

SAN LORENZO VALLEY WATER DISTRICT

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FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

\* \* \*

June 30, 2010 and 2009

## 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 services; 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, 2010

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

James Mueller, District Manager  
San Lorenzo Valley Water District  
13060 Highway 9  
Boulder Creek, California 95006  
(831) 338-2153  
[www.slvwd.com](http://www.slvwd.com)

SAN LORENZO VALLEY WATER DISTRICT

June 30, 2010 and 2009

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Frank A. Minuti, Jr.  
Robert W. Smiley  
Thomas C. Bondi  
David P. Johnson

EMERITUS

Alexander W. Berger (1916-2005)  
Griffith R. Lewis

**BERGER LEWIS**  
A C C O U N T A N C Y C O R P O R A T I O N

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Lawrence S. Kuechler  
Roberto M. Maragoni  
Anthony M. Matusich  
Daniel C. Moors  
Randy G. Peterson  
Todd W. Robinson  
David R. Sheets

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of San Lorenzo Valley Water District as of June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of San Lorenzo Valley Water District's management. Our responsibility is to express an opinion on the financial statements based on our audit. The financial statement of San Lorenzo Valley Water District as of June 30, 2009, were audited by other auditors whose report dated September 30, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Lorenzo Valley Water District as of June 30, 2010, and results of its operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2010, on our consideration of the District's internal control over financial reporting and on our test 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* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis information as listed the table of contents 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 principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on pages 33 through 36 is presented for purposes of supplementary information, and is not a required part of the basic financial statements. Such information for the year ended June 30, 2010 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Berger/Lewis Accountancy Corporation*

BERGER/LEWIS ACCOUNTANCY CORPORATION  
Santa Cruz, California  
November 8, 2010

SAN LORENZO VALLEY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

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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, 2010 and 2009. 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 0.9% or \$226,225 to \$26,615,686 in 2010. In 2009, the District's net assets increased 3.9% or \$995,260 to \$26,389,461.

The District's operating income increased 11.9% or \$476,955 in fiscal year 2010. In 2009, the District's operating income increased 15.7% or \$544,764.

The District's operating expenses increased 0.1% or \$40,986 in 2010. In 2009, the District's operating expenses decreased 5.0% or \$221,447.

**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 provides information about the activities and performance of the District using accounting methods similar to those used by private sector

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 obligation 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

**Financial Analysis of the District**

One of the most important questions 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 the 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.

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 governmental 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 following the financial statements.

**Statement of Net Assets****Condensed Statements of Net Assets**

	2010	2009	Change
<b>Assets:</b>			
Current Assets	\$ 11,463,724	\$ 11,257,505	\$ 206,219
Non-Current Assets	223,597	248,848	(25,251)
Capital Assets, Net	25,825,976	26,536,981	(711,005)
Total Assets	<u>\$ 37,513,297</u>	<u>\$ 38,043,334</u>	<u>\$ (530,037)</u>
<b>Liabilities:</b>			
Current Liabilities	\$ 1,538,132	\$ 1,571,600	\$ (33,468)
Non-Current Liabilities	9,359,479	10,082,273	(722,794)
Total Liabilities	<u>\$ 10,897,611</u>	<u>\$ 11,653,873</u>	<u>\$ (756,262)</u>
<b>Net Assets:</b>			
Net Investment in Capital Assets	\$ 15,991,991	\$ 15,999,096	\$ (7,105)
Restricted for Debt Service	935,665	940,077	(4,412)
Unrestricted	9,688,030	9,450,288	237,742
Total Net Assets	<u>26,615,686</u>	<u>26,389,461</u>	<u>226,225</u>
Total Liabilities and Net Assets	<u>\$ 37,513,297</u>	<u>\$ 38,043,334</u>	<u>\$ (530,037)</u>

SAN LORENZO VALLEY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

**Statement of Net Assets (Continued)**

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 \$26,615,686 and \$26,389,461 as of June 30, 2010 and 2009, respectively.

By far the largest portion of the District's net assets (60% as of June 30, 2010 and 61% as of June 30, 2009, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that are 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 2010 and 2009, the District showed a positive balance in its unrestricted net assets of \$9,688,030 and \$9,450,288, respectively, which may be utilized in future years.

**Statement of Revenues, Expenses and Changes in Net Assets**

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	2010	2009	Change
Revenues:			
Operating Revenues	\$ 4,481,317	\$ 4,004,362	\$ 476,955
Non-Operating Revenues	1,775,049	1,156,042	619,007
Total Revenues	<u>6,256,366</u>	<u>5,160,404</u>	<u>1,095,962</u>
Expenses:			
Operating Expenses	4,275,569	4,234,583	40,986
Depreciation and Amortization	1,379,615	1,245,221	134,394
Non-Operating Expenses	374,957	519,333	(144,376)
Total Expenses	<u>6,030,141</u>	<u>5,999,137</u>	<u>31,004</u>
Net Gain (Loss) Before Capital Contributions	226,225	(838,733)	1,064,958
Capital Contributions	0	1,833,993	(1,833,993)
Changes in Net Assets	226,225	995,260	(769,035)
Net Assets, Beginning of Year	26,389,461	25,394,201	995,260
Net Assets, End of Year	<u>\$ 26,615,686</u>	<u>\$ 26,389,461</u>	<u>\$ 226,225</u>

The statement of revenues, expenses and changes in net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$226,225 and \$995,260 for the fiscal years ended June 30, 2010 and 2009, respectively.

SAN LORENZO VALLEY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

**Statement of Revenues, Expenses and Changes in Net Assets (Continued)**

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

In 2010, the District's total revenues (operating and non-operating) increased by \$1,095,962, primarily due to an increase in operating revenues of \$476,955 due primarily from having a full fiscal year addition of the Felton system customers which were added to the system in early fiscal year 2008-2009, and an increase in non-operating revenue of \$619,007 due primarily from settlements and purchase agreements of \$711,712, the largest part which is the reimbursements from the Bank of the West/Manana Woods Annexation Agreement, which includes reimbursements from July 1, 2006 through June 30, 2010. Total expenses increased by \$31,004, including an increase in depreciation expense of \$134,394 and a decrease in interest expense of \$144,376. In addition capital contributions decreased by \$1,833,993 due to the 2008-2009 contribution of the Felton water system.

In 2009, the District's total revenues decreased by \$610,425, primarily due to an increase in operating revenues of \$544,764 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.

**Capital Asset Administration**

At the end of fiscal year 2010 and 2009, the District's investment in capital assets amounted to \$25,825,976 and \$26,536,981, 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-progress, etc. Major capital assets additions during the year included upgrades to the District's pumping plant, transmission and distribution system, and for the meter upgrade project. The Felton water system addition was recorded in fiscal year 2008-2009. See Note 5 for further capital asset information.

Changes in Capital Asset Amounts for the Year as Follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Transfers/Deletions</u>	<u>Balance 2010</u>
Capital Assets:				
Non-Depreciable Assets	\$ 5,392,246	\$ 153,033		\$ 5,545,279
Depreciable Assets	39,501,480	517,963	\$ (136,233)	39,883,210
Accumulated Depreciation and Amortization	(18,356,745)	(1,378,846)	133,078	(19,602,513)
Total Capital Assets, Net	<u>\$ 26,536,981</u>	<u>\$ (707,850)</u>	<u>\$ (3,155)</u>	<u>\$ 25,825,976</u>
	<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	(13,191,650)	(5,343,153)	178,058	(18,356,745)
Total Capital Assets, Net	<u>\$ 20,315,311</u>	<u>\$ 6,260,547</u>	<u>\$ (38,877)</u>	<u>\$ 26,536,981</u>

SAN LORENZO VALLEY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

**Debt Administration**

Changes in Long-Term Debt Amounts for the Year Ended June 30, 2010 Were As Follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2010</u>
Long-Term Debt				
Lease Payable	\$ 95,000		\$ (20,000)	\$ 75,000
Notes Payable	8,100,012		(464,590)	7,635,422
Bonds Payable	645,000		(80,000)	565,000
Certification of Participation	1,697,873		(139,310)	1,558,563
Total Long-Term Debt	<u>\$ 10,537,885</u>	<u>\$ -</u>	<u>\$ (703,900)</u>	<u>\$ 9,833,985</u>

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
Certification of Participation	1,831,443		(133,570)	1,697,873
Total Long-Term Debt	<u>\$ 8,414,095</u>	<u>\$ 2,832,215</u>	<u>\$ (708,425)</u>	<u>\$ 10,537,885</u>

See Note 6 for further long-term debt service information.

**Conditions Affecting Current Financial Position**

The District continues to incur net operating losses, those losses for the years ended June 30, 2010 and 2009 were offset by non-operating and capital contributions. Continued operating losses may require the District to consider rate increases in order to provide long term funding for needed capital repair, replacement projects or expansion projects.

**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.

SAN LORENZO VALLEY WATER DISTRICT

STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

	ASSETS	
	2010	2009
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents (Note 3)	\$ 829,861	\$ 775,598
Investments (Note 3)	8,472,558	8,901,048
Restricted - Investments (Note 3)	935,665	940,077
Accrued Interest Receivable	54,850	57,153
Accounts Receivable - Water Sales and Services, Net (Note 4)	334,424	294,246
Accounts Receivable - Property Taxes	70,397	29,210
Accounts Receivable - Settlement Agreement (Note 13)	557,712	-
Accounts Receivable - Other	11,501	1,313
Materials and Supplies Inventory	196,756	258,860
Total Current Assets	11,463,724	11,257,505
<b>NON-CURRENT ASSETS:</b>		
Deferred Charges, Net	223,597	248,848
Capital Assets - Not Being Depreciated (Note 5)	5,545,279	5,392,246
Capital Assets - Being Depreciated, Net (Note 5)	20,280,697	21,144,735
Total Non-Current Assets	26,049,573	26,785,829
<b>TOTAL ASSETS</b>	<b>\$ 37,513,297</b>	<b>\$ 38,043,334</b>

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

SAN LORENZO VALLEY WATER DISTRICT

STATEMENTS OF NET ASSETS  
(Continued)

June 30, 2010 and 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES:		
Accounts Payable and Accrued Expenses	\$ 204,866	\$ 390,730
Accrued Wages and Related Payables	91,820	62,086
Customer Deposits	35,630	48,382
Connection and Construction Deposits	232,880	175,550
Accrued Interest Payable on Long-Term Debt	99,768	108,801
Long-Term Liabilities Due Within One Year:		
Compensated Absences (Note 6)	87,978	82,610
Long-Term Debt (Note 6)	785,190	703,441
	<u>1,538,132</u>	<u>1,571,600</u>
NON-CURRENT LIABILITIES:		
Long-Term Liabilities Due In More Than One Year:		
Compensated Absences (Note 6)	266,509	247,829
Long-Term Debt (Note 6)	9,048,795	9,834,444
Net Other Postemployment Benefits Obligation (Note 9)	44,175	-
	<u>9,359,479</u>	<u>10,082,273</u>
Total Non-Current Liabilities	<u>9,359,479</u>	<u>10,082,273</u>
Total Liabilities	<u>10,897,611</u>	<u>11,653,873</u>
NET ASSETS (Note 7):		
Net Investment in Capital Assets	15,991,991	15,999,096
Restricted for Debt Service	935,665	940,077
Unrestricted	9,688,030	9,450,288
	<u>26,615,686</u>	<u>26,389,461</u>
Total Net Assets	<u>26,615,686</u>	<u>26,389,461</u>
	<u>\$ 37,513,297</u>	<u>\$ 38,043,334</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 37,513,297</u>	<u>\$ 38,043,334</u>

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

SAN LORENZO VALLEY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2010 and 2009

	2010	2009
<b>OPERATING REVENUES:</b>		
Water Consumption Sales	\$ 4,093,942	\$ 3,694,064
Wastewater Service	89,519	81,466
Assessments	121,763	127,544
Meter Sales	41,298	43,764
Charges and Penalties	57,114	48,810
Miscellaneous	77,681	8,714
Total Operating Income	4,481,317	4,004,362
<b>OPERATING EXPENSES:</b>		
Salaries and Benefits	2,711,784	2,576,530
Professional Services	491,701	597,152
Materials and Supplies	173,537	161,438
Utilities and Telephone	409,703	431,455
Insurance	46,972	59,514
LAFCO Fees	6,238	5,685
Vehicle and Equipment Maintenance	87,464	106,087
Building Maintenance	30,647	54,676
Repairs	131,713	44,873
Collection Fees and Charges	3,188	47,645
Travel, Meals and Conferences	7,223	8,798
Auto Allowance	4,200	4,200
Office Expenses	57,254	44,985
Rental and Permits	34,469	32,370
Miscellaneous	79,476	59,175
Total Operating Expenses	4,275,569	4,234,583
Operating Income (Loss) Before Depreciation	205,748	(230,221)
Depreciation	(1,379,615)	(1,245,221)
<b>NET OPERATING INCOME (LOSS)</b>	<b>(1,173,867)</b>	<b>(1,475,442)</b>

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

SAN LORENZO VALLEY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
(Continued)

For the Years Ended June 30, 2010 and 2009

	2010	2009
NON-OPERATING REVENUES (EXPENSES):		
Property Taxes	\$ 504,342	\$ 527,421
Interest and Investment Earnings	532,957	603,405
Rental Revenue	26,038	25,216
Interest Expense - Long-Term Debt	(349,705)	(455,204)
Amortization of Deferred Charges	(25,252)	(25,252)
Gain (Loss) on Disposition of Capital Assets	-	(38,877)
Settlement and Purchase Agreements	711,712	-
Total Non-Operating Revenues, Net	<u>1,400,092</u>	<u>636,709</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	226,225	(838,733)
CAPITAL CONTRIBUTIONS:		
Felton Purchase	-	1,833,993
Total Capital Contributions	<u>-</u>	<u>1,833,993</u>
CHANGE IN NET ASSETS	226,225	995,260
NET ASSETS, at Beginning of Year	<u>26,389,461</u>	<u>25,394,201</u>
NET ASSETS, at End of Year	<u>\$ 26,615,686</u>	<u>\$ 26,389,461</u>

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

SAN LORENZO VALLEY WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2010 and 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Receipts From Customers for Water and Wastewater Sales and Services	\$ 4,460,529	\$ 3,983,703
Cash Paid to Vendors and Suppliers for Materials and Services	(1,672,545)	(2,421,638)
Cash Paid to Employees for Salaries and Wages	(2,613,827)	(1,740,022)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>174,157</b>	<b>(177,957)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from Property Taxes	463,155	523,725
Proceeds from Rental Revenue	26,038	25,216
Proceeds from Purchase Agreement	154,000	-
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>643,193</b>	<b>548,941</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and Construction of Capital Assets	(668,611)	(1,666,200)
Acquisition of Felton Systems		(1,173,361)
Principal Paid on Long-Term Debt	(703,900)	(708,425)
Interest Paid on Long-Term Debt	(358,738)	(425,344)
<b>NET CASH FLOWS USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,731,249)</b>	<b>(3,973,330)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Sale of Investments	4,456,203	6,483,000
Purchases of Investments	(4,023,301)	(5,590,278)
Proceeds from Investment Earnings	535,260	647,200
<b>NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>	<b>968,162</b>	<b>1,539,922</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>54,263</b>	<b>(2,062,424)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>775,598</b>	<b>2,838,022</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 829,861</b>	<b>\$ 775,598</b>

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

SAN LORENZO VALLEY WATER DISTRICT

STATEMENTS OF CASH FLOWS  
(Continued)

For the Years Ended June 30, 2010 and 2009

RECONCILIATION OF OPERATING LOSS TO NET CASH USED  
BY OPERATING ACTIVITIES:

Operating Loss	<u>\$ (1,173,867)</u>	<u>\$ (1,475,442)</u>
Adjustments to Reconcile Loss to Net Cash Provided (Used ) by Operating Activities:		
Depreciation	1,379,615	1,245,221
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets -		
Accounts Receivable	(50,366)	(20,659)
Materials and Supplies Inventory	62,104	(6,656)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(185,864)	31,406
Accrued Wages and Related Payables	29,734	(10,127)
Accrued Compensated Absences	24,048	42,943
Net Other Postemployment Benefits Obligation	44,175	-
Other Liabilities	<u>44,578</u>	<u>15,357</u>
Total Adjustments	<u>1,348,024</u>	<u>1,297,485</u>
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 174,157</u>	<u>\$ (177,957)</u>

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

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

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1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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.

Financial Reporting - The District's basic financial statements are presented in conformance with the provisions of Government Accounting Standards Board (GASB) Statements 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 FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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.

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.

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.

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.

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 County Tax Collector's Office 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 FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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 contributions. 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

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

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 rate for all unused vacation leave hours and half of all unused sick leave hours, except for those employees that have not completed the probationary period.

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.

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.

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 FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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.

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 FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

3. CASH AND INVESTMENTS:

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

	2010	2009
Cash and Cash Equivalents	829,861	\$ 775,598
Investments	8,472,558	8,901,048
Restricted - Investments	935,665	940,077
Total Cash and Investments	\$ 10,238,084	\$ 10,616,723

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

	2010	2009
Cash On Hand	\$ 200	\$ 200
Deposits With Financial Institution	464,546	173,533
Investments	9,773,338	10,442,990
Total Cash and Investments	\$ 10,238,084	\$ 10,616,723

**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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
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.

NOTES TO FINANCIAL STATEMENTS  
(Continued)June 30, 2010 and 2009

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## 3. 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 \$478,034 and \$53,505 as of June 30, 2010 and 2009, respectively. Of the bank balances, up to \$250,000 at June 30, 2010 and \$250,000 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 FINANCIAL STATEMENTS

(Continued)

June 30, 2010 and 2009

3. 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 investment to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by

Maturities of investments at June 30, 2010 are as follows:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	61 to 120 Months
U.S. Treasury Bills	-				
Tennessee Valley Authority	\$ 84,461			\$ 84,461	
Federal Farm Credit Bank	-				
Federal Home Loan Mortgage Corp.	1,260,161				\$ 1,260,161
Federal National Mortgage Assn.	1,534,167				1,534,167
Certificates of Deposits	6,401,683	\$ 486,457	\$ 2,076,076	3,088,693	750,457
Local Agency Investment Fund (LAIF)	47,284	47,284			
County of Santa Cruz Pool	31,903	31,903			
Money Market Funds	127,751	127,751			
Held by Bond/Loan Trustee:					
Money Market Funds	285,928	285,928			
Total	<u>\$ 9,773,338</u>	<u>\$ 979,323</u>	<u>\$ 2,076,076</u>	<u>\$ 3,173,154</u>	<u>\$ 3,544,785</u>

Maturities of investments at June 30, 2009 are as follows:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	61 to 120 Months
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 Corp.	1,424,133			785,488	638,645
Federal National Mortgage Assn.	98,719				98,719
Certificates of Deposits	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>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2010 and 2009

3. 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, 2010, were as follows:

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rating As of Year End	
				AAA	Not Rated
U.S. Treasury Bills		N/A			
Tennessee Valley Authority	\$ 84,461	AAA		\$ 84,461	
Federal Farm Credit Bank	-	AAA			
Federal Home Loan Mortgage Corp.	1,260,161	AAA		1,260,161	
Federal National Mortgage Assn.	1,534,167	AAA		1,534,167	
Certificates of Deposits	6,401,683	N/A			\$ 6,401,683
Local Agency Investment Fund (LAIF)	47,284	N/A			47,284
County of Santa Cruz Pool	31,903	N/A			31,903
Money Market Funds	127,751	N/A	\$ 127,751		
Held by Bond/Loan Trustee:					
Money Market Funds	285,928	N/A	285,928		
Total	<u>\$ 9,773,338</u>		<u>\$ 413,679</u>	<u>\$ 2,878,789</u>	<u>\$ 6,480,870</u>

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 Corp.	1,424,133	AAA		1,424,133	
Federal National Mortgage Assn.	98,719	AAA		98,719	
Certificates of Deposits	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	<u>\$ 10,442,990</u>		<u>\$ 1,607,236</u>	<u>\$ 2,307,226</u>	<u>\$ 6,528,528</u>

**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 FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

3. CASH AND INVESTMENTS (Continued):

**Local Agency Investment Fund**

The District is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2010, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities.

Structured Notes - Debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities - Generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2010, the District had \$47,284 invested in LAIF, of which LAIF had invested 10.84% of the pool investment funds in Structured Notes and Asset-Backed Securities. LAIF provided a fair value factor of 1.001643776 to calculate the fair value of the investments in LAIF. However, an adjustment was not made to reflect the fair market value of LAIF, as the fair market value adjustment was considered immaterial.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

4. ACCOUNTS RECEIVABLE - WATER SALES AND SERVICES, NET:

The balance at June 30, consists of the following:

	2010	2009
Accounts Receivable - Water Sales and Services	\$ 339,424	\$ 334,246
Allowance for Uncollectible Accounts	(5,000)	(40,000)
Accounts Receivable - Water Sales, Net	\$ 334,424	\$ 294,246

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2010 and 2009

5 CAPITAL ASSETS, NET:

Capital assets for the year were as follows:

	<u>Balance 2009</u>	<u>Additions/Transfers</u>	<u>Deletions/Transfers</u>	<u>Balance 2010</u>
<b>Non-Depreciable Assets:</b>				
Land	\$ 5,072,763			\$ 5,072,763
Construction-In-Progress	319,483	\$ 153,033		472,516
Total Non-Depreciable Assets	<u>5,392,246</u>	<u>153,033</u>		<u>5,545,279</u>
<b>Depreciable Assets:</b>				
Water Transmission and Distribution System	33,178,928	319,179		33,498,107
Wastewater Systems	1,449,395			1,449,395
Buildings	2,882,500	30,482		2,912,982
Transportation Equipment	739,744	82,805	\$ (98,201)	724,348
Field and Shop Equipment	613,469	64,673		678,142
Office Equipment	637,444	20,824	(38,032)	620,236
Total Depreciable Assets	<u>39,501,480</u>	<u>517,963</u>	<u>(136,233)</u>	<u>39,883,210</u>
Accumulated Depreciation	<u>(18,356,745)</u>	<u>(1,378,846)</u>	<u>133,078</u>	<u>(19,602,513)</u>
Total Depreciable Assets, Net	<u>21,144,735</u>	<u>(860,883)</u>	<u>(3,155)</u>	<u>20,280,697</u>
Total Capital Assets, Net	<u>\$ 26,536,981</u>	<u>\$ (707,850)</u>	<u>\$ (3,155)</u>	<u>\$ 25,825,976</u>
	<u>Balance 2008</u>	<u>Additions/Transfers</u>	<u>Deletions/Transfers</u>	<u>Balance 2009</u>
<b>Non-Depreciable Assets:</b>				
Land	\$ 3,506,290	\$ 1,538,260	\$ 28,213	\$ 5,072,763
Construction-In-Progress	2,255	317,228		319,483
Total Non-Depreciable Assets	<u>3,508,545</u>	<u>1,855,488</u>	<u>28,213</u>	<u>5,392,246</u>
<b>Depreciable Assets:</b>				
Water Transmission and Distribution System	24,074,909	9,166,740	(62,721)	33,178,928
Wastewater Systems	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	<u>29,998,416</u>	<u>9,748,212</u>	<u>(245,148)</u>	<u>39,501,480</u>
Accumulated Depreciation	<u>(13,191,650)</u>	<u>(5,343,153)</u>	<u>178,058</u>	<u>(18,356,745)</u>
Total Depreciable Assets, Net	<u>16,806,766</u>	<u>4,405,059</u>	<u>(67,090)</u>	<u>21,144,735</u>
Total Capital Assets, Net	<u>\$ 20,315,311</u>	<u>\$ 6,260,547</u>	<u>\$ (38,877)</u>	<u>\$ 26,536,981</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2010 and 2009

6. LONG-TERM DEBT:

Changes in long-term debt amounts for the year ended June 30, 2010 were as follows:

	Balance 2009	Additions	Principal Payments	Balance 2010	Current Portion	Long-Term Portion
1999 Refunding Bonds	\$ 645,000		\$ (80,000)	\$ 565,000	\$ 85,000	\$ 480,000
1997 Certificates of Participation, Series EE	95,000		(20,000)	75,000	25,000	50,000
California Safe Drinking Water Loan	2,097,715		(150,839)	1,946,876	156,201	1,790,675
California Safe Drinking Water Refunding Loan	502,656		(62,970)	439,686	65,742	373,944
1998 Certificates of Participation	1,697,873		(139,310)	1,558,563	145,437	1,413,126
Malosky Creek Loan	1,491,081		(46,811)	1,444,270	96,982	1,347,288
Johnson Building Loan	1,235,322		(83,483)	1,151,839	87,410	1,064,429
Felton Purchase Loan	2,773,238		(120,487)	2,652,751	123,418	2,529,333
Total Long-Term Debt	<u>\$ 10,537,885</u>	<u>\$ -</u>	<u>\$ (703,900)</u>	<u>\$ 9,833,985</u>	<u>\$ 785,190</u>	<u>\$ 9,048,795</u>

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

	Balance 2008	Additions	Principal Payments	Balance 2009	Current Portion	Long-Term Portion
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>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2010 and 2009

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6. LONG-TERM DEBT (Continued):

**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.

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

In 1997, the District issued Certifications of Participation for the purpose of purchasing and renovating the District's operations building. The Certifications 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.

**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.

**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.

**1998 Certificates of Participation**

In 1998, the District issued Certifications 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 Certifications of Participation through a refunding agreement bearing interest at 4.25% per annum and 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.

**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 makes semi-annual payments of \$82,224 including principal and interest on January 18th and July 18th each year.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2010 and 2009

6. LONG-TERM DEBT (Continued):

**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 makes semi-annual payments of \$70,005 including principal and interest on June 15th and December 15th each year.

**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 makes semi-annual payments of \$93,399 including principal and interest on July 1st and January 1st each year.

**Future Maturities of Long Term Debt are as follows:**

Fiscal Year	Principal	Interest	Total
2011	\$ 785,190	\$ 363,901	\$ 1,149,091
2012	816,465	331,741	1,148,206
2013	844,174	297,964	1,142,138
2014	857,663	263,856	1,121,519
2015	887,431	228,912	1,116,343
2016-2020	3,954,967	645,348	4,600,315
2021-2025	1,237,416	124,970	1,362,386
2026-2027	450,679	16,441	467,120
	<u>\$ 9,833,985</u>	<u>\$ 2,273,133</u>	<u>\$ 12,107,118</u>

**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:

	2010	2009
Balance, Beginning of Year	\$ 330,439	\$ 287,496
Earned	250,429	242,872
Taken	(226,381)	(199,929)
Balance, End of Year	354,487	330,439
Current Portion	87,978	82,610
Long-Term Portion	<u>\$ 266,509</u>	<u>\$ 247,829</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2010 and 2009

7. NET ASSETS:

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

	<u>2010</u>	<u>2009</u>
Net Investment in Capital Assets:		
Capital Assets - Not Being Depreciated	\$ 5,545,279	\$ 5,392,246
Capital Assets - Being Depreciated, Net	20,280,697	21,144,735
Current:		
Long-Term Debt	(785,190)	(703,441)
Non-Current:		
Long-Term Debt	(9,048,795)	(9,834,444)
Total Net Investment in Capital Assets	<u>15,991,991</u>	<u>15,999,096</u>
Restricted Net Assets:		
Restricted - Investments	<u>935,665</u>	<u>940,077</u>
Total Restricted Net Assets	<u>935,665</u>	<u>940,077</u>
Unrestricted Net Assets:		
Non-Spendable Net Assets:		
Materials and Supplies Inventory	196,756	258,860
Deferred Charges, Net	<u>223,597</u>	<u>248,848</u>
Total Non-Spendable Net Assets	<u>420,353</u>	<u>507,708</u>
Spendable Net Assets are designated as follows:		
Wastewater fund Net Assets	(210,654)	(238,725)
Watershed Property Asset Reserve	6,500,000	5,000,000
Capital Replacement/Improvement Reserve	1,250,000	1,250,000
Equipment Replacement Reserve	350,000	350,000
Emergency Reserve	1,000,000	1,000,000
Operating Reserve	<u>378,331</u>	<u>1,581,305</u>
Total Spendable Net Assets	<u>9,267,677</u>	<u>8,942,580</u>
Total Unrestricted Net Assets	<u>9,688,030</u>	<u>9,450,288</u>
Total Net Assets	<u>\$ 26,615,686</u>	<u>\$ 26,389,461</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS):

*Plan Description* - The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District ordinance.

Copies of PERS' 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 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 District's contribution rate for 2009/2010 was 7.936%. The contribution requirements of plan members and the District are established and may be amended by PERS.

*Annual Pension Cost* - For the fiscal year ended June 30, 2010, the District's annual pension cost of \$136,366 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value).

Three Year Trend Information for PERS:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 105,864	100%	\$ -
June 30, 2009	\$ 114,482	100%	\$ -
June 30, 2010	\$ 136,366	100%	\$ -

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

## 8. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (Continued):

As part of the program to smooth the changes in required employer contributions for smaller plans, PERS placed plans of 100 or fewer members into "Risk Pools". Formation of the risk pools required the establishment of "Side Funds" to account for the differences between the funded status of the risk pool and the funded status of the member districts plan. The "Side Fund" represents unfunded liabilities to be amortized on an annual basis over a closed period.

## FUNDED STATUS OF THE MISCELLANEOUS PLAN RISK POOL

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Asset Value	Unfunded Liability (UL)	Funded Ratio	Annual Covered Payroll	UL as % of Covered Payroll
6/30/2006	\$2,754,396,608	\$2,492,226,176	\$ 262,170,432	90.5%	\$ 699,897,835	37.5%
6/30/2007	\$2,611,746,790	\$2,391,434,447	\$ 220,312,343	91.6%	\$ 665,522,859	33.1%
6/30/2008	\$2,780,280,768	\$2,547,323,278	\$ 232,957,490	91.6%	\$ 688,606,681	33.8%

## 9. OTHER POST EMPLOYMENT BENEFITS:

## Plan Description:

In addition to pension benefits described in Note 8, the District provides postemployment health care benefits to employees. Employees are eligible for post-employment benefits when they retire from the District on or after attaining age 55 with at least 5 years service under PERS. For eligible employees with at least 15 years of service, the District will pay up to \$250 per month of the retired members' health insurance premiums. The most recent OPEB plan was completed April 2010.

## Current Accounting and Funding Policy of the Plan:

The District finances the plan on a "pay-as-you-go" basis. For the years ended June 30, 2010 and 2009, the District paid \$11,789 and \$11,933, respectively, in post-employment health care benefits for the retired employees who are currently eligible for benefits.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued):

Net OPEB Obligation and Annual OPEB

The District's annual other postemployment benefits (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount contributed to the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution (ARC)	\$ 55,964
Interest on Net OPEB Obligation	-
Adjustment to ARC	-
Annual OPEB Cost	<u>55,964</u>
Contributions Made (Payments for Current Retirees)	<u>(11,789)</u>
Increase in OPEB Obligation	44,175
Net OPEB Obligation - Beginning of Year	<u>-</u>
Net OPEB Obligation - End of Year	<u>\$ 44,175</u>

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, 2010 are as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	<u>\$ 55,964</u>	<u>21.1%</u>	<u>\$ 44,175</u>

Funded Status of the District Service Benefit are as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/10	<u>\$ -</u>	<u>\$ 452,179</u>	<u>\$ 452,179</u>	<u>0.0%</u>	<u>\$ 1,908,411</u>	<u>23.694%</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

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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, 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, 2010, the District participated in the liability and property programs of the SDRMA as follows:

General and automotive 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 \$5,000,000 per occurrence, with an annual aggregate of \$5,000,000 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 three years ending June 30, 2010, 2009 and 2008. 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 the end of the last three fiscal years June 30, 2010, 2009 and 2008.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(Continued)

June 30, 2010 and 2009

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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 the financial condition.

12. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA:

Under the provisions of Proposition 1A and as part of the 2009-2010 budget package by the California State Legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue apportioned to cities, counties and special districts. The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California Legislature may consider only one additional borrowing within a ten year period. The amount of this borrowing pertaining to the San Lorenzo Valley Water District was \$42,268. This borrowing was recognized as a receivable and property tax revenue in the accompanying financial statements.

13. THIRD PARTY SETTLEMENT AGREEMENT REIMBURSEMENT:

The District entered a third party settlement agreement with Manana Woods Mutual Water Company for reimbursement of operating and maintenance costs of their water treatment plant. Total reimbursement income for the year ended June 30, 2010 totaled \$711,712 and included reimbursements for the period July 1, 2006 through June 30, 2010. Reimbursements receivable at June 30, 2010 were \$557,712.

SUPPLEMENTARY INFORMATION

## SAN LORENZO VALLEY WATER DISTRICT

## COMBINING STATEMENT OF NET ASSETS

June 30, 2010

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 829,861		\$ 829,861
Investments	8,468,020	\$ 4,538	8,472,558
Restricted - Investments	935,665		935,665
Accrued Interest Receivable	54,850		54,850
Accounts Receivable - Water Sales and Services, Net	334,424		334,424
Accounts Receivable - Property Taxes	70,397		70,397
Accounts Receivable - Settlement Agreement, Net	557,712		557,712
Accounts Receivable - Other	11,501		11,501
Internal Balances	210,938	(210,938)	-
Materials and Supplies Inventory	196,756		196,756
Total Current Assets	<u>11,670,124</u>	<u>(206,400)</u>	<u>11,463,724</u>
NON-CURRENT ASSETS:			
Deferred Charges, Net	223,597		223,597
Capital Assets - Not Being Depreciated	5,517,066	28,213	5,545,279
Capital Assets - Being Depreciated, Net	19,573,296	707,401	20,280,697
Total Non-Current Assets	<u>25,313,959</u>	<u>735,614</u>	<u>26,049,573</u>
Total Assets	<u>\$ 36,984,083</u>	<u>\$ 529,214</u>	<u>\$ 37,513,297</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts Payable and Accrued Expenses	\$ 203,924	\$ 942	\$ 204,866
Accrued Wages and Related Payables	91,820		91,820
Customer Deposits	35,630		35,630
Connection and Construction Deposits	232,880		232,880
Accrued Interest Payable on Long-Term Debt	99,768		99,768
Long-Term Liabilities - Due Within One Year:			0
Compensated Absences	84,666	3,312	87,978
Long-Term Debt	785,190		785,190
Total Current Liabilities	<u>1,533,878</u>	<u>4,254</u>	<u>1,538,132</u>
NON-CURRENT LIABILITIES:			
Long-Term Liabilities - Due in More than One Year:			
Compensated Absences	266,509		266,509
Long-Term Debt	9,048,795		9,048,795
Net Other Postemployment Benefits Obligation	44,175		44,175
Total Non-Current Liabilities	<u>9,359,479</u>		<u>9,359,479</u>
Total Liabilities	<u>10,893,357</u>	<u>4,254</u>	<u>10,897,611</u>
NET ASSETS:			
Net Investments in Capital Assets	15,256,377	735,614	15,991,991
Restricted for Debt Service	935,665		935,665
Unrestricted	9,898,684	(210,654)	9,688,030
Total Net Assets	<u>26,090,726</u>	<u>524,960</u>	<u>26,615,686</u>
Total Liabilities and Net Assets	<u>\$ 36,984,083</u>	<u>\$ 529,214</u>	<u>\$ 37,513,297</u>

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

## SAN LORENZO VALLEY WATER DISTRICT

## COMBINING STATEMENT OF NET ASSETS

June 30, 2009

	ASSETS		Total
	Water Fund	Enterprise Funds Sewer Fund	
<b>CURRENT ASSETS:</b>			
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>
<b>NON-CURRENT ASSETS:</b>			
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	20,395,562	749,173	21,144,735
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>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
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
Accrued 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	703,441		703,441
Total Current Liabilities	<u>1,568,043</u>	<u>3,557</u>	<u>1,571,600</u>
<b>NON-CURRENT LIABILITIES:</b>			
Long-Term Liabilities - Due in More than One Year:			
Compensated Absences	247,829		247,829
Long-Term Debt	9,834,444		9,834,444
Total Non-Current Liabilities	<u>10,082,273</u>		<u>10,082,273</u>
Total Liabilities	<u>11,650,316</u>	<u>3,557</u>	<u>11,653,873</u>
<b>NET ASSETS:</b>			
Net Investments in Capital Assets	15,221,710	777,386	15,999,096
Restricted for Debt Service	940,077		940,077
Unrestricted	9,689,013	(238,725)	9,450,288
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>

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

SAN LORENZO VALLEY WATER DISTRICT

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
<b>OPERATING REVENUES:</b>			
Water Consumption Sales	\$ 4,093,942		\$ 4,093,942
Wastewater Service		\$ 89,519	89,519
Assessments	121,763		121,763
Meter Sales	41,298		41,298
Charges and Penalties	57,114		57,114
Miscellaneous	77,681		77,681
Total Operating Revenues	<u>4,391,798</u>	<u>89,519</u>	<u>4,481,317</u>
<b>OPERATING EXPENSES:</b>			
Salaries and Benefits	2,697,665	14,119	2,711,784
Professional Services	465,376	26,325	491,701
Materials and Supplies	169,904	3,633	173,537
Utilities and Telephone	402,681	7,022	409,703
Insurance	46,972		46,972
LAFCO Fees	6,238		6,238
Vehicle and Equipment Maintenance	86,819	645	87,464
Building Maintenance	30,502	145	30,647
Repairs	131,713		131,713
Collection Fees and Charges	3,188		3,188
Travel, Meals and Conferences	7,223		7,223
Auto Allowance	4,200		4,200
Office Expenses	56,879	375	57,254
Rentals and Permits	29,286	5,183	34,469
Miscellaneous	75,476	4,000	79,476
Total Operating Expenses	<u>4,214,122</u>	<u>61,447</u>	<u>4,275,569</u>
OPERATING INCOME (LOSS) Before Depreciation	177,676	28,072	205,748
Depreciation and Amortization	(1,337,842)	(41,773)	(1,379,615)
OPERATING INCOME (LOSS)	<u>(1,160,166)</u>	<u>(13,701)</u>	<u>(1,173,867)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Property Taxes	504,342		504,342
Interest and Investment Earnings	532,957		532,957
Rental Revenue	26,038		26,038
Interest Expense - Long-Term Debt	(349,705)		(349,705)
Amortization of Deferred Charges	(25,252)		(25,252)
Gain (Loss) on Disposition of Capital Assets			
Settlement and Purchase Agreements	711,712		711,712
Total Non-Operating Revenues, Net	<u>1,400,092</u>	<u>0</u>	<u>1,400,092</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>239,926</u>	<u>(13,701)</u>	<u>226,225</u>
<b>CAPITAL CONTRIBUTIONS:</b>			
Felton Purchase	0	0	0
Capital Contributions	0	0	0
CHANGE IN NET ASSETS	239,926	(13,701)	226,225
NET ASSETS AT BEGINNING OF YEAR	25,850,800	538,661	26,389,461
NET ASSETS AT END OF YEAR	<u>\$ 26,090,726</u>	<u>\$ 524,960</u>	<u>\$ 26,615,686</u>

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

SAN LORENZO VALLEY WATER DISTRICT

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2009

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
<b>OPERATING REVENUES:</b>			
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
Miscellaneous	8,714		8,714
Total Operating Revenues	<u>3,922,896</u>	<u>81,466</u>	<u>4,004,362</u>
<b>OPERATING EXPENSES:</b>			
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
Collection 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
Rentals 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 INCOME (LOSS) Before Depreciation	(224,802)	(5,419)	(230,221)
Depreciation	<u>(1,203,448)</u>	<u>(41,773)</u>	<u>(1,245,221)</u>
OPERATING INCOME (LOSS)	<u>(1,428,250)</u>	<u>(47,192)</u>	<u>(1,475,442)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
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 of Deferred Charges	(25,252)		(25,252)
Gain (Loss) on Disposition of Capital Assets	<u>(38,877)</u>		<u>(38,877)</u>
Total Non-Operating Revenues, Net	<u>636,709</u>		<u>636,709</u>
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(791,541)</u>	<u>(47,192)</u>	<u>(838,733)</u>
<b>CAPITAL CONTRIBUTIONS:</b>			
Felton Purchase	1,833,993		1,833,993
Capital Contributions	<u>1,833,993</u>		<u>1,833,993</u>
CHANGE IN NET ASSETS	1,042,452	(47,192)	995,260
NET ASSETS AT BEGINNING OF YEAR	24,808,348	585,853	25,394,201
NET ASSETS AT END OF YEAR	<u>\$ 25,850,800</u>	<u>\$ 538,661</u>	<u>\$ 26,389,461</u>

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

REPORT ON INTERNAL CONTROL AND COMPLIANCE

Frank A. Minuti, Jr.  
Robert W. Smiley  
Thomas C. Bondi  
David P. Johnson

**EMERITUS**

Alexander W. Berger (1916-2005)  
Griffith R. Lewis

**BERGER LEWIS**  
ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Lawrence S. Kuechler  
Roberto M. Maragoni  
Anthony M. Matusich  
Daniel C. Moors  
Randy G. Peterson  
Todd W. Robinson  
David R. Sheets

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 financial statements of San Lorenzo Valley Water District as of and for the year ended June 30, 2010, and have issued our report thereon dated November 8, 2010. We conducted our audit 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 audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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 audit 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*.

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

*Berger/Lewis Accountancy Corporation*

BERGER/LEWIS ACCOUNTANCY CORPORATION  
Santa Cruz, California  
November 8, 2010