water Fees	\$2,315,638	\$2,418,013
Sewer Charges	21,850	21,848
Assessments	218,637	197,348
Property Taxes	245,320	57,869
Meter Sales	77,438	81,685
Charges and Penalties	34,180	34,976
Miscellaneous	<u>22,765</u>	<u>5,579</u>
Total Operating Income	<u>2,935,828</u>	<u>2,817,318</u>
OPERATING EXPENSES:		
Salaries and Benefits	1,199,867	1,199,277
Contractual and Professional Services	133,174	122,523
Amortization and Depreciation	670,893	631,537
Materials and Supplies	216,209	97,549
Utilities and Telephone	218,397	217,783
Insurance	58,505	59,326
Vehicle and Equipment Maintenance	32,192	44,112
Building Maintenance	20,440	25,776
Collection Fees and Charges	7,752	2,585
Miscellaneous	4,262	23,850
Travel, Meals and Conferences	5,706	5,443
Auto Allowance	7,800	7,800
Office Expenses	44,457	43,447
Rentals and Permits	<u>13,009</u>	<u>16,452</u>
Total Operating Expenses	<u>2,632,663</u>	<u>2,497,460</u>
NET OPERATING INCOME	<u>303,165</u>	<u>319,858</u>
NON-OPERATING INCOME (EXPENSES):		
Interest Earned	78,099	89,416
Loss on Disposition of Assets	(5,513)	(11,239)
Interest Expense	(303,908)	(312,194)
Government Earthquake and Storm Funds	<u>36,688</u>	<u>20,909</u>
Total Non-Operating Income (Expenses)	<u>(194,634)</u>	<u>(213,108)</u>
NET INCOME	108,531	106,750
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>8,418,511</u>	<u>8,311,761</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$8,527,042</u>	<u>\$8,418,511</u>

See Independent Auditor's Report and Accompanying
 Notes to Financial Statements

SAN LORENZO VALLEY WATER DISTRICT
 COMBINED STATEMENTS OF CASH FLOWS - ALL PROPRIETARY FUNDS
 For the Years Ended June 30, 1998 and 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income	\$ 303,165	\$ 319,858
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Provision for Depreciation	670,893	631,537
(Increase) in Receivables	(81,630)	(46,920)
(Increase) Decrease in Restricted Cash	(4,232)	2,919
(Increase) in Inventory	(22,593)	(4,533)
(Increase) Decrease in Other Assets	(165,321)	2,325
Increase in Accounts Payable	20,402	32,131
Increase (Decrease) in Other Liabilities	27,912	(43,371)
Loss on Disposition of Fixed Assets	(5,513)	(11,239)
Receipt of Government Earthquake and Storm Funds	36,688	20,909
Total Adjustments	476,606	583,758
Net Cash Provided by Operating Activities	779,771	903,616
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(638,978)	(684,301)
Proceeds from Long-Term Debt	175,000	
Payment of Principal	(247,405)	(239,476)
Payment of Interest	(307,675)	(312,194)
Net Cash Used for Capital and Related Financing Activities	(1,019,058)	(1,235,971)
CASH FLOWS FROM INVESTING ACTIVITIES -		
Interest on Investments	78,099	89,416
Net Cash Provided by Investing Activities	78,099	89,416
NET INCREASE (DECREASE) IN CASH	(161,188)	(242,939)
CASH AT BEGINNING OF YEAR	1,339,157	1,582,096
CASH AT END OF YEAR	\$1,177,969	\$1,339,157

See Independent Auditor's Report and Accompanying
Notes to Financial Statements

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 1998 and 1997

1. ORGANIZATION:

The San Lorenzo Valley Water District was established April 3, 1941, pursuant to Chapter 592, Status of 1913, since codified into Section 30,000 et seq. of the California Water Code. The District contains approximately 58 square miles. It was created to develop a water supply for domestic requirements as well as for fire protection and recreational facilities in the San Lorenzo Valley (except the Felton area). Since 1969, the District has owned and operated some facilities in Bear Creek Estates. At June 30, 1998, the District owned approximately 3,250 acres of land and was servicing approximately 5,500 customers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Fund Accounting

Since the activities of the District are, at this time, totally dedicated to providing services to the general public on a continuing basis, and its costs are to be financed or recovered primarily through user charges, its accounting records are required to be on a proprietary fund type basis. In conformance with generally accepted accounting principles (GAAP), the appropriate fund type and category is defined as follows:

Proprietary Funds

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity, are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 1998 and 1997

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fixed Assets (Continued):

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations, and the accumulated depreciation is reported on the balance sheets. Depreciation has been provided, using the straight-line method over the estimated useful lives, as follows:

Buildings	30-40 years
Improvements	20-30 years
Reservoirs and Tanks	50 years
Mains	40 years
Wells	30 years
Equipment	5-20 years

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of what measurement focus may be applied.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Unbilled water and sewer fund utility service receivables are recorded at year end.

Investments

Investments are stated at cost, which approximates market.

Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies held for consumption.

Accumulated Vacation and Sick Leave

Accumulated vacation and sick leave is accrued when incurred to recognize the employees' rights to receive compensation for future absences. This amount is computed using current employee accumulated vacation hours and one-half accumulated sick leave hours at current pay rates.

Comparative Data

Comparative total data for the prior year have been present in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 1998 and 1997

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Interfund Transactions

The District's interfund transactions during the year relate directly to services rendered or facilities provided. These are recorded as an expense in the receiving fund with a corresponding liability for the amount due to the disbursing fund.

3. CHANGES IN PROPERTY, PLANT AND EQUIPMENT:

A summary of the changes, by fund, in the fixed asset and depreciation accounts during the fiscal year ended June 30 is as follows:

	1998			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance, June 30, 1997	\$19,406,589	\$1,235,784	\$460,717	\$21,103,090
Additions and Transfers-In	921,707		101,366	1,023,073
Deletions and Transfers-Out	<u>(110,344)</u>		<u>(388,272)</u>	<u>(498,616)</u>
Balance, June 30, 1998	20,217,952	1,235,784	173,811	21,627,547
Accumulated Depreciation	<u>(5,631,692)</u>	<u>(328,178)</u>		<u>(5,959,870)</u>
Net Property, Plant and Equipment	<u>\$14,586,260</u>	<u>\$ 907,606</u>	<u>\$173,811</u>	<u>\$15,667,677</u>
	1997			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance, June 30, 1996	\$19,059,227	\$1,228,884	\$167,866	\$20,455,977
Additions and Transfers-In	393,428	6,900	292,851	693,179
Deletions and Transfers-Out	<u>(46,066)</u>			<u>(46,066)</u>
Balance, June 30, 1997	19,406,589	1,235,784	460,717	21,103,090
Accumulated Depreciation	<u>(5,105,459)</u>	<u>(298,039)</u>		<u>(5,403,498)</u>
Net Property, Plant and Equipment	<u>\$14,301,130</u>	<u>\$ 937,745</u>	<u>\$460,717</u>	<u>\$15,699,592</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 1998 and 1997

4. LONG-TERM DEBT:

At June 30 long-term debt consisted of:

	1998	1997
Special Assessment Bonds within the District's water system. Bonds are issued under the State of California's 1915 Bond Act, which are payable by the County Tax Collector through assessments on the property tax rolls:		
University Drainage Assessment District		\$ 2,000
Bear Creek Estates Area Sanitary Sewerage	\$ 45,000	65,000
North Boulder Creek Assessment District	1,284,550	1,324,550
Total Special Assessment Bonds	1,329,550	1,391,550
California Special District Lease Financing bearing interest at 5.25 percent per annum with a maturity at March 1, 2012	250,000	250,000
Notes Payable:		
United States Department of Commerce (EDA) bearing interest at 5 percent per annum with a maturity at July 1, 1998	16,096	31,567
California Safe Drinking Water Loan bearing interest at 3.524 percent per annum with a maturity at July 1, 2018	3,451,459	3,373,076
State Resources loan bearing interest at 3.4 percent per annum with a maturity at June 30, 2003	331,930	391,841
California Safe Drinking Refunding Loan bearing interest at 7.125 percent per annum with a maturity at June 1, 2022	856,030	869,870
Total Notes Payable	4,655,515	4,666,354

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 1998 and 1997

4. LONG-TERM DEBT (Continued):

As of June 30, long-term debt consisted of (Continued):

	1998	1997
Total Accrued Vacation and Sick Leave	\$ 231,920	\$ 217,028
Total Debt	6,466,985	6,524,932
Less: Current Portion	<u>311,986</u>	<u>294,612</u>
Total Long-Term Debt	<u>\$6,154,999</u>	<u>\$6,230,320</u>

The future scheduled maturities of long-term debt are as follows:

June 30, 1999	\$ 311,986
June 30, 2000	303,447
June 30, 2001	278,140
June 30, 2002	289,608
June 30, 2003	292,964
Thereafter	<u>4,990,840</u>
	<u>\$6,466,985</u>

5. EMPLOYEE BENEFITS:

Employees Retirement Plan (Defined Benefit Pension Plan)

Plan Description - The San Lorenzo Valley Water District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The San Lorenzo Valley Water District's defined benefit pension plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), and agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The San Lorenzo Valley Water District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy - Active plan members in the San Lorenzo Valley Water District defined pension plan are required to contribute 3.5% of their annual covered salary. The San Lorenzo Valley Water District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 1997/98 was 0.00%. 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.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 1998 and 1997

5. EMPLOYEE BENEFITS (Continued):

Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)

Annual Pension Cost - For fiscal year 1997/98, the San Lorenzo Valley Water District defined benefit pension plan's annual pension cost was \$0.00 and the San Lorenzo Valley Water District actually contributed \$0.00. The required contribution for fiscal year 1997/98 was determined as part of the June 30, 1996 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.5% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 4.5% to 14.95%, and (c) 0.00% cost-of-living adjustment. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of San Lorenzo Valley Water District's defined benefit pension plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. San Lorenzo Valley Water District's defined benefit pension plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 1998 was 2 years.

Three-Year Trend Information for San Lorenzo Valley Water District's Defined Benefit Pension Plan:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/94	N/A	N/A	N/A
6/30/95	-0-	100%	N/A
6/30/96	-0-	100%	N/A

Required Supplementary Information

Funded Status of Plan:

The table below displays a short history of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Liability of (Excess Assets), Funded Status (i.e., the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated annual covered payroll and the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of that covered payroll. For those plans include 1st or 2nd level 1959 Survivor Benefit, the liabilities and assets below include the assets and liabilities for current beneficiaries of your 1959 Survivors Benefit program. For all other plans, the assets and liabilities below are without regard to the 1959 Survivor Benefit programs.

Funded Status of the Plan

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
6/30/94	\$1,753,739	\$1,876,548	\$(122,809)	107.0%	\$1,170,351	(10.493%)
6/30/95	1,742,128	2,072,779	(330,651)	119.0%	1,117,874	(29.579%)
6/30/96	1,981,015	2,469,662	(488,647)	124.7%	984,770	(49.620%)

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 1998 and 1997

6. CASH AND INVESTMENTS:

Cash on deposit as of June 30, 1998 and 1997 was confirmed by the depositories and reconciled to the balances reflected on the books.

These funds were on deposit in the following depositories:

	1998	1997
Petty Cash	\$ 200	\$ 200
Wells Fargo Bank - Checking	5,257	24,802
Liberty Bank - Checking	3,382	2,646
Liberty Bank - Savings	56,054	69,991
Cash in County Treasury	75,935	75,935
Cash with Fiscal Agent	20,831	22,426
Funds Invested - Local Agency Investment Fund (LAIF)	1,618,698	1,741,313
Total	1,780,357	1,937,313
Less Restricted Cash and Investments	602,388	598,156
Current Portion	\$1,177,969	\$1,339,157

The District's deposits at year-end were entirely covered by federal deposit insurance or by collateral held by the District's custodial bank in the District's name.

The District's investments at year-end are shown below:

	June 30, 1998		June 30, 1997	
	Carrying Amount	Market Value	Carrying Amount	Market Value
Cash	\$ 64,693	\$ 64,693	\$ 97,439	\$ 97,439
Investment in State Investment Fund (LAIF)	1,618,698	1,618,698	1,741,316	1,741,316
Total	\$1,683,391	\$1,683,391	\$1,838,755	\$1,838,755

The cash in the County Treasury, cash with fiscal agents, and Manufacturers Hanover Trust is held in trust for bond interest and redemption.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 1998 and 1997

7. INTERFUND RECEIVABLES AND PAYABLES:

At June 30, 1998 the Sewer Fund was indebted to the Water Fund in the amount of ~~\$32,180~~ 11,067 JAM

At June 30, 1997 the Water Fund was indebted to the Sewer Fund in the amount of \$24,601.

8. CUSTOMER DEPOSITS:

In March, 1980, the District implemented a new policy with respect to customer deposits. As of July 1, 1980, all deposits are to be held until the account is closed out. Additionally, all accounts bear interest at the annual rate of 5.5%, up to the date of close out. The deposits plus interest earned are credited against final billings, and any credit balance refunded. The deposit monies are invested, and the total of invested deposits and accrued interest earned is shown in the restricted cash section of the financial statements.

9. CONNECTION DEPOSITS:

District Ordinance No. 48, adopted December 5, 1983, provides for the handling of water service connection charge deposits. Upon proper documentation, such deposits can be refunded if water meters are not set. The deposits are accounted for separately to fulfill this obligation.

10. RETAINED EARNINGS - DESIGNATED:

An analysis of designated retained earnings at June 30 consists of the following:

	<u>1998</u>	<u>1997</u>
Designated for:		
Emergency Reserve	\$ 661,939	\$ 661,939
Vacation and Sick Leave	125,000	125,000
Capital Project Reserve	2,100,000	2,100,000
Wastewater Reserve	850,000	850,000
Vehicle Reserve	100,000	100,000
Capital Improvement Project	<u>1,000,000</u>	<u>1,000,000</u>
Total	<u>\$4,836,939</u>	<u>\$4,836,939</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 1998 and 1997

11. CASH AND CASH EQUIVALENTS:

For the purpose of the Statement of Cash Flows the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

12. JOINT POWERS AUTHORITY:

The San Lorenzo Valley Water District participates in a joint powers authority, the Special District Risk Management Authority (the Authority). The Authority was formed to provide member districts with general liability, automotive liability and property damage, and errors and omissions risk financing coverage.

The San Lorenzo Valley Water District participates in the liability and property program. The District has an auto and general liability self-insured retention level of \$1,500 and a \$2,000 property program deductible. A self-retention is similar to a deductible.

The Authority is governed by a board which controls the operations of the Authority independent of any influence by the San Lorenzo Valley Water District. The Authority is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. The relationship between the District and the Authority is such that the Authority is not a component unit of the San Lorenzo Valley Water District for financial reporting purposes.

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Griffith R. Lewis
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September 4, 1998

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

Board of Directors
San Lorenzo Valley Water District
Boulder Creek, California

Our report on our audit of the basic financial statements of San Lorenzo Valley Water District as of June 30, 1998 appears elsewhere in this report. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on Schedules 1-4 is presented for purposes of supplementary information and is not a required part of the basic financial statements. Such information for the year ended June 30, 1998 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BERGER/LEWIS ACCOUNTANCY CORPORATION

By: 
Frank A. Minuti, Jr., C.P.A.

SUPPLEMENTARY INFORMATION

SAN LORENZO VALLEY WATER DISTRICT
COMBINING BALANCE SHEET - WATER AND SEWER FUNDS

June 30, 1998

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS			
CURRENT ASSETS:			
Cash & Investments:			
On Hand and On Deposit	\$ 64,893	\$ 35,541	\$ 100,434
Investments	1,077,535		1,077,535
Receivables:			
Customer Accounts (Net of Allowance for Uncollectibles)	178,091		178,091
Assessments and Miscellaneous Taxes	22,025	1,194	23,219
Interest	23,103		23,103
Department of Transportation	56,912		56,912
Department of Agriculture	32,300		32,300
Office of Emergency Services	4,388		4,388
Due From Other Funds	11,064		11,064
Inventory	118,996		118,996
Prepaid Expenses and Deferred Charges	205,514		205,514
Deposits	<u>4,093</u>		<u>4,093</u>
Total Current Assets	<u>1,798,914</u>	<u>36,735</u>	<u>1,835,649</u>
RESTRICTED CASH:			
Cash and Investments with Fiscal Agent	61,222		61,222
Connection Deposits Investment	75,536		75,536
Customer Deposits	226,283		226,283
Construction Deposits	3,613		3,613
North Boulder Creek Assessments	<u>235,734</u>		<u>235,734</u>
Total Restricted Cash	<u>602,388</u>		<u>602,388</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	899,062	28,213	927,275
Utility Plant	17,483,024	1,203,429	18,686,453
Buildings, Equipment, and Other Assets	<u>1,835,866</u>	<u>4,142</u>	<u>1,840,008</u>
Total Property, Plant and Equipment	20,217,952	1,235,784	21,453,736
Less - Accumulated Depreciation	<u>(5,631,692)</u>	<u>(328,178)</u>	<u>(5,959,870)</u>
	14,586,260	907,606	15,493,866
Construction in Progress	<u>173,811</u>		<u>173,811</u>
Total Property, Plant and Equipment (Net)	<u>14,760,071</u>	<u>907,606</u>	<u>15,667,677</u>
TOTAL ASSETS	<u>\$17,161,373</u>	<u>\$ 944,341</u>	<u>\$18,105,714</u>

See Independent Auditor's Report on Supplementary Information

LIABILITIES AND FUND EQUITY

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
CURRENT LIABILITIES:			
Accounts Payable	\$ 161,572	\$ 134	\$ 161,706
Due to Other Funds		11,064	11,064
Accrued Expenses	1,033	255	1,288
Accrued Interest	65,135		65,135
Current Portion of Special Assessment Bonds	40,000	20,000	60,000
Current Portion of Lease Financing	10,000		10,000
Current Portion of Notes Payable	195,602		195,602
Current Portion of Accrued Vacation and Sick Leave	45,945	439	46,384
Connection and Construction Deposits	79,149		79,149
Customer Deposits	226,283		226,283
Improvement Costs Due to Customers	(4,727)		(4,727)
Total Current Liabilities	<u>819,992</u>	<u>31,892</u>	<u>851,884</u>
Long-Term Liabilities (Net of Current Portion):			
Special Assessment Bonds	1,244,550	25,000	1,269,550
California Special District Lease Financing	240,000		240,000
Notes Payable	4,459,912		4,459,912
Accrued Vacation and Sick Leave	183,781	1,756	185,537
Total Long-Term Liabilities	<u>6,128,243</u>	<u>26,756</u>	<u>6,154,999</u>
Total Liabilities	<u>6,948,235</u>	<u>58,648</u>	<u>7,006,883</u>
FUND EQUITY:			
Contributed Fixed Assets:			
Utility Plant	249,073	101,401	350,474
Storm Improvements	896,504		896,504
Earthquake Improvements	1,324,811		1,324,811
Total Contributed Fixed Assets	<u>2,470,388</u>	<u>101,401</u>	<u>2,571,789</u>
Retained Earnings:			
Reserved for Restricted Assets	756,156		756,156
Reserved for Debt Service	288,385		288,385
Reserved for Maintenance		32,646	32,646
Unreserved:			
Designated	4,836,939		4,836,939
Undesignated	1,861,270	751,646	2,612,916
Total Retained Earnings	<u>7,742,750</u>	<u>784,292</u>	<u>8,527,042</u>
Total Fund Equity	<u>10,213,138</u>	<u>885,693</u>	<u>11,098,831</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$17,161,373</u>	<u>\$944,341</u>	<u>\$18,105,714</u>

SAN LORENZO VALLEY WATER DISTRICT
 COMBINING STATEMENT OF INCOME, EXPENSES AND CHANGES IN RETAINED EARNINGS -
 WATER AND SEWER FUNDS

For the Year Ended June 30, 1998

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING INCOME:			
Water Fees	\$2,315,638		\$2,315,638
Sewer Charges		\$ 21,850	21,850
Assessments	192,279	26,358	218,637
Property Taxes	245,320		245,320
Meter Sales	77,438		77,438
Charges and Penalties	34,180		34,180
Miscellaneous	22,765		22,765
Total Operating Income	<u>2,887,620</u>	<u>48,208</u>	<u>2,935,828</u>
OPERATING EXPENSES:			
Salaries and Benefits	1,190,142	9,725	1,199,867
Contractual and Professional Services	124,349	8,825	133,174
Amortization and Depreciation	640,754	30,139	670,893
Materials and Supplies	213,101	3,108	216,209
Utilities and Telephone	214,554	3,843	218,397
Insurance	58,190	315	58,505
Vehicle and Equipment Maintenance	31,741	451	32,192
Building Maintenance	20,417	23	20,440
Collection Fees and Bad Debts	7,752		7,752
Miscellaneous	4,262		4,262
Travel, Meals and Conferences	5,706		5,706
Auto Allowance	7,800		7,800
Office Expenses	44,096	361	44,457
Rentals and Permits	11,799	1,210	13,009
Total Operating Expenses	<u>2,574,663</u>	<u>58,000</u>	<u>2,632,663</u>
OPERATING INCOME (LOSS)	<u>312,957</u>	<u>(9,792)</u>	<u>303,165</u>
NON-OPERATING INCOME (EXPENSES):			
Interest Earned	77,935	164	78,099
Loss on Disposition of Assets	(5,513)		(5,513)
Interest Expense	(296,435)	(7,473)	(303,908)
Government Earthquake and Storm Funds	36,688		36,688
Prior Year Expense Allocation	(21,116)	21,116	
Total Non-Operating (Expenses)	<u>(208,441)</u>	<u>13,807</u>	<u>(194,634)</u>
NET INCOME (LOSS)	104,516	4,015	108,531
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>7,638,234</u>	<u>780,277</u>	<u>8,418,511</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$7,742,750</u>	<u>\$784,292</u>	<u>\$8,527,042</u>

See Independent Auditor's Report on Supplementary Information

SAN LORENZO VALLEY WATER DISTRICT
 COMBINING STATEMENT OF CASH FLOWS - WATER AND SEWER FUNDS

June 30, 1998

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ 312,957	\$ (9,792)	\$ 303,165
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Provision for Depreciation	640,754	30,139	670,893
(Increase) in Receivables	(80,533)	(1,097)	(81,630)
(Increase) in Restricted Cash	(4,232)		(4,232)
(Increase) in Inventory	(22,593)		(22,593)
(Increase) in Other Assets	(165,321)		(165,321)
Increase (Decrease) in Accounts Payable	20,663	(261)	20,402
Increase in Other Liabilities	20,078	7,834	27,912
Loss on Disposition of Fixed Assets	(5,513)		(5,513)
Receipt of Government Storm Funds	36,688		36,688
Total Adjustments	439,991	36,615	476,606
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 752,948	 26,823	 779,771
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of Capital Assets	(638,978)		(638,978)
Payment of Principal	(227,891)	(19,514)	(247,405)
Payment of Interest	(300,202)	(7,473)	(307,675)
Proceeds from Long-Term Debt	175,000		175,000
 NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	 (992,071)	 (26,987)	 (1,019,058)
 CASH FLOWS FROM INVESTING ACTIVITIES -			
Interest on Investments	77,935	164	78,099
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 77,935	 164	 78,099
 NET (DECREASE) IN CASH	 (161,188)	 -0-	 (161,188)
 CASH AT BEGINNING OF YEAR	 1,303,616	 35,541	 1,339,157
 CASH AT END OF YEAR	 \$1,142,428	 \$ 35,541	 \$1,177,969

See Independent Auditor's Report on Supplementary Information

SAN LORENZO VALLEY WATER DISTRICT
PUBLIC EMPLOYEES RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS
(In Hundreds)

June 30, 1998

Fiscal Year Ending June 30	[1] Net Assets Available for Benefits	[2] Pension Benefits Obligation	[3] Percent Funded [1]/[2]	[4] Unfunded Pension Benefit Obligation [2] - [1]	[5] Estimated Annual Covered Payroll For The Succeeding Fiscal Year	[6] Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll [4]/[5]
1988	\$ 8,431.9	\$ 7,653.2	110.2	(778.7)	6,894.3	-11.3
1989	10,018.4	8,852.6	113.2	(1,165.8)	6,543.9	-17.8
1990	11,706.1	10,678.6	109.6	(1,027.5)	7,083.0	-14.5
1991	12,433.2	11,577.3	107.4	(855.9)	7,331.5	-11.7
1992	14,091.8	12,944.2	106.9	(1,147.6)	8,642.4	-13.3
1993	15,763.6	14,302.4	110.2	(1,461.3)	9,069.4	-16.1
1994	19,885.6	14,944.3	123.1	(4,941.4)	11,905.0	-41.5
1995	22,323.7	15,192.1	146.9	(7,131.7)	11,418.7	-62.5
1996	26,230.1	17,399.1	150.8	(8,831.1)	12,748.4	-69.3

Note: The information in the table has been presented for as many years as the standardized measure of pension benefit obligations is available.

Source: PERS

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