



San Lorenzo Valley Water District
Annual Financial Report
June 30, 2009 and 2008



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.

Board of Directors as of June 30, 2009

Name	Title	Elected/ Appointed	Current Term
Fred McPherson	President	Elected	12/2008 - 12/2012
James Nelson	Vice President	Elected	12/2008 - 12/2012
Larry Prather	Director	Elected	12/2006 - 12/2010
James Rapoza	Director	Elected	12/2006 - 12-2010
Terry Vierra	Director	Elected	12/2006 - 12/2010

**James Mueller, District Manager
San Lorenzo Valley Water District
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Boulder Creek, California 95006
(831) 338-2153 – www.slvwd.com**

San Lorenzo Valley Water District

Annual Financial Report

For the Years Ended June 30, 2009 and 2008

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Introductory Section



September 30, 2009

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, 2009, 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.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying Notes.

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 24 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 agricultural connections.

Economic Condition and Outlook

The District's administrative offices are located in the City of Boulder Creek in Santa Cruz County. The economic outlook for the area is one of cautious growth due to the prolonged decline in the real estate market, which is projected to continue through 2010.

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 objective 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. Sewer rates are composed of a \$240 bi-monthly fixed charge effective June 1, 2008.

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
- Low-Flow Toilet Retrofit Program
- Hi-Efficiency Washers Program

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 unqualified 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,

James Mueller
District Manager

Karen Alvarez
Finance Manager

Financial Section



Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the San Lorenzo Valley Water District (District) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the San Lorenzo Valley Water District as of June 30, 2009 and 2008, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits. This report can be found on page 36.

Management's discussion and analysis on pages 7 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Independent Auditor's Report (Continued)

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplemental information section on pages 32 through 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section on pages 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

September 30, 2009
Cypress, California

Chapman & Hall, CPAs
An Accounting Corporation

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

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, 2009 and 2008. 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 net assets increased 3.9% or \$995,260 to \$26,389,461 in 2009. In 2008, the District's net assets increased 1.1% or \$281,043 to \$25,394,201.
- The District's operating revenues increased 15.7% or \$544,764 in fiscal year 2009. In 2008, the District's operating revenues increased 4.2% or \$138,751.
- The District's operating expenses decreased 5.0% or \$221,447 in 2009. In 2008, the District's operating expenses increased 12.5% or \$496,386.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets 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 Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). 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 Assets. 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 and provides 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 Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities 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.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

Financial Analysis of the District (Continued)

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets (the difference between assets and liabilities), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are 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 15 through 31.

Statement of Net Assets

Condensed Statements of Net Assets			
	2009	2008	Change
Assets:			
Current assets	\$ 11,257,505	14,225,434	(2,967,929)
Non-current assets	248,848	274,100	(25,252)
Capital assets, net	26,536,981	20,315,311	6,221,670
Total assets	38,043,334	34,814,845	3,228,489
Liabilities:			
Current liabilities	1,571,600	1,393,912	177,688
Non-current liabilities	10,082,273	8,026,732	2,055,541
Total liabilities	11,653,873	9,420,644	2,233,229
Net assets:			
Net investment in capital assets	15,999,096	11,901,216	4,097,880
Restricted for debt service	940,077	1,171,630	(231,553)
Unrestricted	9,450,288	12,321,355	(2,871,067)
Total net assets	26,389,461	25,394,201	995,260
Total liabilities and net assets	\$ 38,043,334	34,814,845	3,228,489

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$26,389,461 and \$25,394,201 as of June 30, 2009 and 2008, respectively.

By far the largest portion of the District's net assets (61% as of June 30, 2009 and 47% as of June 30, 2008, 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.

At the end of fiscal year 2009 and 2008, the District showed a positive balance in its unrestricted net assets of \$9,450,288 and \$12,321,355, respectively, which may be utilized in future years.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 4,004,362	3,459,598	544,764
Non-operating revenues	1,156,042	2,311,231	(1,155,189)
Total revenues	<u>5,160,404</u>	<u>5,770,829</u>	<u>(610,425)</u>
Expenses:			
Operating expenses	4,234,583	4,456,030	(221,447)
Depreciation and amortization	1,245,221	922,587	322,634
Non-operating expenses	519,333	588,739	(69,406)
Total expenses	<u>5,999,137</u>	<u>5,967,356</u>	<u>31,781</u>
Net loss before capital contributions	(838,733)	(196,527)	(642,206)
Capital contributions	1,833,993	477,570	1,356,423
Change in net assets	995,260	281,043	714,217
Net assets, beginning of year	<u>25,394,201</u>	<u>25,113,158</u>	<u>281,043</u>
Net assets, end of year	<u>\$ 26,389,461</u>	<u>25,394,201</u>	<u>995,260</u>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$995,260 and \$281,043 for the fiscal years ended June 30, 2009 and 2008, respectively.

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

In 2009, the District's total revenues decreased by \$610,425, primarily due to an increase in operating revenues of \$544,764 primarily from the addition of the Felton system customers coupled with a decrease in non-operating revenues of \$1,155,189 primarily from not receiving the \$1,073,977 legal settlement in the prior year. In addition, total expenses increased by \$31,781, due primarily from the increase in depreciation expense.

In 2008, the District's total revenues increased by \$1,045,636 due to a \$138,751 increase in operating revenues from increased water service fees and a \$906,885 increase in non-operating revenues related primarily to a legal settlement of \$1,073,977. The settlement provides for upgrades of the District's system and other costs associated with providing service to properties within the Manana Woods subdivision. Additionally, total expenses increased by \$599,476 of which \$456,618 were related to professional services provided to the District.

Capital Asset Administration

At the end of fiscal year 2009 and 2008, the District's investment in capital assets amounted to \$26,536,981 and \$20,315,311, 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 pumping plant, transmission and distribution system and the acquisition of the Felton water system. See Note 5 for further capital asset information.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

Capital Asset Administration, continued

Changes in capital asset amounts for the year were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2009</u>
Capital assets:				
Non-depreciable assets	\$ 3,508,545	1,855,488	28,213	5,392,246
Depreciable assets	29,998,416	9,748,212	(245,148)	39,501,480
Accumulated depreciation and amortization	<u>(13,191,650)</u>	<u>(5,343,153)</u>	<u>178,058</u>	<u>(18,356,745)</u>
Total capital assets, net	<u>\$ 20,315,311</u>	<u>6,260,547</u>	<u>(38,877)</u>	<u>26,536,981</u>
	<u>Balance 2007</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2008</u>
Capital assets:				
Non-depreciable assets	\$ 3,551,056	-	(42,511)	3,508,545
Depreciable assets	29,986,400	648,219	(636,203)	29,998,416
Accumulated depreciation and amortization	<u>(12,750,594)</u>	<u>(922,587)</u>	<u>481,531</u>	<u>(13,191,650)</u>
Total capital assets, net	<u>\$ 20,786,862</u>	<u>(274,368)</u>	<u>(197,183)</u>	<u>20,315,311</u>

Debt Administration

Changes in long-term debt amounts for the year ended June 30, 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2009</u>
Long-term debt:				
Lease payable	\$ 115,000	-	(20,000)	95,000
Notes payable	5,747,652	2,832,215	(479,855)	8,100,012
Bonds payable	720,000	-	(75,000)	645,000
Certificates of participation	<u>1,831,443</u>	<u>-</u>	<u>(133,570)</u>	<u>1,697,873</u>
Total long-term debt	<u>\$ 8,414,095</u>	<u>2,832,215</u>	<u>(708,425)</u>	<u>10,537,885</u>

Changes in long-term debt amounts for the year ended June 30, 2009 were as follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2008</u>
Long-term debt:				
Lease payable	135,000	-	(20,000)	115,000
Notes payable	\$ 6,106,369	-	(358,717)	5,747,652
Bonds payable	795,000	-	(75,000)	720,000
Certificates of participation	<u>1,959,388</u>	<u>-</u>	<u>(127,945)</u>	<u>1,831,443</u>
Total long-term debt	<u>\$ 8,995,757</u>	<u>-</u>	<u>(581,662)</u>	<u>8,414,095</u>

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

Conditions Affecting Current Financial Position

Management is unaware of any conditions that would have a significant impact on the District's financial position, net assets, 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 Assets
June 30, 2009 and 2008

<i>Assets</i>	2009	2008
Current assets:		
Cash and cash equivalents (note 2)	\$ 775,598	2,838,022
Investments (note 2)	8,901,048	9,562,216
Restricted – investments (note 2)	940,077	1,171,630
Accrued interest receivable	57,153	100,948
Accounts receivable – water sales and services, net (note 3)	294,246	273,126
Accounts receivable – property taxes	29,210	25,514
Accounts receivable – other	1,313	1,774
Materials and supplies inventory	258,860	252,204
Total current assets	11,257,505	14,225,434
Non-current assets:		
Deferred charges, net (note 4)	248,848	274,100
Capital assets – not being depreciated (note 5)	5,392,246	3,508,545
Capital assets – being depreciated, net (note 5)	21,144,735	16,806,766
Total non-current assets	26,785,829	20,589,411
Total assets	\$ 38,043,334	34,814,845
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 390,730	359,324
Accrued wages and related payables	62,086	72,213
Customer deposits	48,382	25,047
Connection and construction deposits	175,550	183,528
Accrued interest payable on long-term debt	108,801	78,941
Long-term liabilities – due within one year:		
Compensated absences (note 6)	82,610	71,874
Long-term debt (note 7)	703,441	602,985
Total current liabilities	1,571,600	1,393,912
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	247,829	215,622
Long-term debt (note 7)	9,834,444	7,811,110
Total non-current liabilities	10,082,273	8,026,732
Total liabilities	11,653,873	9,420,644
Net assets: (note 8)		
Net investment in capital assets	15,999,096	11,901,216
Restricted for debt service	940,077	1,171,630
Unrestricted	9,450,288	12,321,355
Total net assets	26,389,461	25,394,201
Total liabilities and net assets	\$ 38,043,334	34,814,845

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Water consumption sales	\$ 3,694,064	3,188,266
Wastewater service	81,466	47,037
Assessments	127,544	125,322
Meter sales	43,764	52,332
Charges and penalties	48,810	37,649
Other charges and services	8,714	8,992
Total operating revenues	<u>4,004,362</u>	<u>3,459,598</u>
Operating expenses:		
Salaries and benefits	2,576,530	2,519,190
Professional services	597,152	975,313
Materials and supplies	161,438	169,372
Utilities and telephone	431,455	382,046
Insurance	59,514	52,296
LAFCO fees	5,685	4,938
Vehicle and equipment maintenance	106,087	97,802
Building maintenance	54,676	26,647
Repairs	44,873	76,776
Collections fees and charges	47,645	1,572
Travel, meals and conferences	8,798	8,074
Auto allowance	4,200	4,200
Office expenses	44,985	44,294
Rental and permits	32,370	36,841
Miscellaneous	59,175	56,669
Total operating expenses	<u>4,234,583</u>	<u>4,456,030</u>
Operating loss before depreciation	(230,221)	(996,432)
Depreciation	<u>(1,245,221)</u>	<u>(922,587)</u>
Operating loss	<u>(1,475,442)</u>	<u>(1,919,019)</u>
Non-operating revenue(expense)		
Property taxes	527,421	505,233
Investment earnings	603,405	708,835
Rental revenue	25,216	23,186
Interest expense – long-term debt	(455,204)	(406,676)
Amortization of deferred charges	(25,252)	(25,252)
Legal settlement	-	1,073,977
Gain (loss) on disposition of capital assets	<u>(38,877)</u>	<u>(156,811)</u>
Total non-operating revenues, net	<u>636,709</u>	<u>1,722,492</u>
Net loss before capital contributions	<u>(838,733)</u>	<u>(196,527)</u>
Capital contributions:		
Felton purchase	1,833,993	-
Developers and others	-	477,570
Capital contributions	<u>1,833,993</u>	<u>477,570</u>
Change in net assets	995,260	281,043
Net assets, beginning of year	<u>25,394,201</u>	<u>25,113,158</u>
Net assets, end of year	<u>\$ 26,389,461</u>	<u>25,394,201</u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash receipts from customers for water and wastewater sales and services	\$ 3,983,703	3,651,064
Cash paid to vendors and suppliers for materials and services	(2,421,638)	(2,888,734)
Cash paid to employees for salaries and wages	(1,740,022)	(1,634,984)
Net cash used by operating activities	(177,957)	(872,654)
Cash flows from non-capital financing activities:		
Proceeds from property taxes	523,725	509,397
Proceeds from rental revenue	25,216	23,186
Proceeds from legal settlement	-	1,073,977
Net cash provided by non-capital financing activities	548,941	1,606,560
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,666,200)	(648,219)
Acquisition of Felton system	(1,173,361)	-
Proceeds from capital contributions	-	661,094
Principal paid on long-term debt	(708,425)	(581,662)
Interest paid on long-term debt	(425,344)	(402,877)
Net cash used in capital and related financing activities	(3,973,330)	(971,664)
Cash flows from investing activities:		
Proceeds from sale of investments	6,483,000	2,495,000
Purchases of investments	(5,590,278)	(779,459)
Proceeds from investment earnings	647,200	519,468
Net cash provided by investing activities	1,539,922	2,235,009
Net increase(decrease) in cash and cash equivalents	(2,062,424)	1,997,251
Cash and cash equivalents, beginning of year	2,838,022	840,771
Cash and cash equivalents, end of year	\$ 775,598	2,838,022
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 775,598	2,838,022
Total cash and cash equivalents	\$ 775,598	2,838,022

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, 2009 and 2008

	2009	2008
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ <u>(1,475,442)</u>	<u>(1,919,019)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:		
Deprecation and amortization	1,245,221	922,587
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable	(20,659)	191,466
Materials and supplies inventory	(6,656)	(41,352)
Prepaid expenses and other deposits	-	21,530
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	31,406	31,118
Accrued salaries and wages	(10,127)	31,758
Accrued compensated absences	42,943	(635)
Other liabilities	<u>15,357</u>	<u>(110,107)</u>
Total adjustments	<u>1,297,485</u>	<u>1,046,365</u>
Net cash used by operating activities	<u>\$ (177,957)</u>	<u>(872,654)</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, 2009 and 2008

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

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

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

C. Financial Reporting (Continued)

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities and Net Assets

1. Use of Estimates

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

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 at the time of purchase to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing the District Manager to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable

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 Tax Collector which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

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

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets (Continued)

6. Prepaid Expenses

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

7. Inventory

Inventory consists primarily of materials used in construction and maintenance of the water and sewer system and is stated at cost using the average-cost method.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$500. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

9. Deferred Charges

Bond issuance costs are deferred and amortized using the straight-line method based on the term of the related debt service.

10. 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.

11. 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.

12. 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.

13. Water and Sewer Sales

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

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets (Continued)

14. Capital Contributions

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

15. Budgetary Policies

The District adopts a one year 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.

16. Net Assets

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

- **Net Investment in Capital Assets** – This component of net assets 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 Assets** – This component of net assets consists of constraints placed on net assets 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 Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(2) Cash and Investments

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

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 775,598	2,838,022
Investments	8,901,048	9,562,216
Restricted – investments	<u>940,077</u>	<u>1,171,630</u>
Total cash and investments	<u>\$ 10,616,723</u>	<u>13,571,868</u>

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

	<u>2009</u>	<u>2008</u>
Cash on hand	\$ 200	200
Deposits with financial institutions	173,533	112,002
Investments	<u>10,442,990</u>	<u>13,459,666</u>
Total cash and investments	<u>\$ 10,616,723</u>	<u>13,571,868</u>

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

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

<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	7 years	None	None
U.S. Agency Securities	7 years	50%	None
Certificates of Deposit	7 years	50%	\$100,000
Local Agency Investment Fund (LAIF)	N/A	None	None
Savings Accounts	N/A	50%	\$100,000

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

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

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

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District had deposits with bank balances of \$53,505 and \$135,723 as of June 30, 2009 and 2008, respectively. Of the bank balances, up to \$250,000 at June 30, 2009 and \$100,000 at June 30, 2009 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

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

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(2) Cash and Investments, continued

Interest Rate Risk

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

Maturities of investments at June 30, 2009 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>25-60 Months</u>	<u>61-120 Months</u>
U.S. Treasury bills	\$ 1,306,153	770,213	535,940	-	-
Tennessee Valley Authority	217,297	-	-	217,297	-
Federal Farm Credit Bank	567,077	-	-	-	567,077
Federal Home Loan Mortgage Corporation	1,424,133	-	-	785,488	638,645
Federal National Mortgage Association	98,719	-	-	-	98,719
Certificates of Deposit	6,212,004	418,226	847,591	4,556,867	389,320
Local Agency Investment Fund (LAIF)	284,621	284,621	-	-	-
County of Santa Cruz Pool	31,903	31,903	-	-	-
Money market funds	15,742	15,742	-	-	-
Held by bond/loan trustee:					
Money market funds	285,341	285,341	-	-	-
Total	<u>\$ 10,442,990</u>	<u>1,806,046</u>	<u>1,383,531</u>	<u>5,559,652</u>	<u>1,693,761</u>

Maturities of investments at June 30, 2008 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>25-60 Months</u>	<u>61-120 Months</u>
U.S. Treasury bills	\$ 3,024,986	1,720,556	776,775	527,655	-
Federal Home Loan Bank	499,220	-	-	499,220	-
Federal Home Loan Mortgage Corporation	1,071,807	-	-	-	1,071,807
Federal National Mortgage Association	1,276,028	-	-	-	1,276,028
Certificates of Deposit	3,900,232	570,727	467,343	2,862,162	-
Local Agency Investment Fund (LAIF)	2,228,816	2,228,816	-	-	-
County of Santa Cruz Pool	31,903	31,903	-	-	-
Money market funds	1,401,174	1,401,174	-	-	-
Held by bond trustee:					
Money market funds	25,500	25,500	-	-	-
Total	<u>\$ 13,459,666</u>	<u>5,978,676</u>	<u>1,244,118</u>	<u>3,889,037</u>	<u>2,347,835</u>

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(2) Cash and Investments, continued

Credit Risk

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

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

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				AAA	Not Rated
U.S. Treasury bills	\$ 1,306,153	N/A	\$ 1,306,153	-	-
Tennessee Valley Authority	217,297	AAA	-	217,297	-
Federal Farm Credit Bank	567,077	AAA	-	567,077	-
Federal Home Loan Mortgage Corporation	1,424,133	AAA	-	1,424,133	-
Federal National Mortgage Association	98,719	AAA	-	98,719	-
Certificates of Deposit	6,212,004	N/A	-	-	6,212,004
Local Agency Investment Fund (LAIF)	284,621	N/A	-	-	284,621
County of Santa Cruz Pool	31,903	N/A	-	-	31,903
Money market funds	15,742	N/A	15,742	-	-
Held by bond/loan trustee:					
Money market funds	285,341	N/A	285,341	-	-
Total	\$ 10,442,990		\$ 1,607,236	2,307,226	6,528,528

Credit ratings of investments as of June 30, 2008, were as follows:

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				AAA	Not Rated
U.S. Treasury bills	\$ 3,024,986	N/A	\$ 3,024,986	-	-
Federal Home Loan Bank	499,220	AAA	-	499,220	-
Federal Home Loan Mortgage Corporation	1,071,807	AAA	-	1,071,807	-
Federal National Mortgage Association	1,276,028	AAA	-	1,276,028	-
Certificates of Deposit	3,900,232	N/A	-	-	3,900,232
Local Agency Investment Fund (LAIF)	2,228,816	N/A	-	-	2,228,816
County of Santa Cruz Pool	31,903	N/A	-	-	31,903
Money market funds	1,401,174	N/A	1,401,174	-	-
Held by bond trustee:					
Money market funds	25,500	N/A	25,500	-	-
Total	\$ 13,459,666		\$ 4,451,660	2,847,055	6,160,951

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(3) Accounts Receivable – Water Sales and Services, Net

The balance at June 30, consists of the following:

	2009	2008
Accounts receivable – water sales and services	\$ 334,246	275,426
Allowance for uncollectible accounts	(40,000)	(2,300)
Accounts receivable – water sales, net	\$ 294,246	273,126

(4) Deferred Charges, Net

Changes in deferred charges were as follows:

	Balance 2008	Additions	Amortization	Balance 2009
1999 Improvement Refunding Bonds	\$ 61,934	-	(7,740)	54,194
California Safe Drinking Water Loan	96,072	-	(7,000)	89,072
California Safe Drinking Water Loan	20,094	-	(2,512)	17,582
1998 Certificates of Participation	96,000	-	(8,000)	88,000
	\$ 274,100	-	(25,252)	248,848

(5) Capital Assets, Net

Changes in capital assets for the year were as follows:

	Balance 2008	Additions/ Transfers	Deletions/ Transfers	Balance 2009
Non-depreciable assets:				
Land	\$ 3,506,290	1,538,260	28,213	5,072,763
Construction-in-process	2,255	317,228	-	319,483
Total non-depreciable assets	3,508,545	1,855,488	28,213	5,392,246
Depreciable assets:				
Water transmission and distribution system	24,074,909	239,240	(62,721)	24,251,428
Felton transmission and distribution system	-	8,927,500	-	8,927,500
Wastewater system	1,477,608	-	(28,213)	1,449,395
Buildings	2,630,227	305,179	(52,906)	2,882,500
Transportation equipment	631,213	117,729	(9,198)	739,744
Field and shop equipment	584,149	82,350	(53,030)	613,469
Office equipment	600,310	76,214	(39,080)	637,444
Total depreciable assets	29,998,416	9,748,212	(245,148)	39,501,480
Accumulated depreciation and amortization:				
Water transmission and distribution system	(10,496,315)	(962,542)	62,721	(11,396,136)
Felton transmission and distribution system	-	(4,097,932)	-	(4,097,932)
Wastewater system	(658,450)	(41,772)	-	(700,222)
Buildings	(707,381)	(97,189)	19,021	(785,549)
Transportation equipment	(497,132)	(56,804)	9,198	(544,738)
Field and shop equipment	(405,604)	(45,485)	53,030	(398,059)
Office equipment	(426,768)	(41,429)	34,088	(434,109)
Total accum depr. and amort.	(13,191,650)	(5,343,153)	178,058	(18,356,745)
Total depreciable assets, net	16,806,766	4,405,059	(67,090)	21,144,735
Total capital assets, net	\$ 20,315,311	6,260,547	(38,877)	26,536,981

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(5) Capital Assets, Net, continued

Changes in capital assets for the year were as follows:

	<u>Balance 2007</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2008</u>
Non-depreciable assets:				
Land	\$ 3,508,430	-	(2,140)	3,506,290
Construction-in-process	42,626	-	(40,371)	2,255
Total non-depreciable assets	<u>3,551,056</u>	<u>-</u>	<u>(42,511)</u>	<u>3,508,545</u>
Depreciable assets:				
Water transmission and distribution system	24,116,293	536,165	(577,549)	24,074,909
Wastewater system	1,477,608	-	-	1,477,608
Buildings	2,620,813	13,965	(4,551)	2,630,227
Transportation equipment	601,216	29,997	-	631,213
Field and shop equipment	524,296	61,669	(1,816)	584,149
Office equipment	646,174	6,423	(52,287)	600,310
Total depreciable assets	<u>29,986,400</u>	<u>648,219</u>	<u>(636,203)</u>	<u>29,998,416</u>
Accumulated depreciation and amortization:				
Water transmission and distribution system	(10,248,035)	(674,745)	426,465	(10,496,315)
Wastewater system	(616,677)	(41,773)	-	(658,450)
Buildings	(624,823)	(84,437)	1,879	(707,381)
Transportation equipment	(442,932)	(53,432)	(768)	(497,132)
Field and shop equipment	(373,316)	(34,104)	1,816	(405,604)
Office equipment	(444,811)	(34,096)	52,139	(426,768)
Total accum depr. and amort.	<u>(12,750,594)</u>	<u>(922,587)</u>	<u>481,531</u>	<u>(13,191,650)</u>
Total depreciable assets, net	<u>17,235,806</u>	<u>(274,368)</u>	<u>(154,672)</u>	<u>16,806,766</u>
Total capital assets, net	<u>\$ 20,786,862</u>	<u>(274,368)</u>	<u>(197,183)</u>	<u>20,315,311</u>

(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.

The changes to compensated absences balances at June 30, were as follows:

	<u>Balance 2008</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2009</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
\$	287,496	242,872	(199,929)	330,439	82,610	247,829
	<u>Balance 2007</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2008</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
\$	288,131	215,398	(216,033)	287,496	71,874	215,622

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(7) Long-Term Debt

Changes in long-term debt amounts for the year ended June 30, 2009 were as follows:

Long-term debt:	<u>Balance 2008</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2009</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
1999 Refunding bonds	\$ 720,000	-	(75,000)	645,000	80,000	565,000
1997 Certificates of participation, series EE	115,000	-	(20,000)	95,000	20,000	75,000
California safe drinking water loan	2,243,533	-	(145,818)	2,097,715	150,839	1,946,876
California safe drinking water refunding loan	563,031	-	(60,375)	502,656	63,264	439,392
1998 Certificates of participation	1,831,443	-	(133,570)	1,697,873	139,497	1,558,376
Malosky creek loan	1,625,097	-	(134,016)	1,491,081	46,810	1,444,271
Johnson building loan	1,315,991	-	(80,669)	1,235,322	82,545	1,152,777
Felton purchase loan	-	2,832,215	(58,977)	2,773,238	120,486	2,652,752
Total long-term debt	<u>\$ 8,414,095</u>	<u>2,832,215</u>	<u>(708,425)</u>	<u>10,537,885</u>	<u>703,441</u>	<u>9,834,444</u>

Changes in long-term debt amounts for the year ended June 30, 2008 were as follows:

Long-term debt:	<u>Balance 2007</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2008</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
1999 Refunding bonds	\$ 795,000	-	(75,000)	720,000	75,000	645,000
1997 Certificates of participation, series EE	135,000	-	(20,000)	115,000	20,000	95,000
California safe drinking water loan	2,384,025	-	(140,492)	2,243,533	145,818	2,097,715
California safe drinking water refunding loan	620,863	-	(57,832)	563,031	60,439	502,592
1998 Certificates of participation	1,959,388	-	(127,945)	1,831,443	133,705	1,697,738
Malosky creek loan	1,709,340	-	(84,243)	1,625,097	88,291	1,536,806
Johnson building loan	1,392,141	-	(76,150)	1,315,991	79,732	1,236,259
Total long-term debt	<u>\$ 8,995,757</u>	<u>-</u>	<u>(581,662)</u>	<u>8,414,095</u>	<u>602,985</u>	<u>7,811,110</u>

1999 Limited Obligation Improvement Refunding Bonds

Original issuance of North Boulder Creek Assessment District Bonds within the District's water system. Bonds were originally issued under the State of California's 1915 Bond Act/Refunding Act of 1984, which are payable through special assessments on property tax bills that cover the assessment area. In 1999, the District issued Limited Obligation Improvement Refunding Bonds for the purpose of refunding and redeeming the North Boulder Creek Assessment District Bonds. The bonds bear interest ranging from 3.75% to 5.20%, with principal and interest payments payable semi-annually on September 2nd and March 2nd, with final maturity on September 2, 2015.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 80,000	30,936	110,936
2011	85,000	26,811	111,811
2012	90,000	22,413	112,413
2013	90,000	17,845	107,845
2014	100,000	12,975	112,975
2015-2016	<u>200,000</u>	<u>10,400</u>	<u>210,400</u>
Total	<u>\$ 645,000</u>	<u>121,380</u>	<u>766,380</u>
Less current portion	<u>(80,000)</u>		
Total non-current	<u>\$ 565,000</u>		

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(7) Long-Term Debt, continued

California Special District Lease Finance Program, COP 1997, Series EE

In 1997, the District issued Certificates of Participation for the purpose of purchasing and renovating the District's operations building. The Certificates of Participation bear interest ranging from 4.10% to 6.00%, per annum, with interest only payments due June 1st and principal and interest payments due December 1st, and a final maturity date of December 1, 2012 with a final principal payment of \$25,000 on that date.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 20,000	5,056	25,056
2011	25,000	3,738	28,738
2012	25,000	2,250	27,250
2013	25,000	750	25,750
Total	\$ 95,000	<u>11,794</u>	<u>106,794</u>
Less current portion	<u>(20,000)</u>		
Total non-current	<u>\$ 75,000</u>		

California Safe Drinking Water Loan

California Safe Drinking Water Loan bearing interest at 3.524% per annum with a maturity at October 1, 2020. The District makes semi-annual payments of \$111,725 including principal and interest on April 1st and October 1st each year.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 150,839	72,612	223,451
2011	156,201	67,249	223,450
2012	161,630	61,820	223,450
2013	167,617	55,833	223,450
2014	173,459	49,991	223,450
2015-2019	964,285	152,427	1,116,712
2020-2021	323,684	11,496	335,180
Total	\$ 2,097,715	<u>471,428</u>	<u>2,569,143</u>
Less current portion	<u>(150,839)</u>		
Total non-current	<u>\$ 1,946,876</u>		

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(7) Long-Term Debt, continued

California Safe Drinking Water Refunding Loan

In 2003, the District refinanced this loan through a refunding payment agreement bearing interest at 4.25% per annum with a maturity on June 1, 2016. The District makes semi-annual payments of \$41,860 including principal and interest on June 1st and December 1st each year.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 63,264	20,457	83,721
2011	65,742	17,979	83,721
2012	68,565	15,156	83,721
2013	71,510	12,211	83,721
2014	74,582	9,140	83,722
2015-2016	<u>158,993</u>	<u>8,531</u>	<u>167,524</u>
Total	\$ 502,656	<u>83,474</u>	<u>586,130</u>
Less current portion	<u>(63,264)</u>		
Total non-current	<u>\$ 439,392</u>		

1998 Certificates of Participation

In 1998, the District issued Certificates of Participation Bonds for the Water System Improvement Project. The obligation of the District is payable from tax revenues and if and to the extent necessary net revenues. In 2005, the District refinanced the Certificates of Participation through a refunding agreement bearing interest at 4.25% per annum with maturity date of June 1, 2019. The District makes semi-annual payments of \$105,059 including principal and interest on June 1st and December 1st each year.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 139,497	70,621	210,118
2011	145,486	64,632	210,118
2012	151,733	58,385	210,118
2013	158,248	51,870	210,118
2014	165,043	45,075	210,118
2015-2019	<u>937,866</u>	<u>112,786</u>	<u>1,050,652</u>
Total	\$ 1,697,873	<u>403,369</u>	<u>2,101,242</u>
Less current portion	<u>(139,497)</u>		
Total non-current	<u>\$ 1,558,376</u>		

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(7) Long-Term Debt, continued

Malosky Creek Loan

In 2007, the District entered into an agreement to purchase land at a fixed rate of 4.75%, maturing on July 18, 2021. The District will make semi-annual payments of \$82,224 including principal and interest on January 18th and July 18th each year.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 46,810	35,956	82,766
2011	96,982	67,465	164,447
2012	101,644	62,803	164,447
2013	106,529	57,918	164,447
2014	111,650	52,798	164,448
2015-2019	644,091	178,145	822,236
2020-2022	383,375	27,743	411,118
Total	\$ 1,491,081	<u>482,828</u>	<u>1,973,909</u>
Less current portion	<u>(46,810)</u>		
Total non-current	\$ <u>1,444,271</u>		

Johnson Building Loan

In 2007, the District entered into an agreement to purchase a building and land to be utilized as the future main office of the District with a fixed rate of 4.65%, maturing on December 15, 2020. The District will make semi-annual payments of \$70,005 including principal and interest on June 15th and December 15th each year.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 82,545	57,465	140,010
2011	87,410	52,600	140,010
2012	91,522	48,488	140,010
2013	95,827	44,183	140,010
2014	100,335	39,675	140,010
2015-2019	577,072	122,979	700,051
2020-2021	200,611	9,400	210,011
Total	\$ 1,235,322	<u>374,790</u>	<u>1,610,112</u>
Less current portion	<u>(82,545)</u>		
Total non-current	\$ <u>1,152,777</u>		

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(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 2.41750%, 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>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 120,486	66,311	186,797
2011	123,418	63,379	186,797
2012	126,419	60,378	186,797
2013	129,492	57,305	186,797
2014	132,643	54,155	186,798
2015-2019	713,203	220,783	933,986
2020-2024	804,253	129,733	933,986
2025-2027	623,324	30,466	653,790
Total	\$ 2,773,238	<u>682,510</u>	<u>3,455,748</u>
Less current portion	<u>(120,486)</u>		
Total non-current	\$ <u>2,652,752</u>		

(8) Net Investment in Capital Assets

Calculation of net assets as of June 30, were as follows:	<u>2009</u>	<u>2008</u>
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 5,392,246	3,508,545
Capital assets – being depreciated, net	21,144,735	16,806,766
Current:		
Long-term debt	(703,441)	(602,985)
Non-current:		
Long-term debt	<u>(9,834,444)</u>	<u>(7,811,110)</u>
Total net investment in capital assets	<u>15,999,096</u>	<u>11,901,216</u>
Restricted net assets:		
Restricted – investments	<u>940,077</u>	<u>1,171,630</u>
Total restricted net assets	<u>940,077</u>	<u>1,171,630</u>
Unrestricted net assets:		
Non-spendable net assets:		
Materials and supplies inventory	258,860	252,204
Deferred charges, net	<u>248,848</u>	<u>274,100</u>
Total non-spendable net assets	<u>507,708</u>	<u>526,304</u>
Spendable net assets are designated as follows:		
Wastewater fund net assets	(238,725)	(233,306)
Capital improvement project reserve	5,000,000	2,500,000
Capital projects reserve	1,250,000	435,497
Equipment replacement reserve	350,000	208,621
Emergency reserve	1,000,000	937,940
Operating reserve	<u>1,581,305</u>	<u>7,946,299</u>
Total spendable net assets	<u>8,942,580</u>	<u>11,795,051</u>
Total unrestricted net assets	<u>9,450,288</u>	<u>12,321,355</u>
Total net assets	\$ <u>26,389,461</u>	<u>25,394,201</u>

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(9) Defined Benefit Pension Plan

Plan Description

The Agency 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 Agency. 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 and is paid by the District. The Agency makes these contributions required of Agency employees on their behalf and for their account. Also, the Agency 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 2009, 2008 and 2007 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For Fiscal years 2009, 2008 and 2007, the Agency'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:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2006-2007	98,186	100%	-	6.733%
2007-2008	105,864	100%	-	7.055%
2008-2009	114,482	100%	-	7.580%

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(10) 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, as 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, 2009, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions and employment practices liability: Total risk financing limits of \$5 million, combined single limit at \$5 million per occurrence, subject to the following deductibles – \$500/\$1,000 per occurrence for third party general liability property damage – 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 up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, deductible of \$500 per claim.

The District maintains workers' compensation coverage and employer's liability coverage in accordance with the statutory requirements of the State of California.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2009, 2008 and 2007. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2009, 2008 and 2007.

(11) Commitments and Contingencies

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.

Supplemental Information

**San Lorenzo Valley Water District
Combining Schedule of Net Assets
For the Year Ended June 30, 2009**

<i>Assets</i>	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 775,598	-	775,598
Investments	8,896,510	4,538	8,901,048
Restricted - investments	940,077	-	940,077
Accrued interest receivable	57,153	-	57,153
Accounts receivable – water sales and services, net	294,246	-	294,246
Accounts receivable – property taxes	29,210	-	29,210
Accounts receivable – other	1,313	-	1,313
Internal balances	239,706	(239,706)	-
Materials and supplies inventory	258,860	-	258,860
Total current assets	<u>11,492,673</u>	<u>(235,168)</u>	<u>11,257,505</u>
Non-current assets:			
Deferred charges, net	248,848	-	248,848
Capital assets – not being depreciated	5,364,033	28,213	5,392,246
Capital assets – being depreciated, net	<u>20,395,562</u>	<u>749,173</u>	<u>21,144,735</u>
Total non-current assets	<u>26,008,443</u>	<u>777,386</u>	<u>26,785,829</u>
Total assets	<u>\$ 37,501,116</u>	<u>542,218</u>	<u>38,043,334</u>
<i>Liabilities and Net Assets</i>			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	\$ 390,730	-	390,730
Accrued wages and related payables	62,086	-	62,086
Customer deposits	48,382	-	48,382
Connection and construction deposits	175,550	-	175,550
Accred interest payable on long-term debt	108,801	-	108,801
Long-term liabilities – due within one year:			
Compensated absences	79,053	3,557	82,610
Long-term debt	<u>703,441</u>	<u>-</u>	<u>703,441</u>
Total current liabilities	<u>1,568,043</u>	<u>3,557</u>	<u>1,571,600</u>
Non-current liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences	247,829	-	247,829
Long-term debt	<u>9,834,444</u>	<u>-</u>	<u>9,834,444</u>
Total non-current liabilities	<u>10,082,273</u>	<u>-</u>	<u>10,082,273</u>
Total liabilities	<u>11,650,316</u>	<u>3,557</u>	<u>11,653,873</u>
Net assets:			
Net investment in capital assets	15,221,710	777,386	15,999,096
Restricted for debt service	940,077	-	940,077
Unrestricted	<u>9,689,013</u>	<u>(238,725)</u>	<u>9,450,288</u>
Total net assets	<u>25,850,800</u>	<u>538,661</u>	<u>26,389,461</u>
Total liabilities and net assets	<u>\$ 37,501,116</u>	<u>542,218</u>	<u>38,043,334</u>

San Lorenzo Valley Water District
Combining Schedule of Net Assets
For the Year Ended June 30, 2008

<i>Assets</i>	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 2,834,060	3,962	2,838,022
Investments	9,562,216	-	9,562,216
Restricted - investments	1,171,630	-	1,171,630
Accrued interest receivable	100,948	-	100,948
Accounts receivable – water sales and services, net	273,126	-	273,126
Accounts receivable – property taxes	25,514	-	25,514
Accounts receivable – other	1,774	-	1,774
Internal balances	234,012	(234,012)	-
Materials and supplies inventory	252,204	-	252,204
Total current assets	<u>14,455,484</u>	<u>(230,050)</u>	<u>14,225,434</u>
Non-current assets:			
Deferred charges, net	274,100	-	274,100
Capital assets – not being depreciated	3,508,545	-	3,508,545
Capital assets – being depreciated, net	<u>15,987,607</u>	<u>819,159</u>	<u>16,806,766</u>
Total non-current assets	<u>19,770,252</u>	<u>819,159</u>	<u>20,589,411</u>
Total assets	<u>\$ 34,225,736</u>	<u>589,109</u>	<u>34,814,845</u>
<i>Liabilities and Net Assets</i>			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	\$ 358,919	405	359,324
Accrued wages and related payables	72,213	-	72,213
Customer deposits	25,047	-	25,047
Connection and construction deposits	183,528	-	183,528
Accred interest payable on long-term debt	78,941	-	78,941
Long-term liabilities – due within one year:			
Compensated absences	69,023	2,851	71,874
Long-term debt	<u>602,985</u>	<u>-</u>	<u>602,985</u>
Total current liabilities	<u>1,390,656</u>	<u>3,256</u>	<u>1,393,912</u>
Non-current liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences	215,622	-	215,622
Long-term debt	<u>7,811,110</u>	<u>-</u>	<u>7,811,110</u>
Total non-current liabilities	<u>8,026,732</u>	<u>-</u>	<u>8,026,732</u>
Total liabilities	<u>9,417,388</u>	<u>3,256</u>	<u>9,420,644</u>
Net assets:			
Net investment in capital assets	11,082,057	819,159	11,901,216
Restricted for debt service	1,171,630	-	1,171,630
Unrestricted	<u>12,554,661</u>	<u>(233,306)</u>	<u>12,321,355</u>
Total net assets	<u>24,808,348</u>	<u>585,853</u>	<u>25,394,201</u>
Total liabilities and net assets	<u>\$ 34,225,736</u>	<u>589,109</u>	<u>34,814,845</u>

San Lorenzo Valley Water District
Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2009

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating revenues:			
Water consumption sales	\$ 3,694,064	-	3,694,064
Wastewater service	-	81,466	81,466
Assessments	127,544	-	127,544
Meter sales	43,764	-	43,764
Charges and penalties	48,810	-	48,810
Other charges and services	8,714	-	8,714
Total operating revenues	<u>3,922,896</u>	<u>81,466</u>	<u>4,004,362</u>
Operating expenses:			
Salaries and benefits	2,539,285	37,245	2,576,530
Professional services	568,320	28,832	597,152
Materials and supplies	154,883	6,555	161,438
Utilities and telephone	424,215	7,240	431,455
Insurance	58,956	558	59,514
LAFCO fees	5,685	-	5,685
Vehicle and equipment maintenance	105,194	893	106,087
Building maintenance	54,648	28	54,676
Repairs	44,873	-	44,873
Collections fees and charges	47,645	-	47,645
Travel, meals and conferences	8,798	-	8,798
Auto allowance	4,200	-	4,200
Office expenses	44,420	565	44,985
Rental and permits	27,401	4,969	32,370
Miscellaneous	59,175	-	59,175
Total operating expenses	<u>4,147,698</u>	<u>86,885</u>	<u>4,234,583</u>
Operating loss before depreciation	(224,802)	(5,419)	(230,221)
Depreciation	(1,203,448)	(41,773)	(1,245,221)
Operating loss	<u>(1,428,250)</u>	<u>(47,192)</u>	<u>(1,475,442)</u>
Non-operating revenue(expense)			
Property taxes	527,421	-	527,421
Interest and investment earnings	603,405	-	603,405
Rental revenue	25,216	-	25,216
Interest expense – long-term debt	(455,204)	-	(455,204)
Amortization expense	(25,252)	-	(25,252)
Gain (loss) on disposition of capital assets	(38,877)	-	(38,877)
Total non-operating revenues, net	<u>636,709</u>	<u>-</u>	<u>636,709</u>
Net loss before capital contributions	<u>(791,541)</u>	<u>(47,192)</u>	<u>(838,733)</u>
Capital contributions:			
Felton purchase	1,833,993	-	1,833,993
Capital contributions	<u>1,833,993</u>	<u>-</u>	<u>1,833,993</u>
Change in net assets	<u>1,042,452</u>	<u>(47,192)</u>	<u>995,260</u>
Net assets, beginning of year	<u>24,808,348</u>	<u>585,853</u>	<u>25,394,201</u>
Net assets, end of year	<u>\$ 25,850,800</u>	<u>538,661</u>	<u>26,389,461</u>

San Lorenzo Valley Water District
Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2008

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating revenues:			
Water consumption sales	\$ 3,188,266	-	3,188,266
Wastewater service	-	47,037	47,037
Assessments	125,322	-	125,322
Meter sales	52,332	-	52,332
Charges and penalties	37,649	-	37,649
Other charges and services	8,991	1	8,992
Total operating revenues	<u>3,412,560</u>	<u>47,038</u>	<u>3,459,598</u>
Operating expenses:			
Salaries and benefits	2,491,553	27,637	2,519,190
Professional services	947,656	27,657	975,313
Materials and supplies	168,010	1,362	169,372
Utilities and telephone	374,183	7,863	382,046
Insurance	51,816	480	52,296
LAFCO fees	4,938	-	4,938
Vehicle and equipment maintenance	96,939	863	97,802
Building maintenance	26,647	-	26,647
Repairs	76,776	-	76,776
Collections fees and charges	1,572	-	1,572
Travel, meals and conferences	8,074	-	8,074
Auto allowance	4,200	-	4,200
Office expenses	43,946	348	44,294
Rental and permits	32,482	4,359	36,841
Miscellaneous	52,866	3,803	56,669
Total operating expenses	<u>4,381,658</u>	<u>74,372</u>	<u>4,456,030</u>
Operating loss before depreciation and amortization	(969,098)	(27,334)	(996,432)
Depreciation and amortization	(880,814)	(41,773)	(922,587)
Operating loss	<u>\$ (1,849,912)</u>	<u>(69,107)</u>	<u>(1,919,019)</u>
Non-operating revenue(expense)			
Property taxes	\$ 505,233	-	505,233
Interest and investment earnings	708,835	-	708,835
Rental revenue	23,186	-	23,186
Interest expense – long-term debt	(406,676)	-	(406,676)
Amortization of deferred charges	(25,252)	-	(25,252)
Legal settlement	1,073,977	-	1,073,977
Gain (loss) on disposition of capital assets	(156,811)	-	(156,811)
Total non-operating revenues, net	<u>1,722,492</u>	<u>-</u>	<u>1,722,492</u>
Net loss before capital contributions	<u>(127,420)</u>	<u>(69,107)</u>	<u>(196,527)</u>
Capital contributions:			
Developers and others	477,570	-	477,570
Capital contributions	<u>477,570</u>	<u>-</u>	<u>477,570</u>
Change in net assets	<u>350,150</u>	<u>(69,107)</u>	<u>281,043</u>
Net assets, beginning of year	<u>24,458,198</u>	<u>654,960</u>	<u>25,113,158</u>
Net assets, end of year	<u>\$ 24,808,348</u>	<u>585,853</u>	<u>25,394,201</u>

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Report on Internal Controls and Compliance



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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 the basic financial statements of the San Lorenzo Valley Water District (District) as of and for the year ended June 30, 2009 and 2008, and have issued our report thereon dated September 30, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

September 30, 2009
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation