

San Lorenzo Valley Water District
Annual Financial Report
June 30, 2014 and 2013



Mission Statement

Our mission is to provide our customers and all future generations with reliable, safe and high quality water at an equitable price; to create and maintain outstanding customer service; to manage and protect the environmental health of the aquifers and watersheds; and, to ensure the fiscal vitality of the San Lorenzo Valley Water District.

San Lorenzo Valley Water District Board of Directors as of June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Term Expires</u>
Margaret Bruce	President	Elected	December 2016
James Rapoza	Vice President	Elected	December 2014
Larry Prather	Director	Elected	December 2014
Terry Vierra	Director	Elected	December 2014
Randall Brown	Director	Elected	December 2016

**Richard Rogers, Acting District Manager
San Lorenzo Valley Water District
13060 Highway 9
Boulder Creek, California 95006
(831) 338-2153 – www.slvwd.com**

San Lorenzo Valley Water District

Annual Financial Report

For the Years Ended June 30, 2014 and 2013

**San Lorenzo Valley Water District
Annual Financial Report
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Introductory Section



December 15, 2014

Board of Directors
San Lorenzo Valley Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the San Lorenzo Valley Water District for the fiscal year ended June 30, 2014, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. The report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

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

District Structure and Leadership

The San Lorenzo Valley Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The San Lorenzo Valley Water District has been providing services to the residents within the district's boundaries since 1941. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The District Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The San Lorenzo Valley Water District employs a full-time staff of 26 employees. The District's Board of Directors meets on the first and third Thursday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water, sewer or a combination of both services to residents and businesses within its service area. The service area lies within the unincorporated towns of Boulder Creek, Brookdale, Ben Lomond, Felton, and the City of Scotts Valley. The District's boundaries comprise approximately 58 square miles. The District currently provides service to approximately 7,300 residential, commercial, and institutional connections.

Economic Condition and Outlook

The District's administrative offices are located in the Town of Boulder Creek in Santa Cruz County. The economic outlook for the area is one of cautious growth as the regional economy recovers from prolonged recessionary pressures.

California's water supply continues to be a concern due to projected population increases and a decrease in water-in-storage levels. This concern has increased interest in conservation and in irrigation methods and systems.

Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: "Our mission is to provide our customers and all future generations with reliable, safe and high quality water at an equitable price; to create and maintain outstanding customer service; to manage and protect the environmental health of the aquifers and watersheds; and, to ensure the fiscal vitality of the San Lorenzo Valley Water District."

1. To supply clean, wholesome water to the community and provide water for the future.
2. To plan, construct, operate, maintain and upgrade the water system facilities to adequately serve customer needs.
3. To utilize the District's financial resources in an effective, responsible, and prudent manner.
4. To provide quality customer service for District customers.
5. To inform, educate, and communicate to the community on District and water issues.
6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors adopts an operating and capital budget every year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the “prudent person” standards. The objectives of the Investment Policy are safety, liquidity and yield.

Water and Sewer Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water and sewer rates are reviewed periodically. Water rates are user charges imposed on customers for services and are the primary component of the District’s revenue. Water rates are composed of a commodity (usage) charge and a fixed (readiness-to-serve) charge.

Water Conservation Programs

The District has implemented conservation management practices. District staff participates in community events and distributes materials to encourage water conservation. The District offers the following conservation programs:

Voluntary Water Conservation Program	Greywater Irrigation System
Hi-Efficiency Washers Program	Toilet Retrofit
Drip Irrigation System	Hot Water Circulation
“Lose Your Lawn” Rebate	

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District’s financial statements. Their unmodified Independent Auditor’s Report appears in the Financial Section.

Risk Management

The District is a member of the Special District Risk Management Authority (Authority). The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Other References

More information is contained in the Management’s Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance Committee members for their continued support in planning and implementation of the San Lorenzo Valley Water District’s fiscal policies.

Respectfully submitted,

Richard Rogers
Acting District Manager

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Financial Section



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Lorenzo Valley Water District (District) which comprises the statement of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the District, as of June 30, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 3, and the supplemental information schedules on pages 35 through 38, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 39 and 40.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation

Cypress, California

December 15, 2014

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the San Lorenzo Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's change in net position increased 592.8% or \$756,039 to \$26,319,071 in 2014, primarily due to a \$753,600 increase in capital contributions. In 2013, the District's net position decreased 1.5% or \$382,986 to \$25,563,032, due to a \$153,406 decrease in net position from operations and the effect of a \$229,584 prior period adjustment related to the implementation of Governmental Accounting Standards Board Statement No. 65.
- The District's operating revenues increased 5.3% or \$293,856 in 2014, primarily due to a \$442,614 increase in water sales revenues related to the effects of a rate increase. In 2013, the District's operating revenues increased 4.8% or \$252,597, primarily due to a \$249,858 increase in water sales revenues related to the effects of a rate increase.
- The District's non-operating revenues increased 17.0% or \$97,847 in 2014, primarily due to a \$239,344 increase in investment earnings that was offset by an \$82,017 decrease in settlement and purchase agreement revenues. In 2013, the District's non-operating revenues decreased 23.8% or \$179,878, primarily due to a \$313,742 decrease in investment earnings that was partially offset by a \$53,957 increase in settlement and purchase agreement revenues.
- The District's operating expenses increased 9.2% or \$436,935 in 2014, primarily due to increases in salaries and benefits of \$265,762, professional services of \$106,281, and utilities and telephone expense of \$41,001 which was offset by a decrease in office expenses of \$37,361. In 2013, the District's operating expenses increased 6.6% or \$288,649, primarily due to increases in professional services of \$162,236, materials and supplies of \$52,539, utilities and telephone of \$91,631, and office expenses of \$58,656, that was offset by decreases in; repairs of \$14,798, and other expenses of \$70,318.
- The District's non-operating expenses increased 1.4% or \$3,959 in 2014, primarily due to an \$84,280 increase in interest expense that was offset by a \$239,344 change in investment earnings that was classified as an expense in 2013. In 2013, the District's non-operating expenses decreased 24.7% or \$95,576, primarily due to a \$140,876 decrease in interest expense, a \$313,742 decrease in investment earnings that was offset by a \$35,021 decrease in amortization expense.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The District's statements consist of two funds, the Water Fund and the Sewer Fund. The District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water and sewer to the customers of the District are financed primarily through user charges.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Required Financial Statements, continued

It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflow, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. One can think of the District's net position (the difference between assets and deferred outflows, and liabilities and deferred inflows), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 16 through 33.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Condensed Statements of Net Position

Condensed Statements of Net Position			
	2014	2013	Change
Assets:			
Current assets	\$ 4,781,369	2,914,918	1,866,451
Non-current assets	3,728,460	5,710,420	(1,981,960)
Capital assets	25,398,866	25,446,696	(47,830)
Total assets	33,908,695	34,072,034	(163,339)
Liabilities:			
Current liabilities	1,451,417	1,591,870	(140,453)
Non-current liabilities	6,138,207	6,917,132	(778,925)
Total liabilities	7,589,624	8,509,002	(919,378)
Net position:			
Net investment in capital assets	18,981,706	18,309,392	672,314
Restricted	168,185	355,162	(186,977)
Unrestricted	7,169,180	6,898,478	270,702
Total net position	\$ 26,319,071	25,563,032	756,039

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$26,319,071 and \$25,563,032 as of June 30, 2014 and 2013, respectively.

By far the largest portion of the District's net position (72% as of June 30, 2014 and 2013, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending. See Note 10 for further information.

At the end of fiscal year 2014 and 2013, the District showed a positive balance in its unrestricted net position of \$7,169,180 and \$6,898,478, respectively. See Note 12 for the amount of spendable net position that may be utilized in future years.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 5,838,488	5,544,632	293,856
Non-operating revenues	673,385	575,538	97,847
Total revenues	<u>6,511,873</u>	<u>6,120,170</u>	<u>391,703</u>
Expenses:			
Operating expenses	5,173,764	4,736,829	436,935
Non-operating expenses	295,513	291,554	3,959
Overhead absorption	(132,347)	(48,543)	(180,890)
Depreciation	1,172,504	1,293,732	(121,228)
Total expenses	<u>6,509,434</u>	<u>6,273,572</u>	<u>235,862</u>
Net income(loss) before capital contributions	<u>2,439</u>	<u>(153,402)</u>	<u>155,841</u>
Capital contributions	<u>753,600</u>	<u>-</u>	<u>753,600</u>
Change in net position	<u>756,039</u>	<u>(153,402)</u>	<u>909,441</u>
Net position – beginning of year	25,563,032	25,946,018	(382,986)
Prior period adjustment	<u>-</u>	<u>(229,584)</u>	<u>(229,584)</u>
Net position – end of year	<u>\$ 26,319,071</u>	<u>25,563,032</u>	<u>756,039</u>

The statements of revenues, expenses and changes of net position show how the District's net position changed during the fiscal years. In the case of the District, net position increased \$756,039 for the fiscal year ended June 30, 2014 and decreased \$153,402 for the fiscal year ended June 30, 2013.

A closer examination of the sources of changes in net position reveals that:

The District's change in net position increased 592.8% or \$756,039 to \$26,319,071 in 2014, primarily due to a \$753,600 increase in capital contributions. In 2013, the District's net position decreased 1.5% or \$382,986 to \$25,563,032, due to a \$153,406 decrease in net position from operations and the effect of a \$229,584 prior period adjustment related to the implementation of Governmental Accounting Standards Board Statement No. 65.

The District's operating revenues increased 5.3% or \$293,856 in 2014, primarily due to a \$442,614 increase in water sales revenues related to the effects of a rate increase. In 2013, the District's operating revenues increased 4.8% or \$252,597, primarily due to a \$249,858 increase in water sales revenues related to the effects of a rate increase.

The District's non-operating revenues increased 17.0% or \$97,847 in 2014, primarily due to a \$239,344 increase in investment earnings that was offset by an \$82,017 decrease in settlement and purchase agreement revenues. In 2013, the District's non-operating revenues decreased 23.8% or \$179,878, primarily due to a \$313,742 decrease in investment earnings that was partially offset by a \$53,957 increase in settlement and purchase agreement revenues.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Statement of Revenues, Expenses and Changes in Net Position, continued

The District's operating expenses increased 9.2% or \$436,935 in 2014, primarily due to increases in salaries and benefits of \$265,762, professional services of \$106,281, and utilities and telephone of \$41,001 which was offset by a decrease in office expenses of \$37,361. In 2013, the District's operating expenses increased 6.6% or \$288,649, primarily due to increases in professional services of \$162,236, materials and supplies of \$52,539, utilities and telephone of \$91,631, and office expenses of \$58,656, that was offset by decreases in; repairs of \$14,798, and other expenses of \$70,318.

The District's non-operating expenses increased 1.4% or \$3,959 in 2014, primarily due to an \$84,280 increase in interest expense that was offset by a \$239,344 change in investment earnings that was classified as an expense in 2013. In 2013, the District's non-operating expenses decreased 24.7% or \$95,576, primarily due to a \$140,876 decrease in interest expense, a \$313,742 decrease in investment earnings that was offset by a \$35,021 decrease in amortization expense.

Capital Asset Administration

At the end of fiscal year 2014 and 2013, the District's investment in capital assets amounted to \$25,398,866 and \$25,446,696, respectively, (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year included upgrades to the District's transmission and distribution system. See Note 5 for further capital asset information.

Change in capital assets amounts for 2014, were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance 2014</u>
Capital assets:				
Non-depreciable assets	\$ 7,779,992	993,339	(471,762)	8,301,569
Depreciable assets	40,238,055	652,766	(49,670)	40,841,151
Accumulated depreciation	<u>(22,571,351)</u>	<u>(1,172,503)</u>	<u>-</u>	<u>(23,743,854)</u>
Total capital assets	<u>\$ 25,446,696</u>	<u>473,602</u>	<u>(521,432)</u>	<u>25,398,866</u>

Change in capital assets amounts for 2013, were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 6,883,904	1,606,327	(710,239)	7,779,992
Depreciable assets	39,322,181	992,092	(76,218)	40,238,055
Accumulated depreciation	<u>(21,303,731)</u>	<u>(1,293,732)</u>	<u>26,112</u>	<u>(22,571,351)</u>
Total capital assets	<u>\$ 24,902,354</u>	<u>1,304,687</u>	<u>(760,345)</u>	<u>25,446,696</u>

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Debt Administration

Changes in long-term debt amounts for the year ended June 30, 2014, were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2014</u>
Long-term debt:				
Notes payable	\$ 2,207,278	-	(134,233)	2,073,045
Bonds payable	<u>4,930,026</u>	<u>-</u>	<u>(585,911)</u>	<u>4,344,115</u>
Total long-term debt	<u>\$ 7,137,304</u>	<u>-</u>	<u>(720,144)</u>	<u>6,417,160</u>

Changes in long-term debt amounts for the year ended June 30, 2013, were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2013</u>
Long-term debt:				
Notes payable	\$ 2,338,401	-	(131,123)	2,207,278
Bonds payable	<u>5,898,472</u>	<u>-</u>	<u>(968,446)</u>	<u>4,930,026</u>
Total long-term debt	<u>\$ 8,236,873</u>	<u>-</u>	<u>(1,099,569)</u>	<u>7,137,304</u>

See Note 7 for further long-term debt service information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions at June 30, 2014, that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District at 13060 Highway 9 Boulder Creek, California 95006 or the Finance Department at (831) 430-4620.

Basic Financial Statements

San Lorenzo Valley Water District
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Current assets:		
Cash & cash equivalents (note 2)	\$ 2,291,634	71,987
Cash & cash equivalents – restricted (note 2)	168,185	365,497
Accrued interest receivable	16,954	32,260
Investments (note 2)	679,477	1,477,466
Accounts receivable – water sales and services	393,564	484,127
Accounts receivable – property taxes (note 3)	22,602	62,794
Accounts receivable – settlement agreement (note 4)	208,554	205,202
Accounts receivable – grant funding	753,600	-
Due from other governments	66,738	-
Accounts receivable – other	2,178	4,669
Materials and supplies inventory	177,883	210,916
Total current assets	4,781,369	2,914,918
Non-current assets:		
Investments (note 2)	3,728,460	5,710,420
Capital assets – not being depreciated (note 5)	8,301,569	7,779,992
Capital assets – being depreciated (note 5)	17,097,297	17,666,704
Total non-current assets	29,127,326	31,157,116
Total assets	33,908,695	34,072,034
Current liabilities:		
Accounts payable and accrued expense	297,384	545,989
Accrued wages and related payables	26,970	19,060
Unearned revenues – customer deposits	42,208	39,135
Unearned revenues – construction deposits	146,416	138,643
Accrued interest payable	63,175	51,131
Long-term liabilities – due in one year:		
Compensated absences (note 6)	137,134	145,099
Loans payable (note 7)	137,499	67,499
Bonds payable (note 7)	600,631	585,314
Total current liabilities	1,451,417	1,591,870
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	263,689	269,470
Other post-employment benefits payable (note 9)	195,488	163,171
Loans payable (note 7)	1,935,546	2,139,779
Bonds payable (note 7)	3,743,484	4,344,712
Total non-current liabilities	6,138,207	6,917,132
Total liabilities	7,589,624	8,509,002
Net position:		
Net investment in capital assets (note 10)	18,981,706	18,309,392
Restricted for capital projects (note 11)	-	186,977
Restricted for debt service (note 11)	168,185	168,185
Unrestricted (note 12)	7,169,180	6,898,478
Total net position	\$ 26,319,071	25,563,032

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Water consumption sales	\$ 5,669,459	5,226,845
Wastewater service	101,637	98,653
Meter sales	-	100,567
Charges and penalties	54,111	55,406
Other charges and services	<u>13,281</u>	<u>63,161</u>
Total operating revenues	<u>5,838,488</u>	<u>5,544,632</u>
Operating expenses:		
Salaries and benefits	3,114,328	2,848,566
Professional services	652,635	546,354
Materials and supplies	245,219	211,122
Vehicle and equipment maintenance	114,225	123,141
Building maintenance	19,522	27,493
Repairs	173,560	147,179
Collection fees and charges	25,850	20,444
Utilities and telephone	484,573	443,572
Insurance	51,783	54,916
LAFCO fees	18,691	9,229
Rentals and permits	119,181	126,789
Travel, meals and conferences	11,925	4,391
Auto allowance	4,200	4,200
Bad debt expense	6,000	-
Office expenses	<u>132,072</u>	<u>169,433</u>
Total operating expenses	<u>5,173,764</u>	<u>4,736,829</u>
Operating income before overhead absorption	664,724	807,803
Overhead absorption	<u>132,347</u>	<u>48,543</u>
Operating income before depreciation expense	797,071	856,346
Depreciation expense	<u>(1,172,504)</u>	<u>(1,293,732)</u>
Operating loss	<u>(375,433)</u>	<u>(437,386)</u>
Non-operating revenues(expenses):		
Property tax revenues	478,632	459,834
Investment earnings	159,023	(80,321)
Rental revenue	30,378	28,461
Interest expense	(295,513)	(211,233)
Gain on disposition of capital assets	2,000	1,874
Settlement and purchase agreements	<u>3,352</u>	<u>85,369</u>
Total non-operating revenues, net	<u>377,872</u>	<u>283,984</u>
Net income(loss) before capital contributions	<u>2,439</u>	<u>(153,402)</u>
Capital contributions:		
Capital grants – other governments	<u>753,600</u>	<u>-</u>
Total capital contributions	<u>753,600</u>	<u>-</u>
Change in net position	756,039	(153,402)
Net position – beginning of year	25,563,032	25,946,018
Prior period adjustment	<u>-</u>	<u>(229,584)</u>
Net position – end of year	<u>\$ 26,319,071</u>	<u>25,563,032</u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers for sales and services	\$ 5,929,051	5,489,419
Cash paid to employees for salaries and wages	(2,218,502)	(2,067,286)
Cash paid to vendors and suppliers for materials and services	(2,996,669)	(2,137,423)
Net cash provided by operating activities	713,880	1,284,710
Cash flows from non-capital financing activities:		
Proceeds from property taxes	518,824	463,702
Proceeds from rental revenue	30,378	28,461
Net cash provided by non-capital financing activities	549,202	492,163
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,174,343)	(1,711,275)
Principal paid on long-term debt	(652,813)	(733,614)
Interest paid on long-term debt	(283,469)	(206,054)
Net cash used in capital and related financing activities:	(2,110,625)	(2,650,943)
Cash flows from investing activities:		
Proceeds from sale of investments	2,812,028	1,410,188
Purchases of investments	-	(1,118,391)
Proceeds from investment earnings	57,850	73,539
Net cash provided by investing activities	2,869,878	365,336
Net increase (decrease) in cash and cash equivalents	2,022,335	(508,734)
Cash and cash equivalents, beginning of year	437,484	946,218
Cash and cash equivalents, end of year	\$ 2,459,819	437,484
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$ 2,291,634	71,987
Cash and cash equivalents – restricted	168,185	365,497
Total cash and cash equivalents	\$ 2,459,819	437,484

Continued on next page

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Cash Flows (Continued)
For the Year Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ <u>(375,433)</u>	<u>(437,386)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,172,504	1,293,732
Other non-operating, net	5,352	245,236
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and services, net	90,563	(54,967)
Accounts receivable – settlement agreement	(3,352)	(85,369)
Accounts receivable – other	2,491	(3,919)
Materials and supplies inventory	33,033	(14,130)
Increase(decrease) in liabilities:		
Accounts payable and accrued expense	(248,605)	307,317
Accrued wages and related payables	7,910	4,750
Unearned revenues – customer deposits	3,073	3,673
Unearned revenues – construction deposits	7,773	(33,651)
Compensated absences	(13,746)	32,782
Other post-employment benefits	<u>32,317</u>	<u>26,642</u>
Total adjustments	<u>1,089,313</u>	<u>1,722,096</u>
Net cash provided by operating activities	<u>\$ 713,880</u>	<u>1,284,710</u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies

A. Reporting Entity and Component Unit

The San Lorenzo Valley Water District is an independent special district established in 1941, pursuant to Section 30,000 et seq. of the California Water Code for the purpose of developing and providing water for domestic use, fire protection, and recreation in the San Lorenzo Valley. Additionally, the District provides sewer service to the Bear Creek Estates area within the District. The District utilizes separate Water and a Sewer funds to account for District operations. The District is governed by a five member Board of Directors elected by the voters in the area to four-year terms. The District provides water and sewer service to approximately 7,300 customers within its service area.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water and sewer services to its customers on a continuing basis be financed or recovered primarily through user charges (water and sewer service fees). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues, such as water and sewer fees, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

The District recognizes revenue from water and sewer service charges based on cycle billings performed every month. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

D. Assets, Liabilities, and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies, continued

D. Assets, Liabilities, and Net Position, continued

3. Investments and Investment Policy

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. Property Taxes and Assessments

The Santa Cruz County Assessor's Office assesses all real and personal property within the County each year. The Santa Cruz Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The Santa Cruz County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the Santa Cruz County which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

7. Prepaid Expenses

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

8. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation and sick leave. The liability for vested vacation and sick leave is recorded as an expense when earned.

Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave except for those employees that have not completed the probationary period.

9. Construction Advances and Deposits

Construction deposits are collected by the District to cover the cost of construction projects within the District. Funds in excess of project costs are refunded to the customer.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies, continued

D. Assets, Liabilities, and Net Position, continued

10. Prepaid Connection Fees

Connection fees are collected by the District to cover the cost of service connections within the District. Funds in excess of connection costs are refunded to the customer.

11. Water and Sewer Sales

The District recognizes water and sewer services charges based on cycle billings rendered to the customers each month.

12. Capital Contributions

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

13. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution mains – 33 to 50 years
- Buildings – 33 years
- Transportation and other equipment – 10 years
- Computer and office equipment – 5 years

14. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

15. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(2) Cash and Investments

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

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 2,291,634	71,987
Cash and cash equivalents – restricted	168,185	365,497
Investments	679,477	1,477,466
Investments – non current	<u>3,728,460</u>	<u>5,710,420</u>
Total cash and investments	<u>\$ 6,867,756</u>	<u>7,625,370</u>

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

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 350	350
Deposits with financial institutions	1,506,250	265,615
Investments	<u>5,361,156</u>	<u>7,359,405</u>
Total cash and investments	<u>\$ 6,867,756</u>	<u>7,625,370</u>

As of June 30, the District's authorized deposits had the following maturities:

	<u>2014</u>	<u>2013</u>
Deposits held with the California Local Agency Investment Fund	232 days	278 days

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Portfolio Diversification

Pursuant to California Government Code Section 53601 (i), certificates of deposit invested outside of an authorized pool shall not exceed thirty percent (30%) of the District's total investment portfolio. The District's current investment in certificates of deposit exceed this limitation. It is the District's intent to move toward compliance with this limitation. At June 30, 2014 and 2013, the District held 31.8% or \$1,654,789, and 36.9% or \$2,653,637 of its investment portfolio in certificates of deposit, respectively.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(2) Cash and Investments, continued

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to change in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(2) Cash and Investments, continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments at June 30, 2014 and 2013, respectively.

Maturities of investments at June 30, 2014, are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>61 and Thereafter</u>
U.S. Government sponsored securities	\$ 2,762,463	-	-	1,411,744	1,350,719
Certificates of deposit	1,645,474	679,477	438,672	102,191	425,134
Local Agency Investment Fund	3,344	3,344	-	-	-
Money market funds	781,690	781,690	-	-	-
Held by bond trustee:					
Money market funds	168,185	168,185	-	-	-
Total	\$ 5,361,156	1,632,696	438,672	1,513,935	1,775,853

Maturities of investments at June 30, 2013, are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>61 and Thereafter</u>
U.S. Government sponsored securities	\$ 4,021,634	-	-	1,193,844	2,827,790
Certificates of deposit	2,653,637	964,851	695,828	549,410	443,548
Local Agency Investment Fund	3,334	3,334	-	-	-
Money market funds	512,615	512,615	-	-	-
Held by bond trustee:					
Money market funds	168,185	168,185	-	-	-
Total	\$ 7,359,405	1,648,985	695,828	1,743,254	3,271,338

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(2) Cash and Investments, continued

Credit ratings of investments as of June 30, 2014, were as follows:

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				AA+	Not Rated
U.S. Government sponsored securities	\$ 2,762,463	N/A	-	2,762,463	-
Certificates of deposit	1,645,474	N/A	-	-	1,645,474
Local Agency Investment Fund	3,344	N/A	-	-	3,344
Money market funds	781,690	AAA	781,690	-	-
Held by bond trustee:					
Money market funds	168,185	AAA	168,185	-	-
Total	\$ 5,361,156		949,875	2,762,463	1,648,818

Credit ratings of investments as of June 30, 2013, were as follows:

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				AA+	Not Rated
U.S. Government sponsored securities	\$ 4,021,634	N/A	-	4,021,634	-
Certificates of deposit	2,653,637	N/A	-	-	2,653,637
Local Agency Investment Fund	3,334	N/A	-	-	3,334
Money market funds	512,615	AAA	512,615	-	-
Held by bond trustee:					
Money market funds	168,185	AAA	168,185	-	-
Total	\$ 7,359,405		680,800	4,021,634	2,656,971

(3) Accounts Receivable – Property Taxes

The balance at June 30, consists of the following:

	2014	2013
Accounts receivable – property taxes	\$ 22,602	20,526
Property tax receivable – Proposition 1A	-	42,268
Accounts receivable – water sales, net	\$ 22,602	62,794

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$42,268. The borrowing by the State of California was recognized as a note receivable in the accompanying financial. In 2013, the amount was received.

(4) Accounts Receivable – Settlement Agreement

The District entered into a third party settlement agreement with Manana Woods Mutual Water Company for reimbursement of operating and maintenance costs of their water treatment plant. Amounts receivable were \$208,554 and \$205,202, for the year ended June 30, 2014 and 2013, respectively. Total reimbursement revenues were \$3,352 and \$85,369 for the year ended June 30, 2014 and 2013, respectively.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(5) Capital Assets

Changes in capital assets for 2014, were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 5,599,442	-	-	5,599,442
Construction-in process	2,180,550	993,339	(471,762)	2,702,127
Total non-depreciable assets	<u>7,779,992</u>	<u>993,339</u>	<u>(471,762)</u>	<u>8,301,569</u>
Depreciable assets:				
Water transmission and distribution	33,908,670	575,705	(49,670)	34,434,705
Wastewater system	1,447,521	-	-	1,447,521
Buildings and structures	2,892,694	11,500	-	2,904,194
Transportation equipment	790,204	38,179	-	828,383
Field and shop equipment	711,749	27,382	-	739,131
Office equipment	487,217	-	-	487,217
Total depreciable assets	<u>40,238,055</u>	<u>652,766</u>	<u>(49,670)</u>	<u>40,841,151</u>
Accumulated depreciation:				
Water transmission and distribution	(18,987,753)	(923,088)	-	(19,910,841)
Wastewater system	(865,439)	(41,773)	-	(907,212)
Buildings and structures	(1,043,185)	(96,268)	-	(1,139,453)
Transportation equipment	(683,943)	(47,904)	-	(731,847)
Field and shop equipment	(560,252)	(41,012)	-	(601,264)
Office equipment	(430,779)	(22,458)	-	(453,237)
Total accumulated depreciation	<u>(22,571,351)</u>	<u>(1,172,503)</u>	<u>-</u>	<u>(23,743,854)</u>
Total depreciable assets, net	<u>17,666,704</u>	<u>(519,737)</u>	<u>(49,670)</u>	<u>17,097,297</u>
Total capital assets, net	<u>\$ 25,446,696</u>	<u>473,602</u>	<u>(521,432)</u>	<u>25,398,866</u>

In 2014, major capital assets additions include upgrades as follows: transmission and distribution systems \$575,705, buildings and structures \$11,500, transportation equipment \$38,179, and field and shop equipment \$27,382.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(5) Capital Assets, continued

Changes in capital assets for 2013, were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 5,599,442	-	-	5,599,442
Construction-in process	<u>1,284,462</u>	<u>1,606,327</u>	<u>(710,239)</u>	<u>2,180,550</u>
Total non-depreciable assets	<u>6,883,904</u>	<u>1,606,327</u>	<u>(710,239)</u>	<u>7,779,992</u>
Depreciable assets:				
Water transmission and distribution	33,094,082	864,258	(49,670)	33,908,670
Wastewater system	1,447,521	-	-	1,447,521
Buildings and structures	2,869,808	22,886	-	2,892,694
Transportation equipment	755,528	56,800	(22,124)	790,204
Field and shop equipment	664,358	48,148	(757)	711,749
Office equipment	<u>490,884</u>	<u>-</u>	<u>(3,667)</u>	<u>487,217</u>
Total depreciable assets	<u>39,322,181</u>	<u>992,092</u>	<u>(76,218)</u>	<u>40,238,055</u>
Accumulated depreciation:				
Water transmission and distribution	(17,973,300)	(1,014,453)	-	(18,987,753)
Wastewater system	(823,666)	(41,773)	-	(865,439)
Buildings and structures	(946,905)	(96,280)	-	(1,043,185)
Transportation equipment	(644,912)	(61,155)	22,124	(683,943)
Field and shop equipment	(513,754)	(47,255)	757	(560,252)
Office equipment	<u>(401,194)</u>	<u>(32,816)</u>	<u>3,231</u>	<u>(430,779)</u>
Total accumulated depreciation	<u>(21,303,731)</u>	<u>(1,293,732)</u>	<u>26,112</u>	<u>(22,571,351)</u>
Total depreciable assets, net	<u>18,018,450</u>	<u>(301,640)</u>	<u>(50,106)</u>	<u>17,666,704</u>
Total capital assets, net	<u>\$ 24,902,354</u>	<u>1,304,687</u>	<u>(760,345)</u>	<u>25,446,696</u>

In 2013, major capital assets additions include upgrades as follows: transmission and distribution systems \$864,258, buildings and structures \$22,886, transportation equipment \$56,800, and field and shop equipment \$48,148.

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. The balance of construction-in-process was \$2,702,127 and \$2,180,550 at June 30, 2014 and 2013, respectively.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(6) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2014</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
\$ 414,569	250,847	(264,593)	400,823	137,134	263,689

<u>Balance</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2013</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
\$ 381,787	293,700	(260,918)	414,569	145,099	269,470

(7) Long-Term Debt

Changes in long-term debt for the year ended June 30, are as follows:

	<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2014</u>
Loans payable:				
Felton Safe Drinking Water Loan \$	2,207,278	-	(134,233)	2,073,045
Total loans payable	<u>2,207,278</u>	<u>-</u>	<u>(134,233)</u>	<u>2,073,045</u>
Bonds payable				
Bank of Nevada Refunding Bonds	4,930,026	-	(585,911)	4,344,115
Total bonds payable	<u>4,930,026</u>	<u>-</u>	<u>(585,911)</u>	<u>4,344,115</u>
Total long-term debt payable	<u>7,137,304</u>	<u>-</u>	<u>(720,144)</u>	<u>6,417,160</u>
Less: current portion	<u>(652,813)</u>			<u>(738,130)</u>
Long-term portion \$	<u><u>6,484,491</u></u>			<u><u>5,679,030</u></u>

Changes in long-term debt for the year ended June 30, are as follows:

	<u>Balance</u> <u>2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2013</u>
Loans payable:				
Felton Safe Drinking Water Loan \$	2,338,401	-	(131,123)	2,207,278
Total loans payable	<u>2,338,401</u>	<u>-</u>	<u>(131,123)</u>	<u>2,207,278</u>
Bonds payable				
1999 Refunding Bonds	390,000	-	(390,000)	-
Bank of Nevada Refunding Bonds	5,508,472	-	(578,446)	4,930,026
Total bonds payable	<u>5,898,472</u>	<u>-</u>	<u>(968,446)</u>	<u>4,930,026</u>
Total long-term debt payable	<u>8,236,873</u>	<u>-</u>	<u>(1,099,569)</u>	<u>7,137,304</u>
Less: current portion	<u>(219,956)</u>			<u>(652,813)</u>
Long-term portion \$	<u><u>8,016,917</u></u>			<u><u>6,484,491</u></u>

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(7) Long-Term Debt, continued

Felton Purchase Loan

In fiscal year 2009, the District purchased the Felton water system and assumed Felton's California Safe Drinking Water Loan with a fixed rate of 2.42%, maturing on June 30, 2027. The District will make semi-annual payments of \$93,399 including principal and interest on July 1st and January 1st each year.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 137,499	49,299	186,798
2016	140,781	46,017	186,798
2017	144,327	42,471	186,798
2018	147,777	39,021	186,798
2019	151,371	35,427	186,798
2020-2024	813,878	120,112	933,990
2025-2027	537,412	22,973	560,385
Total	2,073,045	<u>355,320</u>	<u>2,428,365</u>
Less: current portion	<u>(137,499)</u>		
Long-term portion	\$ <u>1,935,546</u>		

Bank of Nevada Refunding Loan

On March 22, 2012 the District entered into a loan agreement with Bank of Nevada at a rate of 2.6% in order to pay off several other previously held loans. The District makes semi-annual payments of \$354,855, including principal and interest on September 1st and March 1st. Final maturity is September 1, 2021.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 600,631	109,079	709,710
2016	616,350	93,360	709,710
2017	632,479	77,231	709,710
2018	649,030	60,680	709,710
2019	666,015	43,695	709,710
2020-2021	1,179,610	39,966	1,219,576
Total	4,344,115	<u>424,011</u>	<u>4,768,126</u>
Less: current portion	<u>(600,631)</u>		
Long-term portion	\$ <u>3,743,484</u>		

**San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013**

(8) Defined Benefit Pension Plan

Plan Description

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

Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2013, 2012 and 2011 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Second-Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan is 6.25% of their annual covered wages. The District employees hired on or after January 1, 2013, contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

California Public Employees’ Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Funding Policy

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

For Fiscal years 2014, 2013, and 2012, the District’s annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	APC Percentage of Payroll
2014	\$ 191,435	100%	10.319%
2013	186,952	100%	9.754%
2012	227,150	100%	9.577%

See the Schedule of Funding Status in the Required Supplementary Information Section on Page 34.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(8) Defined Benefit Pension Plan, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially-determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods, and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

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

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization period	20 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(9) Other Post-Employment Benefits Payable

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements. During the fiscal year ended June 30, 2009, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post-employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth on the following page.

Plan Description – Eligibility

Employees are eligible for post-employment benefits when they retire from the District on or after attaining age 55 with at least 5 years of service under CalPERS. Based on the length of service, the District will pay the retired members' health insurance premiums based on the schedule below.

District contributions to retiree healthcare premiums are as follows:

	<u>Per Month</u>
Less than 15 years of service	\$ 150
15 to 24 years of service	200
25 + years of service	250

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(9) Other Post-Employment Benefits Payable, continued

Plan Description – Eligibility, continued

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Active plan members	24	22	22
Retirees and beneficiaries receiving benefits	2	2	2
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>26</u>	<u>24</u>	<u>24</u>

Plan Description – Benefits

The District offers post-employment medical and dental benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District’s medical and dental programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 1.54% of the annual covered payroll.

Annual Cost

For the years ended June 30, 2014 and 2013, the District’s ARC cost is \$34,446 and \$34,446, respectively. The District’s net OPEB payable obligation amounted to \$195,488 and \$163,171 for the years ended June 30, 2014 and 2013, respectively. The District contributed \$8,656 and \$13,265 in adjustment contributions for current retiree OPEB premiums for the years ended June 30, 2014 and 2013, respectively.

The balance at June 30, consists of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 34,446	34,446	55,964
Interest on net OPEB obligation	6,527	5,461	4,445
Adjustment to annual required contribution	-	-	-
Total annual OPEB expense	<u>40,973</u>	<u>39,907</u>	<u>60,409</u>
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(8,656)</u>	<u>(13,265)</u>	<u>(12,775)</u>
Total change in net OPEB payable obligation	32,317	26,642	47,634
OPEB payable – beginning of year	<u>163,171</u>	<u>136,529</u>	<u>88,895</u>
OPEB payable – end of year	<u>\$ 195,488</u>	<u>163,171</u>	<u>136,529</u>

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(9) Other Post-Employment Benefits Payable, continued

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014 and two preceding years are as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2014	\$ 40,973	21.13%	\$ 32,317
2013	39,907	33.24%	26,642
2012	60,409	21.15%	47,634

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2012) includes an Actuarial Accrued Liability of \$451,717 and an Unfunded Actuarial Accrued Liability of \$315,188. The covered payroll (annual payroll of active employees covered by the plan) was \$2,233,145. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 14.11%.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

Valuation date	July 1, 2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Amortization period	Open
Average remaining amortization period	30 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	4.0%
Individual salary growth	District annual COLA

(10) Net Investment in Capital Assets

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

	2014	2013
Net investment in capital assets		
Capital assets, net	\$ 25,398,866	25,446,696
Loans payable – current	(137,499)	(67,499)
Loans payable – non-current	(1,935,546)	(2,139,779)
Bonds payable – current	(600,631)	(585,314)
Bonds payable – non-current	(3,743,484)	(4,344,712)
Total net investment in capital assets	<u>\$ 18,981,706</u>	<u>18,309,392</u>

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(11) Restricted Net Position

	2014	2013
Restricted net position:		
Restricted for capital projects	\$ -	186,977
Restricted for debt service	168,185	168,185
Total restricted net position	\$ 168,185	355,162

(12) Unrestricted Net Position

	2014	2013
Unrestricted net position:		
Non-spendable net position		
Materials and supplies inventory	\$ 177,883	210,916
Total non-spendable net position	177,883	210,916
Spendable net position are designated as follow		
Unrestricted	6,991,297	6,687,562
Total spendable net position	6,991,297	6,687,562
Total unrestricted net position	\$ 7,169,180	6,898,478

(13) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District, a member of the Special District Risk Management Authority (SDRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. SDRMA's purpose is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2014, the District participated in the liability and property programs of the SDRMA as follows:

- General and automotive liability: \$5,000,000 per occurrence with \$500-\$1,000 per occurrence for third party general liability property damage.
- Public officials and employees' errors and omissions: \$5,000,000 per occurrence with 50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000 per occurrence for employment related claims. However, 100% of the obligation will be waived if certain criteria are met.
- Public officials' personal liability: \$5,000,000 per occurrence with \$5,000,000 annual aggregate limit per each elected/appointed official and a deductible of \$500 per claim.
- Employment practices and benefits liability: \$5,000,000 per occurrence with 50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000 per occurrence for employment related claims. However, 100% of the obligation will be waived if certain criteria are met.
- Employee dishonesty coverage: \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss: \$1,000,000,000 per occurrence with a \$2,000 deductible per occurrence.
- Boiler and machinery: \$100,000,000 per occurrence with a \$1,000 deductible.
- Workers compensation: \$5,000,000 each accident or each employee by disease.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB No. 68. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, Account and Financial Reporting for Pension. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(15) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to an audit by the grantor agencies. Such an audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant. The District has not received grant funding in fiscal years ended June 30, 2014 and 2013, respectively.

Litigation

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

(16) Subsequent Event

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of December 15, 2014, which is the date the financial statements were available to be issued.

Required Supplementary Information

San Lorenzo Valley Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Defined Benefit Pension Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool

The District is part of the CalPERS Miscellaneous 2.0% at 55 yrs. Risk Pool

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013*</u>	<u>June 30, 2014*</u>
1. Plan's accrued liability	\$ 10,564,230	11,347,210	-	-
2. Plan's side fund	(7,059)	(6,899)	-	-
3. Pool's accrued liability	3,619,835,876	4,175,139,166	-	-
4. Pool's side fund	(115,840,552)	(132,335,224)	-	-
5. Pool's actuarial value of assets including receivables	3,203,214,899	3,686,598,343	-	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	9,650,951	10,341,133	-	-
7. Pool's market value of assets (MVA) including receivables	2,867,303,802	3,120,110,130	-	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	8,638,886	8,752,099	-	-

* CalPERS has not provided the information for these periods as of the date of the audit report.

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios, and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (a)</u>	<u>Actuarial Value of Assets (b)</u>	<u>Market Value of Assets (MVA) (c)</u>	<u>Funded Ratio</u>		<u>Annual Covered Payroll</u>
				<u>AVA (b/a)</u>	<u>MVA (c/a)</u>	
June 30, 2011	\$ 10,564,230	9,650,951	8,638,886	91.4%	\$ 81.8%	1,792,536
June 30, 2012	11,347,210	10,341,133	8,752,099	91.1%	77.1%	1,794,546
June 30, 2013	*	-	-	0.0%	0.0%	-
June 30, 2014	*	-	-	0.0%	0.0%	-

* CalPERS has not provided the information for these periods as of the date of the audit report.

(2) Other Post-Employment Benefits Payable

Required Supplemental Information – Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/2010	-	452,179	452,179	0.00%	1,908,411	23.69%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2015 based on the year ending June 30, 2014.

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Supplemental Information

San Lorenzo Valley Water District
Combining Schedule of Net Position
For the Year Ended June 30, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Current assets:			
Cash & cash equivalents	\$ 2,291,634	-	2,291,634
Cash & cash equivalents – restricted	168,185	-	168,185
Accrued interest receivable	16,954	-	16,954
Investments	679,477	-	679,477
Accounts receivable – water sales and services, net	393,564	-	393,564
Accounts receivable – property taxes	22,602	-	22,602
Accounts receivable – settlement agreement	208,554	-	208,554
Accounts receivable – grant funding	753,600	-	753,600
Accounts receivable – other	2,178	-	2,178
Due from other governments	66,738	-	66,738
Internal balances	94,772	(94,772)	-
Materials and supplies inventory	177,883	-	177,883
Total current assets	<u>4,876,141</u>	<u>(94,772)</u>	<u>4,781,369</u>
Non-current assets:			
Investments	3,728,460	-	3,728,460
Capital assets – not being depreciated	8,273,356	28,213	8,301,569
Capital assets – being depreciated	16,556,987	540,310	17,097,297
Total non-current assets	<u>28,558,803</u>	<u>568,523</u>	<u>29,127,326</u>
Total assets	<u>33,434,944</u>	<u>473,751</u>	<u>33,908,695</u>
Current liabilities:			
Accounts payable and accrued expense	297,384	-	297,384
Accrued wages and related payables	26,970	-	26,970
Unearned revenues – customer deposits	42,208	-	42,208
Unearned revenues – construction deposits	146,416	-	146,416
Accrued interest payable	63,175	-	63,175
Long-term liabilities – due in one year:			
Compensated absences	137,134	-	137,134
Loans payable	137,499	-	137,499
Bonds payable	600,631	-	600,631
Total current liabilities	<u>1,451,417</u>	<u>-</u>	<u>1,451,417</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences	263,689	-	263,689
Other post-employment benefits payable	195,488	-	195,488
Loans payable	1,935,546	-	1,935,546
Bonds payable	3,743,484	-	3,743,484
Total non-current liabilities	<u>6,138,207</u>	<u>-</u>	<u>6,138,207</u>
Total liabilities	<u>7,589,624</u>	<u>-</u>	<u>7,589,624</u>
Net position			
Net investment in capital assets	18,413,183	568,523	18,981,706
Restricted for debt service	168,185	-	168,185
Unrestricted	7,263,952	(94,772)	7,169,180
Total net position	<u>\$ 25,845,320</u>	<u>473,751</u>	<u>26,319,071</u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Combining Schedule of Net Position
For the Year Ended June 30, 2013

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Current assets:			
Cash & cash equivalents	\$ 71,987	-	71,987
Cash & cash equivalents – restricted	365,497	-	365,497
Accrued interest receivable	32,260	-	32,260
Investments	1,477,466	-	1,477,466
Accounts receivable – water sales and services, net	484,127	-	484,127
Accounts receivable – property taxes	62,794	-	62,794
Accounts receivable – settlement agreement	205,202	-	205,202
Accounts receivable – other	4,669	-	4,669
Internal balances	140,197	(140,197)	-
Materials and supplies inventory	210,916	-	210,916
	<u>3,055,115</u>	<u>(140,197)</u>	<u>2,914,918</u>
Total current assets			
Non-current assets:			
Investments	5,710,420	-	5,710,420
Capital assets – not being depreciated	7,751,779	28,213	7,779,992
Capital assets – being depreciated	17,084,622	582,082	17,666,704
	<u>30,546,821</u>	<u>610,295</u>	<u>31,157,116</u>
Total non-current assets			
	<u>33,601,936</u>	<u>470,098</u>	<u>34,072,034</u>
Total assets			
Current liabilities:			
Accounts payable and accrued expense	545,989	-	545,989
Accrued wages and related payables	19,005	55	19,060
Unearned revenues – customer deposits	39,135	-	39,135
Unearned revenues – construction deposits	138,643	-	138,643
Accrued interest payable	51,131	-	51,131
Long-term liabilities – due in one year:			
Compensated absences	142,308	2,791	145,099
Loans payable – current	67,499	-	67,499
Bonds payable – current	585,314	-	585,314
	<u>1,589,024</u>	<u>2,846</u>	<u>1,591,870</u>
Total current liabilities			
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences	269,470	-	269,470
Other post-employment benefits payable	163,171	-	163,171
Loans payable – non-current	2,139,779	-	2,139,779
Bonds payable – non-current	4,344,712	-	4,344,712
	<u>6,917,132</u>	<u>-</u>	<u>6,917,132</u>
Total non-current liabilities			
	<u>8,506,156</u>	<u>2,846</u>	<u>8,509,002</u>
Total liabilities			
Net position			
Net investment in capital assets	17,699,097	610,295	18,309,392
Restricted for capital projects	186,977	-	186,977
Restricted for debt service	168,185	-	168,185
Unrestricted	7,041,521	(143,043)	6,898,478
	<u>\$ 25,095,780</u>	<u>467,252</u>	<u>25,563,032</u>
Total net position			

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Water consumption sales	\$ 5,669,459	-	5,669,459
Wastewater service	-	101,637	101,637
Charges and penalties	54,111	-	54,111
Other charges and services	13,281	-	13,281
Total operating revenues	<u>5,736,851</u>	<u>101,637</u>	<u>5,838,488</u>
Operating expenses:			
Salaries and benefits	3,101,374	12,954	3,114,328
Professional services	647,229	5,406	652,635
Materials and supplies	234,599	10,620	245,219
Vehicle and equipment maintenance	113,945	280	114,225
Building maintenance	19,522	-	19,522
Repairs	173,560	-	173,560
Collection fees and charges	25,850	-	25,850
Utilities and telephone	475,804	8,769	484,573
Insurance	51,783	-	51,783
LAFCO fees	18,691	-	18,691
Rentals and permits	108,022	11,159	119,181
Travel, meals and conferences	11,925	-	11,925
Auto allowance	4,200	-	4,200
Bad debt expense	6,000	-	6,000
Office expenses	127,895	4,177	132,072
Total operating expenses	<u>5,120,399</u>	<u>53,365</u>	<u>5,173,764</u>
Operating income before overhead absorption	616,452	48,272	664,724
Overhead absorption	132,347	-	132,347
Operating income before depreciation expense	748,799	48,272	797,071
Depreciation expense	<u>(1,130,731)</u>	<u>(41,773)</u>	<u>(1,172,504)</u>
Operating loss	<u>(381,932)</u>	<u>6,499</u>	<u>(375,433)</u>
Non-operating revenues(expenses):			
Property tax revenues	478,632	-	478,632
Investment earnings	159,023	-	159,023
Rental revenues	30,378	-	30,378
Interest expenses	(295,513)	-	(295,513)
Gain on disposition of capital assets	2,000	-	2,000
Settlement and purchase agreements	3,352	-	3,352
Total non-operating revenues, net	<u>377,872</u>	<u>-</u>	<u>377,872</u>
Net income before capital contributions	<u>(4,060)</u>	<u>6,499</u>	<u>2,439</u>
Capital contributions:			
Capital grants - other governments	753,600	-	753,600
Total capital contributions	<u>753,600</u>	<u>-</u>	<u>753,600</u>
Change in net position	749,540	6,499	756,039
Net position – beginning of year	<u>25,095,780</u>	<u>467,252</u>	<u>25,563,032</u>
Net position – end of year	<u>\$ 25,845,320</u>	<u>473,751</u>	<u>26,319,071</u>

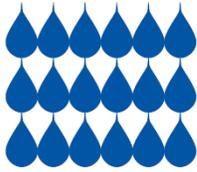
See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2013

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Water consumption sales	\$ 5,226,845		5,226,845
Wastewater service	-	98,653	98,653
Meter sales	100,567	-	100,567
Charges and penalties	55,406	-	55,406
Other charges and services	63,146	15	63,161
	<u>5,445,964</u>	<u>98,668</u>	<u>5,544,632</u>
Operating expenses:			
Salaries and benefits	2,834,922	13,644	2,848,566
Professional services	512,612	33,742	546,354
Materials and supplies	208,807	2,315	211,122
Vehicle and equipment maintenance	122,368	773	123,141
Building maintenance	27,493	-	27,493
Repairs	147,179	-	147,179
Collection fees and charges	20,444	-	20,444
Utilities and telephone	435,286	8,286	443,572
Insurance	54,916	-	54,916
LAFCO fees	9,229	-	9,229
Rental and expenses	121,191	5,598	126,789
Travel, meals and conferences	4,391	-	4,391
Auto allowance	4,200	-	4,200
Office expenses	164,910	4,523	169,433
	<u>4,667,948</u>	<u>68,881</u>	<u>4,736,829</u>
Operating income before overhead absorption	778,016	29,787	807,803
Overhead absorption	48,543	-	48,543
	<u>826,559</u>	<u>29,787</u>	<u>856,346</u>
Operating income before depreciation expense	826,559	29,787	856,346
Depreciation expense	(1,251,959)	(41,773)	(1,293,732)
	<u>(425,400)</u>	<u>(11,986)</u>	<u>(437,386)</u>
Operating loss			
Non-operating revenues(expenses):			
Property tax revenues	459,834	-	459,834
Investment earnings	(80,321)	-	(80,321)
Rental revenues	28,461	-	28,461
Interest expenses	(211,233)	-	(211,233)
Gain on disposition of capital assets	1,874	-	1,874
Settlement and purchase agreements	85,369	-	85,369
	<u>283,984</u>	<u>-</u>	<u>283,984</u>
Total non-operating revenues, net	283,984	-	283,984
Change in net position	(141,416)	(11,986)	(153,402)
Net position – beginning of year	25,466,780	479,238	25,946,018
Prior period adjustment	(229,584)	-	(229,584)
Net position – end of year	<u>\$ 25,095,780</u>	<u>467,252</u>	<u>25,563,032</u>

See accompanying notes to the basic financial statements

Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Lorenzo Valley Water District (District), as of and for the years June 30, 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the district's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
December 15, 2014