

SAN LORENZO VALLEY WATER DISTRICT

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FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

* * *

June 30, 2003 and 2002

SAN LORENZO VALLEY WATER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general-purpose financial statements of San Lorenzo Valley Water District as of June 30, 2003 and 2002 as listed in the table of contents. The financial statements are the responsibility of San Lorenzo Valley Water District's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of San Lorenzo Valley Water District as of June 30, 2003 and 2002, and results of its operations and cash flows in conformity with accounting principles generally accepted in the United States of America.



Our report was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on pages 18 - 21 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, 2003 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

BERGER/LEWIS ACCOUNTANCY CORPORATION
Santa Cruz, California
October 13, 2003

SAN LORENZO VALLEY WATER DISTRICT

COMBINED BALANCE SHEETS - ALL PROPRIETARY FUNDS

June 30, 2003 and 2002

ASSETS		2003	2002
		<u>2003</u>	<u>2002</u>
CURRENT ASSETS:			
Cash and Investments (Note 3)		\$ 11,714,768	\$ 7,607,153
Receivables:			
Customer Accounts - Net of Allowance for Uncollectibles of \$3,252 as of June 30, 2003 and 2002		221,681	246,719
Interest Receivable		200,964	362,871
Due from Other Funds (Note 7)		12,784	9,366
Other Receivables		76,029	31,431
Inventory (Note 2)		143,633	142,684
Deposits		9,452	4,972
Note Receivable - Current Portion (Note 13)			
Total Current Assets		<u>12,379,311</u>	<u>8,405,196</u>
RESTRICTED CASH AND INVESTMENTS (Note 3):			
Proceeds Certificates of Participation		919,283	1,466,036
Cash and Investments with Fiscal Agent		57,403	57,403
Connection and Construction Deposits Investment (Note 9)		177,884	164,102
Customer Deposits (Note 8)		283,252	270,348
Reserve Fund - Certificates of Participation		239,125	239,125
North Boulder Creek Assessments		218,632	190,076
Reserve Fund - Improvement Refunding Bonds		145,706	145,706
Total Restricted Cash and Investments		<u>2,041,285</u>	<u>2,532,796</u>
PROPERTY, PLANT AND EQUIPMENT (Note 4):			
Land		1,113,057	1,113,057
Utility Plant		22,185,535	21,532,675
Buildings, Equipment and Other Assets		2,470,195	2,374,485
Total Property, Plant and Equipment		<u>25,768,787</u>	<u>25,020,217</u>
Less - Accumulated Depreciation		(9,308,431)	(8,598,310)
		16,460,356	16,421,907
Construction in Progress		1,623,131	1,178,347
Total Property, Plant and Equipment		<u>18,083,487</u>	<u>17,600,254</u>
OTHER ASSETS:			
Deferred Charges		348,264	345,892
Note Receivable - Net of Current Portion (Note 13)		2,105,000	5,290,000
Total Other Assets		<u>2,453,264</u>	<u>5,635,892</u>
TOTAL ASSETS		<u>\$ 34,957,347</u>	<u>\$ 34,174,138</u>

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

SAN LORENZO VALLEY WATER DISTRICT

COMBINED BALANCE SHEETS - ALL PROPRIETARY FUNDS
(Continued)

June 30, 2003 and 2002

LIABILITIES AND FUND EQUITY

	2003	2002
CURRENT LIABILITIES:		
Accounts Payable	\$ 287,456	\$ 171,203
Due to Other Funds (Note 7)	12,784	9,366
Accrued Expenses	1,363	876
Accrued Interest	59,437	62,631
Refunds Payable	2,777	2,777
Current Portion of Long-Term Debt (Note 5)	347,664	378,966
Connection and Construction Deposits (Note 9)	177,884	164,102
Customer Deposits (Note 8)	283,252	270,348
Accrued Vacation and Sick Leave	280,984	279,704
Total Current Liabilities	1,453,601	1,339,973
 LONG-TERM LIABILITIES - NET OF CURRENT PORTION		
(Note 5):		
Special Assessment Bonds	1,055,000	1,110,000
California Special District Lease Financing	190,000	205,000
Notes Payable	3,725,905	3,879,101
Certificates of Participation	2,480,000	2,580,000
Less Current Portion	(347,664)	(378,966)
Total Long-Term Liabilities	7,103,241	7,395,135
Total Liabilities	8,556,842	8,735,108
 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)	4,998,898	4,998,898
Undesignated	17,752,631	16,791,156
Total Retained Earnings	23,828,716	22,867,241
Total Fund Equity	26,400,505	25,439,030
TOTAL LIABILITIES AND FUND EQUITY	\$ 34,957,347	\$ 34,174,138

SAN LORENZO VALLEY WATER DISTRICT

COMBINED STATEMENTS OF INCOME, EXPENSES AND CHANGES IN RETAINED EARNINGS -

ALL PROPRIETARY FUNDS

For the Years Ended June 30, 2003 and 2002

OPERATING INCOME:	2003	2002
Water Fees	\$ 2,931,680	\$ 2,766,625
Sewer Charges	44,515	44,520
Assessments	148,450	151,555
Property Taxes	337,659	317,998
Meter Sales	93,944	42,561
Charges and Penalties	34,580	32,410
Miscellaneous	35,621	22,725
Total Operating Income	3,626,449	3,378,394
OPERATING EXPENSES:		
Salaries and Benefits (Net of Capitalized)	1,756,138	1,532,405
Contractual and Professional Services	199,707	180,103
Amortization and Depreciation	740,401	761,292
Materials and Supplies	124,042	105,427
Utilities and Telephone	326,556	333,746
Insurance	38,152	35,986
Vehicle and Equipment Maintenance	50,627	46,860
Building Maintenance	23,358	20,732
Collection Fees and Charges	2,935	3,044
Miscellaneous	49,268	39,301
Travel, Meals and Conferences	11,442	9,938
Auto Allowance	8,400	7,800
Office Expenses	44,366	41,915
Rental and Permits	17,175	17,771
Repairs	102,468	
Total Operating Expenses	3,495,035	3,136,320
NET OPERATING INCOME	131,414	242,074
NON-OPERATING INCOME (EXPENSES):		
Interest and Dividends Earned	683,674	786,965
Unrealized Gains (Losses) on Investments	345,010	
Gain (Loss) on Disposition of Assets	(71,142)	6,758
Interest Expense	(390,883)	(385,135)
Government Storm Funds and Other Income	263,402	492,946
Total Non-Operating Income (Expenses)	830,061	901,534
NET INCOME	961,475	1,143,608
RETAINED EARNINGS, at Beginning of Year, As Restated	22,867,241	21,723,633
RETAINED EARNINGS, At End of Year	\$ 23,828,716	\$ 22,867,241

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, 2003 and 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income	\$ 131,414	\$ 242,074
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Provision for Depreciation and Amortization	740,401	761,292
(Increase) Decrease in Receivables	(19,560)	(9,103)
(Increase) Decrease in Inventory	(949)	(25,160)
(Increase) Decrease in Deposits	(4,480)	(2,032)
Increase (Decrease) in Accounts Payable	116,740	(93,999)
Increase (Decrease) in Other Liabilities	27,966	63,377
Increase (Decrease) in Refunds Payable		2,777
 Total Adjustments	860,118	697,152
 NET CASH PROVIDED BY OPERATING ACTIVITIES	991,532	939,226
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(1,264,496)	(2,563,711)
Payment of Deferred Charges	(32,652)	
Payment of Principal	(323,196)	(370,833)
Payment of Interest	(394,077)	(385,350)
 NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(2,014,421)	(3,319,894)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for Investments	(9,524,861)	
 NET CASH USED FOR INVESTING ACTIVITIES	(9,524,861)	
 CASH FLOWS FROM NON-OPERATING ACTIVITIES:		
Interest and Dividends on Investments	845,580	865,435
Receipt of Other Income	263,402	492,946
Proceeds Sale of Fixed Assets		13,782
Payment of Principal on Notes Receivable	3,185,000	2,470,000
 NET CASH PROVIDED BY NON-OPERATING ACTIVITIES	4,293,982	3,842,163
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,253,768)	1,461,495
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,139,949	8,678,454
 CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,886,181	\$ 10,139,949

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

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

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, 2003, the District owned approximately 2,030 acres of land and was servicing approximately 5,750 customers.

Board of Directors - The San Lorenzo Valley Water District is governed by a five person Board of Directors elected to four-year terms by registered voters throughout the District's boundaries. The Board is responsible for the establishment of policy on the District's mission, goals and operations.

The Board of Directors and expiration of their term, as of June 30, 2003, are as follows:

James Rapoza, President	December, 2006
David Ross, Vice-President	December, 2004
James Nelson, Director	December, 2004
Larry Prather, Director	December, 2006
Terry Vierra, Director	December, 2006

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.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2003 and 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fixed Assets (Continued):

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.

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. All proprietary 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.

Investments

Investments are accounted for under GASB 31, which requires that investments be reported at fair market value, except for certain investments, which includes certificates of deposit, money market investments, and U.S. Treasury and agency obligations with an initial maturity of one year or less, which are reported at amortized cost.

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, 2003 and 2002

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.

Use of Estimates

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

3. CASH AND INVESTMENTS:

As a public agency, the District's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. The District's statement of investment policy is approved by the Board and describes the investment authority, practices and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity and return on investment.

Restricted Cash and Investments – The District holds cash and investments to provide for specific activities in accordance with special regulations, bond covenants or trust arrangements. The accounts are classified as “restricted.” Most restricted accounts have minimum cash and investment balance requirements and all are nondiscretionary in terms of the use of assets. Among other things, the restricted accounts provide for reserves for principal and interest on outstanding debt; payments for construction of capital assets; and refunding of customer deposits.

Deposits - The District's demand and time deposits are fully insured or collateralized by pooled securities held by the District's agent in the District's name. State law requires public agency deposits, including time deposits, in excess of insured levels to be collateralized by the depository institutions with pooled government securities having market values of at least 100 percent of the deposits. To ensure compliance with the 110 percent requirement, the collateral must be marked to market at least monthly by the bank.

Investments - The District is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury, federal agencies, and other securities (including negotiable certificates of deposit, bankers' acceptances and prime commercial paper.) All instruments are subject to various limitations and restrictions. In the case of money market instruments issued by private entities, risk is controlled by strict eligibility requirements and duration limitations. The District's asset-backed securities are secured by triple-A rated securities, primarily mortgages from FHLB, FNMA and other federal agencies. At June 30, 2003 all investments, except deposits in the State Treasury Local Agency Investment Fund (LAIF), consist of investments that are insured or registered, or for which the securities are held, in the District's name. It is the District's intent to hold investments until maturity, unless earlier liquidation would result in an investment gain.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2003 and 2002

3. CASH AND INVESTMENTS (Continued):

Investment in State Investment Fund (LAIF) - The LAIF, created by California statute, is a part of a pooled money investment account. The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairman is the State Treasurer, or his designated representative. The District's fair value of its position in the pool is the same as the value of the pool shares.

Cash on deposit as of June 30, 2003 and 2002 was reconciled to the balances reflected on the books.

These funds were on deposit in the following depositories:

	<u>Fair Value</u>	<u>Cost Basis</u>	
	2003	2003	2002
Petty Cash	\$ 200	\$ 200	\$ 200
Wells Fargo Bank - Checking	39,415	39,415	9,571
Liberty Bank - Checking	1,905	1,905	3,356
Liberty Bank - Savings	70,612	70,612	76,205
Cash in County Treasury	31,903	31,903	31,903
Cash with Fiscal Agent	25,500	25,500	25,500
Certificates of Deposit	1,050,000	1,050,000	
U.S. Treasury Notes	4,449,913	4,294,035	
U.S. Guarantees - FHLMC, FHLB, FNMA	5,419,959	5,230,827	
State Investment Fund (LAIF)	2,666,646	2,666,646	9,993,214
Total	<u>13,756,053</u>	<u>\$ 13,411,043</u>	<u>10,139,949</u>
Less: Restricted Cash and Investments	<u>2,041,285</u>		<u>2,532,796</u>
Unrestricted Cash and Investments	<u>\$ 11,714,768</u>		<u>\$ 7,607,153</u>

For purposes of the statement of cash flows, the District defines cash and cash equivalents as demand account balances, cash on hand, certificates of deposit and LAIF funds.

Reconciliation of Cash and Investments to Cash and Cash Equivalents:

	<u>2003</u>	<u>2002</u>
Total Cash and Investments	\$ 13,756,053	\$ 10,139,949
Less Investments:		
U.S. Treasury Notes	(4,449,913)	
U.S. Guarantees	(5,419,959)	
Cash and Cash Equivalents	<u>\$ 3,886,181</u>	<u>\$ 10,139,949</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2003 and 2002

4. 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:

	2003			
	Water Fund	Sewer Fund	Construction in Progress	Total
Balance, June 30, 2002	\$ 23,768,185	\$ 1,252,032	\$ 1,178,347	\$ 26,198,564
Additions and Transfers-In	819,712		444,784	1,264,496
Deletions and Transfers-Out	(71,142)			(71,142)
Balance, June 30, 2003	24,516,755	1,252,032	1,623,131	27,391,918
Accumulated Depreciation	(8,828,768)	(479,663)		(9,308,431)
Net Property, Plant and Equipment	\$ 15,687,987	\$ 772,369	\$ 1,623,131	\$ 18,083,487
	2002			
	Water Fund	Sewer Fund	Construction in Progress	Total
Balance, June 30, 2001	\$ 21,813,926	\$ 1,249,015	\$ 607,536	\$ 23,670,477
Additions and Transfers-In	1,989,883	3,017	570,811	2,563,711
Deletions and Transfers-Out	(35,624)			(35,624)
Balance, June 30, 2002	23,768,185	1,252,032	1,178,347	26,198,564
Accumulated Depreciation	(8,149,141)	(449,169)		(8,598,310)
Net Property, Plant and Equipment	\$ 15,619,044	\$ 802,863	\$ 1,178,347	\$ 17,600,254

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2003 and 2002

5. LONG-TERM DEBT:

At June 30 long-term debt consisted of:

	<u>2003</u>	<u>2002</u>
Special Assessment Bonds within the District's water system. Bonds are issued under the State of California's 1915 Bond Act/Refunding Act of 1984, which are payable by the County Tax Collector through assessments on the property tax rolls:		
1999 Limited Obligation Improvement Refunding Bonds - used to refund and Redeem the North Boulder Creek Assessment District bonds	\$1,055,000	\$1,110,000
Total Special Assessment Bonds	<u>1,055,000</u>	<u>1,110,000</u>
California Special District Lease - Financing bearing interest at 5.25 percent per annum with a maturity at March 1, 2012. Annual principal payments starting at \$10,000, increasing to \$15,000 at December 2002, \$20,000 at December 2008, \$25,000 at December 2011, plus semi-annual interest payments	<u>190,000</u>	<u>205,000</u>
Notes Payable:		
California Safe Drinking Water Loan bearing interest at 3.524 percent per annum with a maturity at October 1, 2020. Semi-annual payments of \$11,723 including principal and interest.	2,899,905	3,017,995
State Resources loan bearing interest at 3.4 percent per annum with a maturity at April 4, 2003. Annual payments of principal principal and interest totaling \$73,234.		71,208
California Safe Drinking Refunding loan bearing interest at 7.125 percent per annum with a maturity at June 1, 2022. Semi-annual payments of \$37,788 including principal and interest. During the year ended June 30, 2003 the District refinanced through a refunding payment agreement bearing interest at 4.25 percent per annum. Semi-annual payments of \$41,860 including principal and interest; with a maturity date of June 1, 2016.	<u>826,000</u>	<u>789,898</u>
Total Notes Payable	<u>3,725,905</u>	<u>3,879,101</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2003 and 2002

5. LONG-TERM DEBT (Continued):

Certificates of Participation Water System Improvement Project 1998 - Special obligation of the District payable solely from tax revenues and if and to extent necessary net revenues. Fluctuating payments of principal and interest with annual payments of approximately \$239,125.	<u>\$2,480,000</u>	<u>\$2,580,000</u>
Total Certificates of Participation Payable	<u>2,480,000</u>	<u>2,580,000</u>
Total Debt	7,450,905	7,774,101
Less: Current Portion	347,664	378,966
Total Long-Term Debt	<u>\$7,103,241</u>	<u>\$7,395,135</u>

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

June 30, 2004	\$ 347,664
June 30, 2005	367,756
June 30, 2006	379,442
June 30, 2007	396,394
June 30, 2008	418,609
Thereafter	<u>5,541,040</u>
	<u>\$7,450,905</u>

6. 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 2002/2003 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, 2003 and 2002

6. EMPLOYEE BENEFITS (Continued):

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

Annual Pension Cost - For fiscal year 2002/2003, 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 2002/2003 was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20%, and (c) 3.75% cost-of-living adjustment. Both (a) and (b) included an inflation component of 3.5%. 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 Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/97	-0-	100%	N/A
6/30/98	-0-	100%	N/A
6/30/99	-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.

<u>Valuation Date</u>	Funded Status of the Plan					
	<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>
6/30/99	\$2,784,545	\$4,466,431	\$(1,681,886)	160.4%	\$ 984,309	(170.9%)
6/30/00	3,239,018	4,971,623	(1,732,605)	153.5%	935,465	(185.2%)
6/30/01	3,574,513	5,186,445	(1,611,932)	145.1%	1,078,394	(149.5%)

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2003 and 2002

7. INTERFUND RECEIVABLES AND PAYABLES:

At June 30, 2003 the Sewer Fund was indebted to the Water Fund in the amount of \$12,784.

At June 30, 2002 the Sewer Fund was indebted to the Water Fund in the amount of \$9,366.

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>2002</u>	<u>Additions</u>	<u>2003</u>
Designated for:			
Emergency Reserve	\$ 733,898		\$ 733,898
Vacation and Sick Leave	125,000		125,000
Capital Project Reserve	2,100,000		2,100,000
Equipment Replacement Reserve	90,000		90,000
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>\$4,998,898</u>		<u>\$4,998,898</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2003 and 2002

11. SIGNIFICANT NONCASH ACTIVITIES:

During the year ended June 30, 2003 refunding bond proceeds were received in trust and debt decreased through escrow trust fund using refunding bond proceeds. The debt refunded was the California Safe Drinking refunding loan that had a balance of \$789,898 at June 30, 2002.

12. RISK MANAGEMENT:

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

General Liability, Automotive Liability, Property Damage, and Errors and Omissions:

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.

Workers Compensation: Statutory - through State Compensation Insurance Fund.

13. WATERMAN GAP TRANSACTION:

On September 21, 2000, the Board of Directors of the San Lorenzo Valley Water District unanimously approved District Ordinance 98 (00-01) which authorized the sale of approximately 1,340 acres of unimproved forestland generally know as Waterman Gap (Santa Cruz County Assessor's Parcel Nos. 87-0311-03, 04, 05, 06, 87-041-01 and 88-091-18) to Sempervirens Fund, Inc.,

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2003 and 2002

13. WATERMAN GAP TRANSACTION (Continued):

a non-profit organization for the sum of ten million nine hundred thousand dollars (\$10,900,000). Covenants to the real estate purchase contract assigned from Sempervirens Fund, Inc. to San Lorenzo Valley Water District the exclusive right to purchase two (2) additional real properties APN 79-011-02 and -22 (generally known as Cook and Hulse properties). On October 30, 2000, the San Lorenzo Valley Water District purchased APN 79-011-02, a parcel of approximately 40 acres from Cook, for the sum of ninety five thousand dollars (\$95,000) and APN 79-011-22 a parcel of approximately 100 acres from Hulse, for a sum of four hundred fifty thousand dollars (\$450,000). The transaction was completed on October 18, 2000. As part of the transaction the District seller financed \$9,700,000 of the transaction. The terms of the promissory noted are as follows:

	<u>2003</u>	<u>2002</u>
Note Receivable – Sempervirens Fund, Inc. of \$9,700,000, secured by a first deed of trust, due in annual installments of \$970,000 plus interest at the rate of 8.0 percent per annum.		
Balance as of June 30:	<u>\$2,105,000</u>	<u>\$5,290,000</u>

SUPPLEMENTARY INFORMATION

SAN LORENZO VALLEY WATER DISTRICT

COMBINING BALANCE SHEET - WATER AND SEWER FUNDS

June 30, 2003

ASSETS

CURRENT ASSETS:	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Cash and Investments	\$ 11,712,908	\$ 1,860	\$ 11,714,768
Receivables:			
Customer Accounts (Net of Allowance for Uncollectibles of \$3,252)	221,681		221,681
Interest Receivable	200,964		200,964
Other Receivables	76,029		76,029
Due From Other Funds	12,784		12,784
Inventory	143,633		143,633
Deposits	9,452		9,452
Note Receivable - Current Portion			
Total Current Assets	<u>12,377,451</u>	<u>1,860</u>	<u>12,379,311</u>
RESTRICTED CASH:			
Proceeds Certificates of Participation	919,283		919,283
Cash and Investments with Fiscal Agent	57,403		57,403
Connection and Construction Deposits	177,884		177,884
Customer Deposits	283,252		283,252
Reserve Fund - Certificates of Participation	239,125		239,125
North Boulder Creek Assessments	218,632		218,632
Reserve Fund - Improvement Refunding Bonds	145,706		145,706
Total Restricted Cash	<u>2,041,285</u>		<u>2,041,285</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	1,084,844	28,213	1,113,057
Utility Plant	20,973,397	1,212,138	22,185,535
Building, Equipment, and Other Assets	2,458,514	11,681	2,470,195
Total Property, Plant and Equipment	<u>24,516,755</u>	<u>1,252,032</u>	<u>25,768,787</u>
Less: Accumulated Depreciation	(8,828,768)	(479,663)	(9,308,431)
	<u>15,687,987</u>	<u>772,369</u>	<u>16,460,356</u>
Construction in Progress	1,604,724	18,407	1,623,131
Total Property, Plant and Equipment (Net)	<u>17,292,711</u>	<u>790,776</u>	<u>18,083,487</u>
OTHER ASSETS:			
Deferred Charges	348,264		348,264
Note Receivable - Net of Current Portion	2,105,000		2,105,000
Total Other Assets	<u>2,453,264</u>		<u>2,453,264</u>
TOTAL ASSETS	<u>\$ 34,164,711</u>	<u>\$ 792,636</u>	<u>\$ 34,957,347</u>

See Independent Auditor's Report on Supplementary Information

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

June 30, 2003

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Accounts Payable	\$ 286,997	\$ 459	\$ 287,456
Due to Other Funds		12,784	12,784
Accrued Expenses	1,363		1,363
Accrued Interest	59,437		59,437
Refunds Payable		2,777	2,777
Current Portion of Long-Term Debt	347,664		347,664
Connection and Construction Deposits	177,884		177,884
Customer Deposits	283,252		283,252
Accrued Vacation and Sick Leave	278,193	2,791	280,984
Total Current Liabilities	1,434,790	18,811	1,453,601
Long-Term Liabilities (Net of Current Portion):			
Special Assessment Bonds	1,055,000		1,055,000
California Special District Lease Financing	190,000		190,000
Notes Payable	3,725,905		3,725,905
Certificates of Participation	2,480,000		2,480,000
Less Current Portion	(347,664)		(347,664)
Total Long-Term Liabilities	7,103,241		7,103,241
Total Liabilities	8,538,031	18,811	8,556,842
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	2,470,388	101,401	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	4,997,038	1,860	4,998,898
Undesignated	17,114,713	637,918	17,752,631
Total Retained Earnings	23,156,292	672,424	23,828,716
Total Fund Equity	25,626,680	773,825	26,400,505
TOTAL LIABILITIES AND FUND EQUITY	\$ 34,164,711	\$ 792,636	\$ 34,957,347

See Independent Auditor's Report on Supplementary Information

SAN LORENZO VALLEY WATER DISTRICT

COMBINING STATEMENT OF INCOME, EXPENSES
CHANGES IN RETAINED EARNINGS - WATER AND SEWER FUNDS

For the Year Ended June 30, 2003

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING INCOME:			
Water Fees	\$ 2,931,680		\$ 2,931,680
Sewer Charges		\$ 44,515	44,515
Assessments	148,450		148,450
Property Taxes	337,659		337,659
Meter Sales	93,944		93,944
Charges and Penalties	34,580		34,580
Miscellaneous	34,155	1,466	35,621
Total Operating Income	<u>3,580,468</u>	<u>45,981</u>	<u>3,626,449</u>
OPERATING EXPENSES:			
Salaries and Benefits (Net of Capitalized)	1,746,555	9,583	1,756,138
Contractual and Professional Services	192,757	6,950	199,707
Amortization and Depreciation	709,907	30,494	740,401
Material and Supplies	124,015	27	124,042
Utilities and Telephone	321,386	5,170	326,556
Insurance	37,799	353	38,152
Vehicle and Equipment Maintenance	50,167	460	50,627
Building Maintenance	20,745	2,613	23,358
Collection Fees and Charges	2,935		2,935
Miscellaneous	44,768	4,500	49,268
Travel, Meals and Conferences	11,442		11,442
Auto Allowance	8,400		8,400
Office Expenses	43,998	368	44,366
Rentals and Permits	14,765	2,410	17,175
Repairs	102,468		102,468
Total Operating Expenses	<u>3,432,107</u>	<u>62,928</u>	<u>3,495,035</u>
OPERATING INCOME (LOSS)	<u>148,361</u>	<u>(16,947)</u>	<u>131,414</u>
NON-OPERATING INCOME (EXPENSES):			
Interest and Dividends Earned	683,674		683,674
Unrealized Gains (Losses) on Investments	345,010		345,010
Gain on Disposition of Assets	(71,142)		(71,142)
Interest Expense	(390,883)		(390,883)
Government Storm Funds and Other Income	263,402		263,402
Total Non-Operating Income (Expenses)	<u>830,061</u>		<u>830,061</u>
NET INCOME (LOSS)	978,422	(16,947)	961,475
RETAINED EARNINGS AT BEGINNING OF YEAR			
	<u>22,177,870</u>	<u>689,371</u>	<u>22,867,241</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 23,156,292</u>	<u>\$ 672,424</u>	<u>\$ 23,828,716</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, 2003

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ 148,361	\$ (16,947)	\$ 131,414
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Provision for Amortization and Depreciation	709,907	30,494	740,401
(Increase) Decrease in Receivables	(19,560)		(19,560)
(Increase) Decrease in Inventory	(949)		(949)
(Increase) Decrease in Deposits	(4,480)		(4,480)
Increase (Decrease) in Accounts Payable	116,293	447	116,740
Increase (Decrease) in Other Liabilities	28,343	(377)	27,966
Increase (Decrease) in Refunds Payable			
Interfund Receivable/Payable	(3,219)	3,219	
Total Adjustments	<u>826,335</u>	<u>33,783</u>	<u>860,118</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>974,696</u>	<u>16,836</u>	<u>991,532</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and Construction of Capital Assets	(1,249,897)	(14,599)	(1,264,496)
Payment of Deferred Charges	(32,652)		(32,652)
Payments of Principal	(323,196)		(323,196)
Payment of Interest	(393,700)	(377)	(394,077)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,999,445)</u>	<u>(14,976)</u>	<u>(2,014,421)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for Investments	(9,524,861)		(9,524,861)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(9,524,861)</u>		<u>(9,524,861)</u>
CASH FLOWS FROM NON-OPERATING ACTIVITIES:			
Interest and Dividends on Investments	845,580		845,580
Receipt of Other Income	263,402		263,402
Payments of Principal on Notes Receivable	3,185,000		3,185,000
NET CASH PROVIDED BY NON-OPERATING ACTIVITIES	<u>4,293,982</u>		<u>4,293,982</u>
NET INCREASE (DECREASE) IN CASH	(6,255,628)	1,860	(6,253,768)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,139,949</u>		<u>10,139,949</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,884,321</u>	<u>\$ 1,860</u>	<u>\$ 3,886,181</u>

See Independent Auditor's Report on Supplementary Information