



**BOARD OF DIRECTORS SPECIAL
SAN LORENZO VALLEY WATER DISTRICT
AGENDA
November 28, 2018**

MISSION STATEMENT: Our Mission is to provide our customers and future generations with reliable, safe and high quality water at an equitable price; to create and maintain outstanding service and community relations; 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.

Notice is hereby given that a special meeting of the Board of Directors of the San Lorenzo Valley Water District will be held on **Wednesday, November 28, 2018 at 6:00 p.m.**, 13057 Highway 9, Boulder Creek, California.

In compliance with the requirements of Title II of the American Disabilities Act of 1990, the San Lorenzo Valley Water District requests that any person in need of any type of special equipment, assistance or accommodation(s) in order to communicate at the District's Public Meeting can contact the District Secretary's Office at (831) 430-4636 a minimum of 72 hours prior to the scheduled meeting.

Agenda documents, including materials related to an item on this agenda submitted to the Board of Directors after distribution of the agenda packet, are available for public inspection and may be reviewed at the office of the District Secretary, 13060 Highway 9, Boulder Creek, CA 95006 during normal business hours. Such documents are also available on the District website at www.slvwd.com subject to staff's ability to post the documents before the meeting.

1. Convene Meeting/Roll Call

2. Additions and Deletions:

Additions to the Agenda, if any, may only be made in accordance with California Government Code Section 54954.2 (Ralph M. Brown Act) which includes, but is not limited to, additions for which the need to take action is declared to have arisen after the agenda was posted, as determined by a two-thirds vote of the Board of Directors (or if less than two-thirds of the members are present, a unanimous vote of those members present).

3. Oral Communications:

This portion of the agenda is reserved for Oral Communications by the public for items which are on the Agenda. Any person may address the Board of Directors at this time, on items on the agenda. Normally, presentations must not exceed three (3) minutes in length, and individuals may only speak once during Oral Communications. No actions may be taken by the Board of Directors on any Oral Communications presented; however, the Board of Directors may request that the matter be placed on a future agenda. Please state your name and town/city of residence at the beginning of your statement for the record.

4. New Business:

- a. FISCAL YEAR 2017/18 AUDIT
Discussion and possible action by the Board to adopt the FY 17/18 Audit.
- b. CHANGE THE DATE OF THE DECEMBER 2018 REGULARLY
SCHEDULED BOARD OF DIRECTORS MEETING
Discussion and possible action by the Board to change the date of the
December 2018 BoD meeting from December 20 to December 13. Time
and location will remain the same.

5. Unfinished Business:

- a. AUTHORIZATION FOR THE EXECUTION AND DELIVERY OF
DOCUMENTS RELATING TO A CONVEYANCE AGREEMENT AND
AN INSTALLMENT PURCHASE CONTRACT
Discussion and possible action by the Board regarding Resolution No. 15
(18-19) approving the form of a Conveyance Agreement and Installment
Purchase Agreement and certain actions in connection therewith to issue
debt, including appointment of special counsel.

6. Adjournment

Certification of Posting

I hereby certify that on November 21, 2018 I posted a copy of the foregoing agenda in the outside display case at the District Office, 13060 Highway 9, Boulder Creek, California said time being at least 24 hours in advance of the special Meeting of the Board of Directors of the San Lorenzo Valley Water District (Government Code Section 54954.2).

Executed at Boulder Creek, California on November 21, 2018.

Holly B. Hossack
District Secretary

MEMO

TO: Board of Directors

FROM: Director of Finance

SUBJECT: ANNUAL FINANCIAL REPORT FY2017-2018 (CAFR)

DATE: November 28, 2018

RECOMMENDATION:

It is recommended that the Board of Directors review this memo, receive the presentation, from the firm Fedak & Brown LLP, and approve the SLVWD Financial Statements for Fiscal Year 2017-2018.

BACKGROUND:

The Board is being presented with the District's Comprehensive Annual Financial Report (CARF) for fiscal year 2017-2018. District staff, with the assistance of our auditors, prepared a CAFR in accordance with guidelines established by the Government Finance Officers Association (GFOA). GFOA awards a Certificate of Achievement for Excellence in Financial Reporting Program, of which we were awarded for the prior fiscal year 2016-2017.

The District is required by state law to annually examine its financial records. The firm has conducted an independent audit of the District's financial records for the respective fiscal years. This examination of the District's financial records was conducted in accordance with generally accepted accounting standards and principles. As in previous years, the District received an "unmodified opinion," meaning the financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2018. The Financial Statements are transmitted under separate cover. A representative from the firm will be present to address the Board regarding this matter.

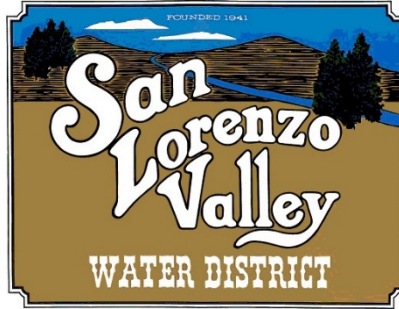
The CAFR furnishes information concerning the District's financial position and activities for the one (1) year period from July 1, 2017 – June 30, 2018 for all funds:

- Net position increased 3% or \$833,509 to \$29,088,944. Net position is made up of three components: net investment in capital assets, restricted net position and unrestricted net position
 - Net investment in capital (net of related debt) increased 3% or \$727,052. There was depreciation expense of \$1,640,273 compared to the investment in current year capital of \$1,395,908.

- Typically you would like to see at least the depreciation amount being reinvested into current year capital. From the 2017 Rate Increase, the District is securing loans to help fund future projects.
 - Restricted net position decreased \$48,815 to \$637,205. Restricted is for contractual restricted amounts such as required by debt covenants and assessment districts.
 - Unrestricted net position increased \$155,272, leaving the deficit balance at \$827,010. As discussed in prior years, there have been certain events that put the District at a deficit. Main contributors to this were interties 2, 3 & 4, in 2016, where once the grant funding ran out, the remaining was paid from our cash. Another factor this year was the GASB 75 accounting pronouncement that required the District to put Other Post-Employment Benefits (OPEB) liabilities on the books. This resulted in a prior year adjustment of \$700K increase to liabilities. Prior to the adjustment, the District had a positive \$1.5M increase to net position..
- Operating revenues increased 24% or \$1.8M to \$9.2M, primarily due to increased water sales revenues related to the 2017 rate increase. As compared to the revised budget, operating revenues were up 7%, or \$0.5M.
- Operating expenses increased 2% or \$500K to \$7.7M. This increase was due to a full year of new hires from fiscal year 2016-2017, as well as planned new hires during fiscal year 2017-2018. As compared to budget, operating expenses were up 2%, or \$175K.
 - In addition to the expected salaries and benefits, there were higher than expected legal expenses, this even exceeded the revised budget request. There will be a more in depth review at the actuals vs. budget review in December.
- Non-operating revenues decreased \$37,023 to \$1,176,221. This is attributed to certain bond revenues decreasing as those bonds have been paid in full.
- Non-operating expenses were about the same as the prior year.
- Net income before capital contributions increased 2,595%, or \$1.1M to \$1.1M. This is a good indicator that the District is moving in the right direction. With continued positive income, we will focus on building reserves back up and funding capital projects.
- Net income after capital contributions increased 3,658%, or \$1.5M to \$1.5M. This was due to receiving \$434K in emergency funds from FEMA for the 2016 storm damage.
- Net position for the end of period increased \$833,509, compared to the \$1.5M mentioned above, this was due to the GASB 75 OPEB entry to bring the liability on our books.

It is important to understand the differences between external and internal financial reports and analysis. Audited financial statements, unlike budgets, have been examined, or "audited," by an external, independent certified public accountant. Extensive tests are performed on account details and balances that are represented on a company's financial statements to ensure their accuracy and reliability, while budgets are reviewed internally by upper management to ensure company goals and targets are reasonable and achievable, and its resources are being allocated in a way that maximizes revenue.

This current process is the audit portion of the fiscal year 2017-2018 results. There will be a more in depth review of how the results compared to the budget at the next Budget & Finance Committee meeting.



San Lorenzo Valley Water District Comprehensive Annual Financial Report Fiscal Year June 30, 2018



Boulder Creek, California



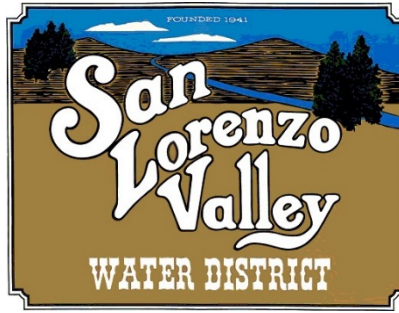
Our Mission

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

San Lorenzo Valley Water District Board of Directors as of June 30, 2018

| <u>Name</u> | <u>Title</u> | <u>Elected/ Appointed</u> | <u>Term Expires</u> |
|------------------|--------------|-------------------------------|-------------------------|
| Charles Baughman | President | Elected | December 2018 |
| Margaret Bruce | Director | Elected | December 2020 |
| John Hayes | Director | Appointed | December 2018 |
| Gene Ratcliffe | Director | Elected | December 2018 |
| Bill Smallman | Director | Elected | December 2020 |

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



San Lorenzo Valley Water District
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2018

Prepared by:

Stephanie Hill, Director of Finance and Business Services

**San Lorenzo Valley Water District
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2018**

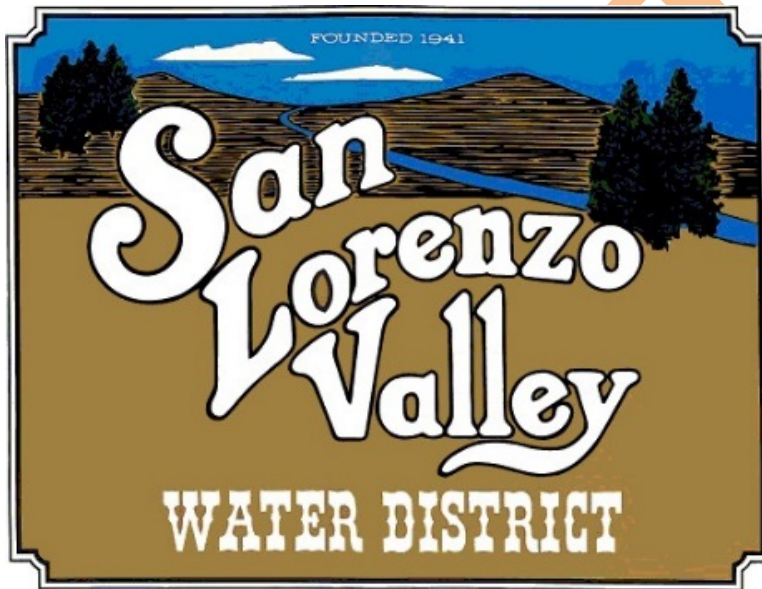
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**San Lorenzo Valley Water District
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2018**

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Introductory Section

DRAFT



November 28, 2018

Board of Directors
San Lorenzo Valley Water District

Introduction

It is our pleasure to submit the Comprehensive Annual Financial Report for the San Lorenzo Valley Water District for the fiscal year ended June 30, 2018, following guidelines set forth by the Governmental Accounting Standards Board (GASB). The purpose of this comprehensive report is to provide the Board of Directors, the public and other interested parties with reliable financial information about the District. This report conforms to the reporting and accounting standards of GASB and the Financial Accounting Standards Board (FASB).

Management assumes full responsibility for the completeness and reliability of the information contained in this report, including all disclosures, based upon a framework of internal controls that was established for this purpose. The District maintains an internal control structure designed to ensure that the assets of the District are protected from loss, theft, or misuse and to ensure adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal control should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

District policy requires that an independent certified public accounting firm, selected by the Board, audit the basic financial statements on an annual basis to ensure they are free of material misstatement. Fedak & Brown LLP has issued an unmodified (or clean) opinion on the District's basic financial statements for the fiscal year ended June 30, 2018. The Independent Auditor's Report is presented as the first component of the financial section of this report.

GAAP requires that management provide an overview, summary and analysis to accompany the basic financial statements. Management's Discussion and Analysis (MD&A) immediately follows the Independent Auditor's Report in the financial section. This letter of transmittal is designed to complement the analysis contained in the MD&A and should be read in conjunction with the financial section of this 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 34 employees. The District's Board of Directors meets regularly, meetings are publicly noticed and citizens are encouraged to attend.

District Structure and Leadership, continued

The District owns, operates, and maintains four water systems that supply separate service areas from separate water sources. The North Service Area includes the unincorporated communities of Boulder Creek, Brookdale, Ben Lomond, Zayante and Lompico. The South Service Area encompasses portions of the City of Scotts Valley and adjacent unincorporated neighborhoods. The Mañana Woods subdivision became part of the South Service Area as a result of the District's annexation of the Mañana Woods Mutual Water Company in July 2006. The Felton Service Area was acquired by the District from California American Water in September 2008 and includes the town of Felton and adjacent unincorporated areas. The Lompico area became part of the North Service Area as a result of the District's annexation of the Lompico County Water District in June 2016.

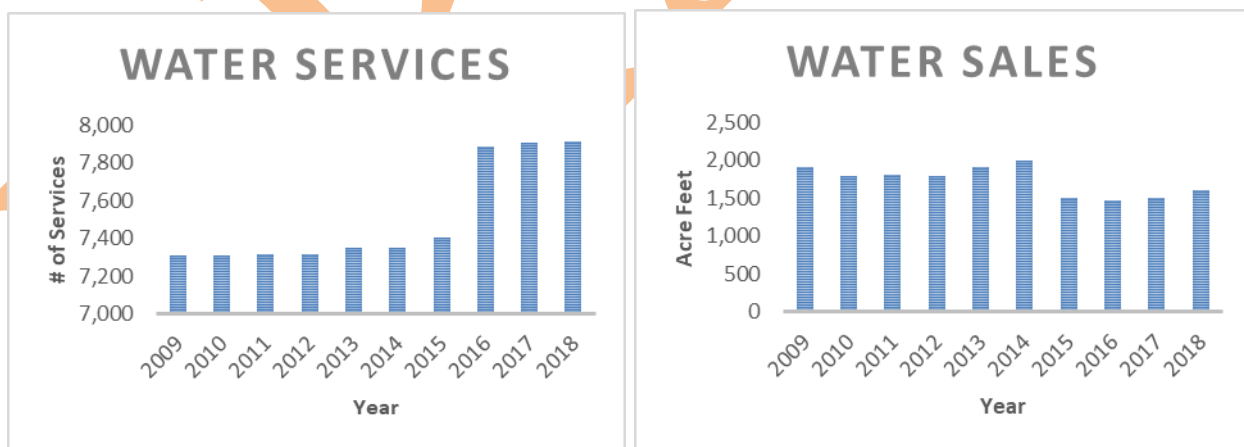
The District owns, operates, and maintains a wastewater system in Boulder Creek's Bear Creek Estates, which serves approximately 56 homes.

The District's boundaries comprise approximately 60 square miles and 170 miles of pipeline. The District currently provides service to approximately 7,900 residential, commercial, and institutional connections. The District relies on both surface water and groundwater resources, including nine currently active stream diversions, one groundwater spring, and eight active groundwater wells. These sources are derived solely from rainfall within the San Lorenzo River watershed.

Economic Condition and Outlook

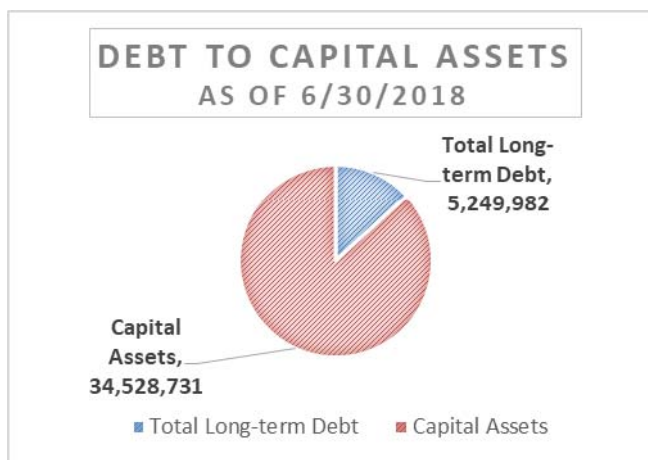
The District's administrative offices are located in the Town of Boulder Creek in Santa Cruz County. The economic outlook for the area is one of cautious growth as the regional economy recovers from prolonged recessionary pressures and drought conditions.

Over the years, the District's service area has changed from rural and vacation cabins to a more urbanized, year-round water-use area. Over 95% of the District's service connections are residential. With forecasted population growth to be minimal and customer drought conservation efforts that have now become routine, the financial impact on recent years is more extreme. In January 2016, a drought recovery fee was implemented for the drought caused revenue shortfall. In 2017, a rate study and 5 year rate increase was implemented, included was eliminating the drought recovery fee.



Debt Administration

The District has bonded indebtedness and additional obligations under multiple agreements. Additional information regarding these can be found in the District's audited financial statements and accompanying notes.



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.

Accounting and Budgetary Structure

The District operates with a fiscal year that begins July 1 and ends on June 30. GAAP requires the use of accrual accounting. The budget is based on the same accrual approach as the District's audited financial statements with some minor differences. Revenues are recognized on the financial statements in the accounting period in which they are earned and expenses are recognized when incurred, even though they may not have been received or paid in cash.

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal 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 may only be amended during the course of the fiscal year by Board action. The Board considers the requests of staff at regularly scheduled meetings and approves or rejects the requests by motion and majority vote. In years where revenue falls significantly short of budget expectations, comprehensive mid-year revisions to the budget may be brought to the Board for approval.

Investment Policy

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

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:

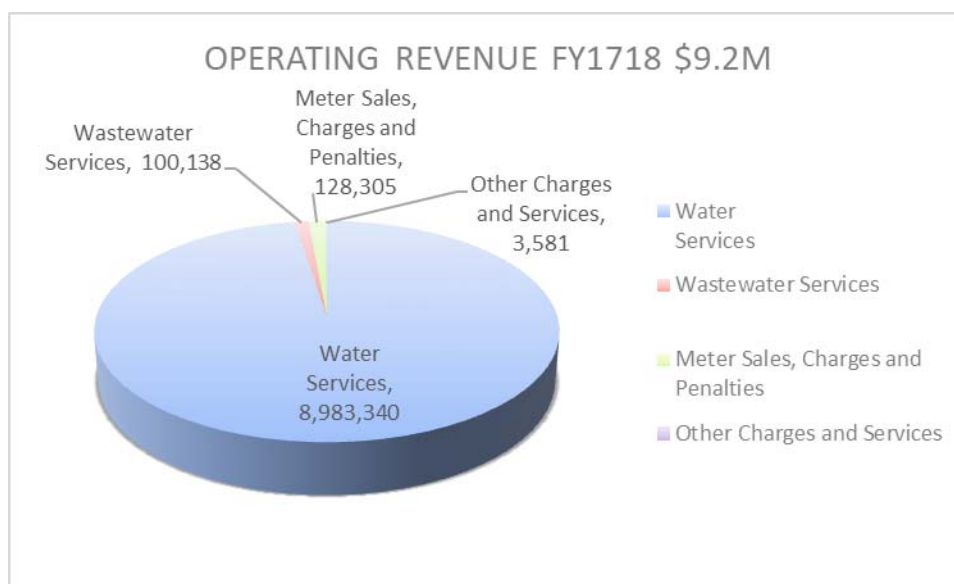
- High efficiency clothes washer credit;
- High efficiency toilet credit (*reinstated FY1617 while State of CA had an active program*);
- Turf replacement credit (*suspended FY1516 while State of CA had an active program*); and
- Weather based irrigation controller credit

Water and Sewer Rates and District Revenues

District policy 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.

Over the last few years, District customers have decreased their water use significantly in response to state-wide drought mandates and District conservation programs. This created a gap between projected revenue and actual revenue. In January 2016, a drought surcharge was implemented to help compensate for this gap, this ended in 2017 when the new rates went into effect. In 2017, the rate study resulted in a 5 year rate increase, with a shift to be more consumption based. Also implemented was a revenue stabilization rate policy, to account for more immediate actions if a major consumption gap occurred again. The 5 year rate increase and revenue stabilization rate policy have proven instrumental in being able to attract more financing options for the District. Most water agencies have high fixed costs, which causes financial problems given the revenue that is directly related to consumption. Having triggers in place, as outlined in the revenue stabilization rate policy, helps secure the financial vitality of the District if events lead to significant consumption changes.

Water and Sewer Rates and District Revenues, continued



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 Fedak & Brown LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Risk Management

The District is a member of the Special District Risk Management Authority (SDRMA). The purpose of SDRMA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The District is also members of the Association of California Water Agencies (ACWA) and California Special District Association (CSDA). Board members and District staff can attend conferences and seminars that specify in risk management and other areas.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting, to the San Lorenzo Valley Water District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This was the first year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and all applicable legal requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the requirements of the GFOA Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

In 2016, the District received the District Transparency Certificate of Excellence by the Special District Leadership Foundation (SDLF) of California in recognition of its outstanding efforts to promote transparency and good governance.

Awards and Acknowledgments, continued

In order to receive the award, a special district must demonstrate the completion of eight essential governance transparency requirements. The requirements include conducting ethics training for all board members, properly conducting open and public meetings, and filing financial transactions and compensation reports to the State Controller in a timely manner.

The San Lorenzo Valley Water District also fulfilled 15 website requirements including providing readily available information to the public such as board agendas, past minutes, current district budget and the most recent financial audit.

Finally, the district had to demonstrate outreach to its constituents that engages the public in its governance through special community engagement projects and community transparency reviews.

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,

Rick Rogers
District Manager

Board of Directors

A five member Board of Directors are elected by the San Lorenzo Valley area to set policy and govern the District. Currently the Board of Directors are:



**Charles Baughman
(President)**



**Margaret Bruce
(Director)**



**Bill Smallman
(Director)**

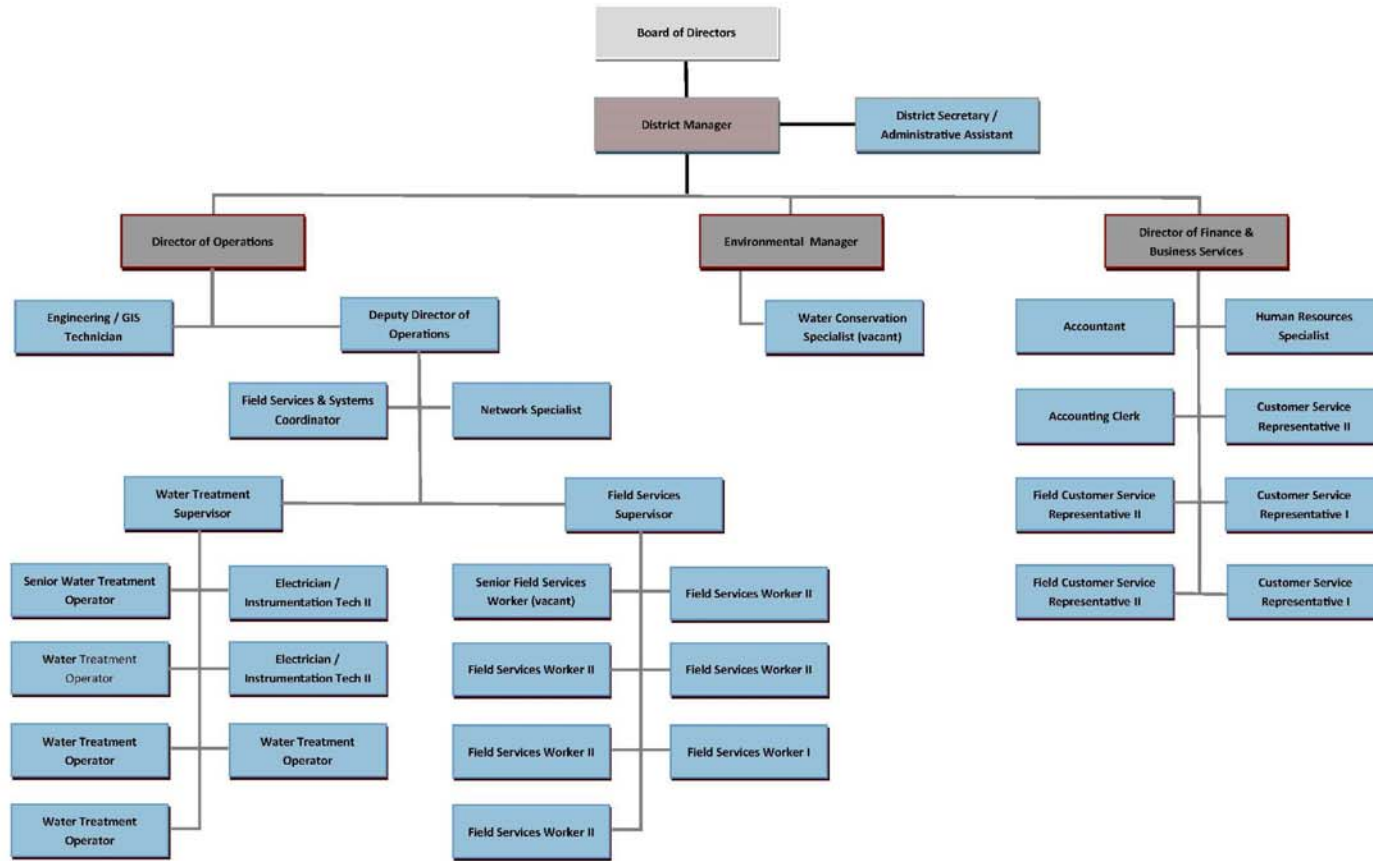


**Gene Ratcliffe
(Director)**



**John Hayes
(Director)**

San Lorenzo Valley Water District Organizational Chart



As of 6/30/2017



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**San Lorenzo Valley Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morill

Executive Director/CEO

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Financial Section

DRAFT

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Lorenzo Valley Water District (District), which comprises the statement of net position as of June 30, 2018, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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; and the State Controller's Minimum Audit Requirements for California Special District. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the 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, 2018, and the respective changes in net position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of a Matter

As discussed in Note 4 to the financial statements, in fiscal year 2018, the District adopted the provisions of GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Consequently, the beginning net OPEB liability was recorded and net position was restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 17 and the required supplementary information on pages 48 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 9, the supplemental information schedules on pages 52 through 54, and the statistical section on pages 55 through 68, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Independent Auditor's Report, continued

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 69 and 70.

Fedak & Brown LLP
Cypress, California
November 28, 2018

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San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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 year ended June 30, 2018 (with comparative information for fiscal year ended June 30, 2017). 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 position increased 2.95% or \$833,509 to \$29,088,944, which is comprised of an increase from operations of \$1,537,619 and a decrease from a prior period adjustment in the amount of \$704,110. Please see Note 4 to the basic financial statements for further discussion.
- Operating revenues increased 23.76% or \$1,769,234 to \$9,215,364.
- Non-operating revenues decreased 3.05% or \$37,023 to \$1,176,221.
- Operating expenses increased 9.09% or \$775,129 to \$9,302,064.
- Non-operating expenses decreased 9.44% or \$15,697 to \$150,507.

Required Financial Statements

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

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

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provide information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

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

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Financial Analysis of the District, continued

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 23 through 47.

Statements of Net Position

Condensed Statements of Net Position

| | 2018 | 2017 | Change |
|---------------------------------------|----------------------|-------------------|----------------|
| Assets: | | | |
| Current assets | \$ 5,130,142 | 3,928,212 | 1,201,930 |
| Non-current assets | 34,528,731 | 34,773,096 | (244,365) |
| Total assets | 39,658,873 | 38,701,308 | 957,565 |
| Deferred outflows of resources | 1,253,820 | 1,007,189 | 246,631 |
| Liabilities: | | | |
| Current liabilities | 1,871,108 | 1,860,333 | 10,775 |
| Non-current liabilities | 9,643,477 | 9,327,625 | 315,852 |
| Total liabilities | 11,514,585 | 11,187,958 | 326,627 |
| Deferred inflows of resources | 309,164 | 265,104 | 44,060 |
| Net position: | | | |
| Net investment in capital assets | 29,278,749 | 28,551,697 | 727,052 |
| Restricted | 637,205 | 686,020 | (48,815) |
| Unrestricted (deficit) | (827,010) | (982,282) | 155,272 |
| Total net position | \$ 29,088,944 | 28,255,435 | 833,509 |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$29,088,944 as of June 30, 2018.

Compared to the prior year, net position of the District increased 2.95% or \$833,509 in fiscal year 2018. The District's total net position is made up of three components: (1) net investment in capital assets; (2) restricted net position; (3) unrestricted net position.

By far the largest portion of the District's net position (101% as of June 30, 2018) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending. See Note 9 for further information.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Statements of Net Position, continued

At the end of fiscal year 2018, the District showed a balance in its unrestricted net position (deficit) of \$(827,010). See Note 9 for the amount of spendable net position that may be utilized in future years.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

| | <u>2018</u> | <u>2017</u> | <u>Change</u> |
|--|----------------------|-------------------|------------------|
| Revenues: | | | |
| Operating revenues | \$ 9,215,364 | 7,446,130 | 1,769,234 |
| Non-operating revenues | <u>1,176,221</u> | <u>1,213,244</u> | <u>(37,023)</u> |
| Total revenues | <u>10,391,585</u> | <u>8,659,374</u> | <u>1,732,211</u> |
| Expenses: | | | |
| Operating expenses | 7,661,791 | 7,109,458 | 552,333 |
| Non-operating expenses | 150,507 | 166,204 | (15,697) |
| Overhead absorption | (163,697) | (74,683) | (238,380) |
| Depreciation | <u>1,640,273</u> | <u>1,417,477</u> | <u>222,796</u> |
| Total expenses | <u>9,288,874</u> | <u>8,618,456</u> | <u>670,418</u> |
| Net income before capital contributions | <u>1,102,711</u> | <u>40,918</u> | <u>1,061,793</u> |
| Capital contributions | <u>434,908</u> | <u>-</u> | <u>434,908</u> |
| Change in net position | <u>1,537,619</u> | <u>40,918</u> | <u>1,496,701</u> |
| Net position, beginning of period, as restated | 28,255,435 | 28,214,517 | 40,918 |
| Prior period adjustment (note 4) | <u>(704,110)</u> | <u>-</u> | <u>(704,110)</u> |
| Net position, beginning of period, as restated | <u>27,551,325</u> | <u>28,214,517</u> | <u>(663,192)</u> |
| Net position – end of period | <u>\$ 29,088,944</u> | <u>28,255,435</u> | <u>833,509</u> |

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

The District's net position increased 2.95% or \$833,509 to \$29,088,944, which is comprised of an increase in operations of \$1,537,619 and a decrease from a prior period adjustment in the amount of \$704,110. Please see Note 4 to the basic financial statements for further discussion.

Total Revenues

The District's total revenues increased \$2,167,119. Operating revenues increase by \$1,769,234, primarily due to an increase in water consumption sales of \$1,825,690, which was offset by decreases in meter sales of \$50,327 and other charges and services of \$4,160. Non-operating revenues decrease by \$37,023, primarily due to a decrease of \$33,304 in property tax/assessment revenues. Capital contributions increase by \$434,908 due to reimbursements from the Federal Emergency Management Agency (FEMA) for damages brought by the storm in fiscal year 2017.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Total Revenues

| | <u>2018</u> | <u>2017</u> | <u>Change</u> |
|------------------------------------|----------------------|------------------|------------------|
| Operating revenues: | | | |
| Water consumption sales | \$ 8,983,340 | 7,157,650 | 1,825,690 |
| Wastewater service | 100,138 | 102,107 | (1,969) |
| Meter sales, charges and penalties | 128,305 | 178,632 | (50,327) |
| Other charges and services | <u>3,581</u> | <u>7,741</u> | <u>(4,160)</u> |
| Total operating revenues | <u>9,215,364</u> | <u>7,446,130</u> | <u>1,769,234</u> |
| Non-operating revenues: | | | |
| Property tax | 747,404 | 771,369 | (23,965) |
| Assessment revenues | 349,130 | 358,469 | (9,339) |
| Realized gain on investments | 23,040 | 13,858 | 9,182 |
| Rental revenue | 56,647 | 59,548 | (2,901) |
| Settlement and purchase agreements | <u>-</u> | <u>10,000</u> | <u>(10,000)</u> |
| Total non-operating revenues | <u>1,176,221</u> | <u>1,213,244</u> | <u>(37,023)</u> |
| Capital contributions: | | | |
| Capital grants - other governments | <u>434,908</u> | <u>-</u> | <u>434,908</u> |
| Total revenues | <u>\$ 10,826,493</u> | <u>8,659,374</u> | <u>2,167,119</u> |

Total Expenses

| | <u>2018</u> | <u>2017</u> | <u>Change</u> |
|--------------------------------|---------------------|------------------|-----------------|
| Operating expenses: | | | |
| Salaries and benefits | \$ 4,840,518 | 4,498,595 | 341,923 |
| Professional services | 1,419,279 | 1,202,004 | 217,275 |
| Operational | 320,876 | 464,236 | (143,360) |
| Maintenance | 143,714 | 130,244 | 13,470 |
| Facilities | 554,547 | 499,400 | 55,147 |
| General and administrative | 382,857 | 314,979 | 67,878 |
| Depreciation | <u>1,640,273</u> | <u>1,417,477</u> | <u>222,796</u> |
| Total operating expenses | <u>9,302,064</u> | <u>8,526,935</u> | <u>775,129</u> |
| Non-operating expenses: | | | |
| Interest expense | <u>150,507</u> | <u>166,204</u> | <u>(15,697)</u> |
| Total non-operating expenses | <u>150,507</u> | <u>166,204</u> | <u>(15,697)</u> |
| Total expenses | <u>\$ 9,452,571</u> | <u>8,693,139</u> | <u>759,432</u> |

The District's total expenses increased \$759,432. The District's operating expenses increased by \$775,129, primarily due to an increase in salaries and benefits of \$341,923 primarily due to full year of new hires, an increase in depreciation expense of \$222,796, and an increase in professional services of \$217,275 primarily due to increases in legal and consulting expenses.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Total Expenses, continued

The District's non-operating expenses decreased \$15,697, primarily due to a decrease in interest expense.

Capital Asset Administration

Change in capital assets amounts for 2018, were as follows:

| | <u>Balance 2017</u> | <u>Additions</u> | <u>Transfers/ Disposals</u> | <u>Balance 2018</u> |
|--------------------------|-------------------------|--------------------|---------------------------------|-------------------------|
| Capital assets: | | | | |
| Non-depreciable assets | \$ 7,024,237 | 1,395,908 | (409,995) | 8,010,150 |
| Depreciable assets | 58,083,813 | 409,995 | - | 58,493,808 |
| Accumulated depreciation | <u>(30,334,954)</u> | <u>(1,640,273)</u> | <u>-</u> | <u>(31,975,227)</u> |
| Total capital assets | <u>\$ 34,773,096</u> | <u>165,630</u> | <u>(409,995)</u> | <u>34,528,731</u> |

At the end of fiscal years 2018, the District's investment in capital assets amounted to \$34,528,731 (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 water transmission and distribution system, field and shop equipment and transportation equipment.

See Note 5 for further capital asset information.

Debt Administration

Changes in long-term debt amounts for the year ended June 30, 2018, were as follows:

| | <u>Balance 2017</u> | <u>Additions</u> | <u>Principal Payments</u> | <u>Balance 2018</u> |
|-----------------------|-------------------------|------------------|-------------------------------|-------------------------|
| Long-term debt: | | | | |
| Notes payable | \$ 3,551,243 | - | (239,608) | 3,311,635 |
| Bonds payable | 2,555,854 | - | (710,031) | 1,845,823 |
| Capital lease payable | <u>114,302</u> | <u>-</u> | <u>(21,778)</u> | <u>92,524</u> |
| Total long-term debt | <u>\$ 6,221,399</u> | <u>-</u> | <u>(971,417)</u> | <u>5,249,982</u> |

The District's long term debt decreased by \$971,417, primarily due to principal payments.

See Note 8 for further long-term debt service information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present and future.

Requests for Information

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

Basic Financial Statements

San Lorenzo Valley Water District
Statement of Net Position
June 30, 2018

| | <u>2018</u> |
|---|---------------------|
| Current assets: | |
| Cash & cash equivalents (note 2) | \$ 694,844 |
| Cash & cash equivalents – restricted (note 2) | 637,205 |
| Investments (note 2) | 2,062,184 |
| Accounts receivable – water sales and services | 1,411,630 |
| Accounts receivable – property taxes | 2,477 |
| Accounts receivable – other | 13,754 |
| Prepaid expenses | 54,052 |
| Materials and supplies inventory | 253,996 |
| Total current assets | <u>5,130,142</u> |
| Non-current assets: | |
| Capital assets – not being depreciated (note 5) | 8,010,150 |
| Capital assets – being depreciated (note 5) | 26,518,581 |
| Total non-current assets | <u>34,528,731</u> |
| Total assets | <u>39,658,873</u> |
| Deferred outflows of resources: | |
| Deferred pension outflows (note 7) | 1,253,820 |
| Total deferred outflows of resources | <u>\$ 1,253,820</u> |

Continued on next page

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statement of Net Position, continued
June 30, 2018

| | <u>2018</u> |
|--|----------------------|
| Current liabilities: | |
| Accounts payable and accrued expense | \$ 384,347 |
| Accrued wages and related payables | 233,296 |
| Unearned revenues – customer deposits | 102,445 |
| Unearned revenues – construction deposits | 15,478 |
| Accrued interest payable | 15,999 |
| Long-term liabilities – due in one year: | |
| Compensated absences (note 3) | 185,103 |
| Loans payable (note 8) | 245,920 |
| Bonds payable (note 8) | 666,015 |
| Capital lease payable (note 8) | <u>22,505</u> |
| Total current liabilities | <u>1,871,108</u> |
| Non-current liabilities: | |
| Long-term liabilities – due in more than one year: | |
| Compensated absences (note 3) | 329,071 |
| Net OPEB liability (note 6) | 1,029,266 |
| Net pension liability (note 7) | 3,969,598 |
| Loans payable (note 8) | 3,065,715 |
| Bonds payable (note 8) | 1,179,808 |
| Capital lease payable (note 8) | <u>70,019</u> |
| Total non-current liabilities | <u>9,643,477</u> |
| Total liabilities | <u>11,514,585</u> |
| Deferred inflows of resources | |
| Deferred pension inflows (note 7) | 276,001 |
| Deferred OPEB inflows (note 6) | <u>33,163</u> |
| Total deferred inflows of resources | <u>309,164</u> |
| Net position: (note 9) | |
| Net investment in capital assets | 29,278,749 |
| Restricted for debt service | 637,205 |
| Unrestricted (deficit) | <u>(827,010)</u> |
| Total net position | <u>\$ 29,088,944</u> |

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

| | <u>2018</u> |
|--|-----------------------------|
| Operating revenues: | |
| Water consumption sales | \$ 8,983,340 |
| Wastewater service | 100,138 |
| Meter sales, charges and penalties | 128,305 |
| Other charges and services | <u>3,581</u> |
| Total operating revenues | <u>9,215,364</u> |
| Operating expenses: | |
| Salaries and benefits | 4,840,518 |
| Professional services | 1,419,279 |
| Operational | 320,876 |
| Maintenance | 143,714 |
| Facilities | 554,547 |
| General and administrative | <u>382,857</u> |
| Total operating expenses | <u>7,661,791</u> |
| Operating income before overhead absorption | 1,553,573 |
| Overhead absorption | <u>163,697</u> |
| Operating income before depreciation expense | 1,717,270 |
| Depreciation expense | <u>(1,640,273)</u> |
| Operating income (loss) | <u>76,997</u> |
| Non-operating revenues (expenses): | |
| Property tax | 747,404 |
| Assessment revenues | 349,130 |
| Realized gain on investments | 23,040 |
| Rental revenue | 56,647 |
| Interest expense | <u>(150,507)</u> |
| Total non-operating revenues, net | <u>1,025,714</u> |
| Net income before capital contributions | <u>1,102,711</u> |
| Capital contributions: | |
| Capital grants – other governments | <u>434,908</u> |
| Total capital contributions | <u>434,908</u> |
| Change in net position | <u>1,537,619</u> |
| Net position, beginning of period, as previously stated | 28,255,435 |
| Prior period adjustment (note 4) | <u>(704,110)</u> |
| Net position, beginning of period, as restated | <u>27,551,325</u> |
| Net position, end of period | <u><u>\$ 29,088,944</u></u> |

See accompanying notes to the basic financial statements

**San Lorenzo Valley Water District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018**

| | <u>2018</u> |
|--|---------------------|
| Cash flows from operating activities: | |
| Cash receipts from customers for sales and services | \$ 8,839,509 |
| Cash paid to employees for salaries and wages | (4,783,658) |
| Cash paid to vendors for materials and services | <u>(2,355,669)</u> |
| Net cash provided by operating activities | <u>1,700,182</u> |
| Cash flows from non-capital financing activities: | |
| Proceeds from property taxes/assessments | 1,096,455 |
| Proceeds from rental revenue | <u>56,647</u> |
| Net cash provided by non-capital financing activities | <u>1,153,102</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (1,395,908) |
| Proceeds from capital contributions | 434,908 |
| Principal paid on long-term debt | (971,417) |
| Interest paid on long-term debt | <u>(156,132)</u> |
| Net cash used in capital and related financing activities: | <u>(2,088,549)</u> |
| Cash flows from investing activities: | |
| Proceeds from sale of investments | (559,069) |
| Proceeds from investment earnings | <u>23,040</u> |
| Net cash used in investing activities | <u>(536,029)</u> |
| Net decrease in cash and cash equivalents | 228,706 |
| Cash and cash equivalents, beginning of year | <u>1,103,343</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,332,049</u> |
| Reconciliation of cash and cash equivalents to statement of net position: | |
| Cash and cash equivalents | \$ 694,844 |
| Cash and cash equivalents – restricted | <u>637,205</u> |
| Total cash and cash equivalents | <u>\$ 1,332,049</u> |

Continued on next page

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statement of Cash Flows, continued
For the Fiscal Year Ended June 30, 2018

| | <u>2018</u> |
|--|----------------------------|
| Reconciliation of operating loss to net cash provided by operating activities: | |
| Operating loss | \$ <u>76,997</u> |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation and amortization | 1,640,273 |
| Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources: | |
| (Increase) decrease in assets and deferred outflows of resources: | |
| Accounts receivable – water sales and services, net | (385,729) |
| Accounts receivable – settlement agreement | 46,392 |
| Accounts receivable – other | (246) |
| Prepaid expenses | (53,892) |
| Materials and supplies inventory | (20,601) |
| Deferred outflows of resources | (275,860) |
| Increase (decrease) in liabilities and deferred inflows of resources: | |
| Accounts payable and accrued expense | 54,744 |
| Accrued wages and related payables | 16,991 |
| Unearned revenues – customer deposits | 47,453 |
| Unearned revenues – construction deposits | (80,144) |
| Compensated absences | 39,869 |
| Net OPEB liability | 91,446 |
| Net pension liability | 458,429 |
| Deferred inflows of resources | <u>44,060</u> |
| Total adjustments | <u>1,623,185</u> |
| Net cash provided by operating activities | \$ <u><u>1,700,182</u></u> |

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The San Lorenzo Valley Water District (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 7,400 customers within its service area.

Lompico County Water District (Lompico) was organized on April 3, 1963. Lompico provides facilities and services in the rural area known as Lompico, California. Lompico utilizes Water fund to account for its operations. Lompico provides water service to approximately 500 customers within its service area.

On June 1, 2016, Lompico was dissolved and annexed with the District. Pursuant to Government Code Section 57200, a certificate is issued by the Executive Officer of the Local Agency Formation Commission (LAFCO) of Santa Cruz County, California to complete the reorganization between Lompico and the District. The reorganization between Lompico and the District was approved by the Local Agency Formation Commission (LAFCO) on August 6, 2014, under LAFCO Resolution No. 953-A. Please see note 11 for a detailed discussion of the transfer of operations between Lompico and the District.

The criteria used in determining the transfer of operations is based on the provisions of Governmental Accounting Statements No. 69 (GASB 69), *Government Combinations and Disposals of Government Operations*. The effective transfer date of operations is June 1, 2016, which is the date the District obtains control of the assets and deferred outflows of resources and becomes obligated for the liabilities and deferred inflows of resources of Lompico's operation transferred. The District should recognize the carrying values of assets, deferred outflows of resources, liabilities and deferred inflows of resources of the operations of Lompico as of June 1, 2016. The net position received or assumed by the District should be reported as a special item in the statement of revenues, expenditures and changes in fund balances in the period in which the transfer occurs.

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 preformed every month. The District accrues revenues with respect to water and sewer service sold, but not billed, at the end of a fiscal period.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

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

The District has adopted the following GASB pronouncements in the current year:

Government Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

Government Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Government Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

Government Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

The District has adopted an investment policy directing the Finance Manager to deposit and invest funds in financial institutions in accordance with California Government Code section 53600. The investment policy applies to all financial assets and investment activities of the District.

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. Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Accounts Receivable and Allowance for Uncollectible Accounts

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

6. 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.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

6. Property Taxes and Assessments, continued

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

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

7. Materials and Supplies Inventory

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

8. 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.

9. 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.

10. Capital Assets

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

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

11. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

12. Compensated Absences

The District's policy is to permit employees to accumulate earned paid time off. 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 paid time off except for those employees that have not completed the probationary period.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

13. 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.

14. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

15. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For fiscal year 2017, the following timeframes are used:

- Valuation Date: June 30, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

16. Water and Sewer Sales

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

17. Capital Contributions

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

18. Budgetary Policies

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

19. Net Position

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

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

- **Restricted Net position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

(2) Cash and Investments

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

| | <u>2018</u> |
|--|---------------------|
| Cash and cash equivalents | \$ 694,844 |
| Cash and cash equivalents – restricted | 637,205 |
| Investments – current | <u>2,062,184</u> |
| Total cash and investments | <u>\$ 3,394,233</u> |

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

| | <u>2018</u> |
|--------------------------------------|---------------------|
| Cash on hand | \$ 350 |
| Deposits with financial institutions | 691,069 |
| Investments | <u>2,702,814</u> |
| Total cash and investments | <u>\$ 3,394,233</u> |

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

| | <u>2018</u> |
|--|--------------------|
| Deposits held with the California Local Agency Investment Fund | 193 days |
| Deposits held with the County of Santa Cruz Investment Fund | 320 days |

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

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

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(2) Cash and Investments, continued

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

Portfolio Diversification

Pursuant to California Government Code Section 53601 (i), certificates of deposit invested outside of an authorized pool shall not exceed thirty percent (30%) of the District's total investment portfolio. At June 30, 2018, the District does not have certificates of deposits in its investment portfolio.

Custodial Credit Risk

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Interest Rate Risk

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

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(2) Cash and Investments, continued

Interest Rate Risk, continued

Maturities of investments at June 30, 2018, are as follows:

| <u>Investment Type</u> | <u>Total</u> | <u>Remaining Maturity (12 Months or Less)</u> |
|--------------------------------------|---------------------|---|
| Local Agency Investment Fund | \$ 3,424 | 3,424 |
| County of Santa Cruz Investment Fund | 2,472,511 | 2,472,511 |
| Held by bond trustee: | | |
| Money market funds | 226,879 | 226,879 |
| Total | <u>\$ 2,702,814</u> | <u>2,702,814</u> |

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments at June 30, 2018.

Credit Risk

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

Credit ratings of investments as of June 30, 2018, were as follows:

| <u>Investment Type</u> | <u>Total</u> | <u>Minimum Legal Rating</u> | <u>Exempt From Disclosure</u> | <u>Rating At Year End Not Rated)</u> |
|--------------------------------------|---------------------|-------------------------------------|---------------------------------------|--|
| Local Agency Investment Fund | \$ 3,424 | N/A | - | 3,424 |
| County of Santa Cruz Investment Fund | 2,472,511 | N/A | - | 2,472,511 |
| Held by bond trustee: | | | | |
| Money market funds | 226,879 | AAA | 226,879 | - |
| Total | <u>\$ 2,702,814</u> | | <u>226,879</u> | <u>2,475,935</u> |

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 Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(2) Cash and Investments, continued

Investment in State Investment Pool, continued

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Investment in County of Santa Cruz Investment Pool

The District is a voluntary participant in the County of Santa Cruz Investment Fund (Fund) that is established and controlled by the Treasury-Tax Department of the County Santa Cruz to afford smaller agencies the benefits of a larger investment portfolio, including higher interest rates and greater diversification. Authority for the County of Santa Cruz Investment Fund is delegated to the County of Santa Cruz Treasurer. The fair value of the District's investment in this fund is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the Fund for the entire Fund portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Fund, which are stated at cost in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools".

The District's deposit and withdrawal restrictions and limitations are as follows:

- Notice must be submitted to the County at least one day prior to actual fund transfer or withdrawal.
- Transactions amounting to \$1,000,000 must be provided with a 2 day notice.
- All requests must be in writing. Verbal transactions are not permitted.

(3) Compensated Absences

Compensated absences comprise of unpaid time off which is accrued as earned. The District's liability for compensated absences is determined annually. Compensated absences turn-over each year, therefore the compensated absence balance of the District is recorded as a liability on the Statement of Net Position, and will be liquidated through the water fund.

Changes in compensated absences for the year ended June 30, 2018, are as follows:

| Balance 2017 | Additions | Deletions | Balance 2018 | Due within One Year | Due in more than one year |
|-------------------------|------------------|------------------|-------------------------|--------------------------------|--------------------------------------|
| \$ 474,305 | 387,159 | (347,290) | 514,174 | 185,103 | 329,071 |

(4) Prior Period Adjustment

In fiscal year 2018, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75. As a result, the District recognized the net OPEB liability and removed the net OPEB obligation associated with GASB 45 as of June 30, 2017. Previously recorded net position of \$20,133,127 has been restated to \$21,038,150 as of June 30, 2017. In addition, the effect of the implementation of GASB 75 is recorded as an adjustment to the beginning net position at July 1, 2017.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(4) Prior Period Adjustment, continued

The effect of the changes is summarized as follows:

| | |
|---|----------------------|
| Net position at June 30, 2017, as previously stated | \$ 28,255,435 |
| Net OPEB Liability - GASB 75 Implementation: | |
| Effect of adjustment to record net OPEB liability | \$ (996,278) |
| Effect of adjustment to remove net OPEB liability associated with GASB 45 | 262,939 |
| Effect of adjustment to record deferred OPEB outflows | <u>29,229</u> |
| Total adjustment to net position | <u>(704,110)</u> |
| Net position at July 1, 2017, as restated | <u>\$ 27,551,325</u> |

(5) Capital Assets

Changes in capital assets for 2018, were as follows:

| | <u>Balance 2017</u> | <u>Additions/ Transfers</u> | <u>Deletions/ Transfers</u> | <u>Balance 2018</u> |
|-------------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 5,107,583 | - | - | 5,107,583 |
| Construction-in process | <u>1,916,654</u> | <u>1,395,908</u> | <u>(409,995)</u> | <u>2,902,567</u> |
| Total non-depreciable assets | <u>7,024,237</u> | <u>1,395,908</u> | <u>(409,995)</u> | <u>8,010,150</u> |
| Depreciable assets: | | | | |
| Water transmission and distribution | 50,723,488 | 325,102 | - | 51,048,590 |
| Wastewater system | 1,447,521 | - | - | 1,447,521 |
| Buildings and structures | 2,943,834 | - | - | 2,943,834 |
| Transportation equipment | 1,029,001 | 29,358 | - | 1,058,359 |
| Field and shop equipment | 1,208,283 | 55,535 | - | 1,263,818 |
| Office equipment | <u>731,686</u> | <u>-</u> | <u>-</u> | <u>731,686</u> |
| Total depreciable assets | <u>58,083,813</u> | <u>409,995</u> | <u>-</u> | <u>58,493,808</u> |
| Accumulated depreciation: | | | | |
| Water transmission and distribution | (25,797,671) | (1,287,112) | - | (27,084,783) |
| Wastewater system | (1,030,790) | (42,356) | - | (1,073,146) |
| Buildings and structures | (1,428,365) | (109,420) | - | (1,537,785) |
| Transportation equipment | (813,697) | (65,555) | - | (879,252) |
| Field and shop equipment | (735,984) | (80,718) | - | (816,702) |
| Office equipment | <u>(528,447)</u> | <u>(55,112)</u> | <u>-</u> | <u>(583,559)</u> |
| Total accumulated depreciation | <u>(30,334,954)</u> | <u>(1,640,273)</u> | <u>-</u> | <u>(31,975,227)</u> |
| Total depreciable assets, net | <u>27,748,859</u> | <u>(1,230,278)</u> | <u>-</u> | <u>26,518,581</u> |
| Total capital assets, net | <u>\$ 34,773,096</u> | <u>165,630</u> | <u>(409,995)</u> | <u>34,528,731</u> |

In fiscal year 2018, major capital assets additions include upgrades as follows: water transmission and distribution systems \$325,102, transportation equipment \$29,358, and transportation equipment \$55,535.

In fiscal year 2018, the total depreciation expense of \$1,640,273 was charged to the District's water and sewer funds in the amount of \$1,597,917 and \$42,356, respectively.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(5) Capital Assets, continued

Construction-In-Process

The District has been involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. The projects that comprise the construction-in-process balances at June 30, 2018 are as follows:

| | <u>2018</u> |
|---|---------------------|
| Admin Campus | \$ 1,015,535 |
| Probation Tank | 379,231 |
| Fish Ladder | 359,784 |
| Felton Meter Change Out Project | 219,863 |
| USDA Project | 118,442 |
| Lyon Water Treatment Plant Access Road Repair | 107,382 |
| Combine Springs Raw Water Line | 95,289 |
| Paso Well Rehabilitation | 88,548 |
| Swim Tank | 86,440 |
| Bear Creek Wastewater | 62,472 |
| Fall Creek Intake | 62,354 |
| District Two Way Radio System | 59,626 |
| Highway 8/Western Ave 6" Main Repair | 57,938 |
| Blue Tank Replacemnt Project | 50,648 |
| Various individual projects under \$50,000 | <u>139,015</u> |
| Construction-in-process | <u>\$ 2,902,567</u> |

(6) Other Post-Employment Benefits

Plan Description

The District's defined benefit Other Post-Employment Benefit (OPEB) Plan (Plan) provides OPEB for all permanent and vested full-time employees. The Plan is a single-employer defined benefit OPEB plan administered by the District. The District's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. The District sponsors healthcare coverage through the CalPERS Medical and Health Program, under the California Public Employees Medical and Hospital Care Act (PEMCHA), commonly referred to as PERS Health. PEMCHA provides health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options. The District has set aside funds to cover retiree health liabilities in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The District provides a capped benefit, which varies based on years of service and employee classification. Classified employees who retire directly from the District are eligible to receive a monthly benefit up to \$325, if having over 25 years District service. Classified employees with 15-24 years of service receive a monthly benefit up to \$275. Classified employees with fewer than 15 years of service receive a monthly benefit up to \$225. Management employees who retire directly from the District are eligible to receive a monthly benefit up to \$275, if having over 25 years of District service. Management employees with 15-24 years of service receive a monthly benefit up to \$175. Current retirees are subject to caps ranging from \$150/month to \$275/month. One retiree receives the full premium. The District also pays the PEMCHA administrative fee (0.23% for 2018/19).

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(6) Other Post-Employment Benefits, continued

Employee Covered By Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

| | <u>2018</u> |
|---|-------------|
| Participating active employees | 33 |
| Inactive employees or beneficiaries currently receiving benefit payments | <u>5</u> |
| Total plan membership | <u>38</u> |

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District's Board of Directors. The Board establishes rates based on an actuarially determined rate. For the year ended June 30, 2018, the District's "pay as you go" cost of providing retiree health benefits amounted to \$17,853. The "pay as you go" cost is the cost of benefits for current retirees.

Discount Rate

The discount rate to measure the total OPEB liability was 3.62%, which is based on the yield or index rate for a 20 year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.

Deferred OPEB Inflows of Resources

For the fiscal years ended June 30, 2018, the District recognized OPEB expense of \$95,377.

At June 30, 2018, the District reported deferred inflows of resources related to OPEB from the following source:

| <u>Description</u> | <u>Deferred Outflows of Resources</u> |
|------------------------|---|
| Changes in assumptions | \$ (33,163) |
| Total | <u>\$ (33,163)</u> |

Amounts reported as deferred inflows of resources related to OPEB as of June 30, 2018, will be recognized as OPEB expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Deferred Outflows of Resources</u> |
|---|---|
| 2019 | (4,671) |
| 2020 | (4,671) |
| 2021 | (4,671) |
| 2022 | (4,671) |
| 2023 | (4,671) |
| Thereafter | (9,808) |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(6) Other Post-Employment Benefits, continued

Actuarial Methods and Assumptions

The Net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|---|
| Valuation Date | July 1, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial cost method | Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75 |
| Salary increases | 3% per annum, in aggregate |
| Age-adjustment factor | 3% |
| Mortality | Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate without projection. |
| Service requirement | Per the service schedule contained in California Government Code Section 22893. |
| Discount rate | 3.62% per year net of expenses; the discount rate is based on the yield or index rate for a 20 year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher since assumed long-term return on plan on OPEB plan investments is not met. |
| Healthcare cost trend rates | 6% for 2017; 5% for 2018 and later years. |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

As of June 30, 2018, the following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

| | Discount Rate - 1% 2.62% | Current Discount Rate 3.62% | Discount Rate + 1% 4.62% |
|--------------------|---|--|---|
| Net OPEB Liability | \$ 1,108,833 | 1,029,266 | 958,442 |

The components of the net OPEB liability were as follows:

| | Cash Subsidy | Implied Subsidy | Total |
|-----------------------------|-------------------------|----------------------------|--------------|
| Total OPEB Liability | \$ 616,452 | 412,814 | 1,029,266 |
| Plan Fiduciary Net Position | - | - | - |
| Net OPEB Liability | \$ 616,452 | 412,814 | 1,029,266 |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(6) Other Post-Employment Benefits, continued

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

As of June 30, 2018, the following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current | 1% Increase |
|--------------------|--|--|--|
| | Healthcare Cost Trend Rates (5% decreasing to 4%) | Healthcare Cost Trend Rates (6% decreasing to 5%) | Healthcare Cost Trend Rates (7% decreasing to 6%) |
| Net OPEB Liability | \$ <u>936,550</u> | <u>1,029,266</u> | <u>1,138,738</u> |

Changes in the Net OPEB Liability

Changes in the net OPEB liability for the year were as follows:

| | Increase (Decrease) | | |
|--------------------------|----------------------------|---------------------|--------------------------|
| | | Plan | |
| | Total OPEB | Fiduciary | Net OPEB |
| | Liability (a) | Net Position | Liability/(Asset) |
| | | (b) | (c) = (a) - (b) |
| Balance at July 1, 2017 | \$ 996,281 | - | 996,281 |
| Changes during the year: | | | |
| Service cost | 69,318 | - | 69,318 |
| Interest | 30,730 | - | 30,730 |
| Changes in assumptions | (37,834) | - | (37,834) |
| Contributions - employer | - | 29,229 | (29,229) |
| Benefit payments | (29,229) | (29,229) | - |
| Net changes | 32,985 | - | 32,985 |
| Balance at June 30, 2018 | \$ <u>1,029,266</u> | <u>-</u> | <u>1,029,266</u> |

(7) Defined Benefit Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(7) Defined Benefit Pension Plan, continued

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect at June 30, 2018, are summarized as follows:

| | Miscellaneous Pool | |
|---|---------------------------|---------------------------|
| | Classic | PEPRA |
| Hire date | Prior to January 1, | On or after January 1, |
| Benefit formula | 2.5% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years of service | |
| Benefit payments | Monthly for life | |
| Retirement age | 50 - 55 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5% | 1.0% to 2.5% |
| Required employee contribution rates | 7.00% | 6.25% |
| Required employer contribution rates | 8.418% | 6.55% |

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal year ended June 30, 2018, the contributions recognized as part of pension expense for the Plan was as follows:

| | 2018 |
|--------------------------|-------------------|
| Contributions – employer | \$ <u>522,774</u> |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(7) Defined Benefit Pension Plan, continued

Net Pension Liability

As of June 30, 2018, the District reported net pension liabilities for the proportionate share of the net pension liability of the Plan as follows:

| | <u>2018</u> |
|---|------------------|
| Proportionate share of net pension liability \$ | <u>3,969,598</u> |

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017 (the measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 (the valuation date), rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the pension liability for the Plan as of the measurement date June 30, 2017 was as follows:

| | <u>Miscellaneous</u> |
|----------------------------|----------------------|
| Proportion – June 30, 2015 | 0.03675% |
| Decrease in proportion | <u>0.00383%</u> |
| Proportion – June 30, 2016 | 0.04058% |
| Increase in proportion | <u>-0.00055%</u> |
| Proportion – June 30, 2017 | <u>0.04003%</u> |

Deferred Pension Outflows (Inflows) of Resources

As June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>2018</u> | |
|--|---|--|
| <u>Description</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Pension contributions subsequent to measurement date | \$ 427,195 | - |
| Differences between actual and expected experience | - | (77,212) |
| Differences in actual contribution and proportionate share of contribution | - | (70,978) |
| Changes in assumptions | 664,048 | - |
| Net differences between projected and actual earnings on plan investments | 162,577 | - |
| Adjustment due to differences in proportions of net pension liability | <u>-</u> | <u>(127,811)</u> |
| Total | <u>\$ 1,253,820</u> | <u>(276,001)</u> |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(7) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

For the fiscal year ended June 30, 2018, the District recognized pension expense of \$222,695.

As of June 30, 2018, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to measurement date of \$427,195 will be recognized as a reduction of the net pension liability for the fiscal year ended June 30, 2019.

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, which will be recognized as pension expense as follows:

| Fiscal Year Ending June 30: | Deferred Outflows/ (Inflows) of Resources |
|--|--|
| 2019 | \$ (68,328) |
| 2020 | (57,533) |
| 2021 | 225,185 |
| 2022 | 119,987 |

Actuarial Assumptions

The total pension liabilities were determined by actuarial valuations as of June 30, 2016, which were rolled forward to June 30, 2017, using the following actuarial assumptions:

| | |
|--|--|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial cost method | Entry Age Normal in accordance with the requirements of GASB Statement No. 68 |
| Actuarial assumptions: | |
| Discount rate | 7.15% |
| Inflation | 2.75% |
| Salary increases | Varies by Entry Age and Service |
| Mortality Rate Table* | Derived using CalPERS Membership Data for all Funds |
| Period Upon Which Actuarial Experience Survey Assumptions Were Based | 1997-2011 |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter. |

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(7) Defined Benefit Pension Plan, continued

Discount Rate

The discount rates used in the actuarial valuations to measure the total pension liability as of June 30, 2017, reflect the long-term expected rates of return. The discount rates used to measure the total pension liability as of June 30, 2017, was 7.15%. These differ from the discount rates used as of June 30, 2016, which was 7.65%, due to a decrease in the long-term expected rate of return. The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period. To determine whether the municipal bond rate should be used in the calculation of the discount rate, the amortization and smoothing periods adopted by CalPERS in 2013 were used. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The tables below reflect the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

As of June 30, 2018, the target allocation and the long-term expected real rate of return by asset class were as follows:

| Asset Class | New Strategic Allocation | Real Return Years 1-10* | Real Return Year 11+** |
|-------------------------------|---|------------------------------------|-----------------------------------|
| Global Equity | 51.0% | 5.25% | 5.71% |
| Global Fixed Income | 20.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 1.0% | -0.55% | -1.05% |
| Total | 100.0% | | |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(7) Defined Benefit Pension Plan, continued

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

As of June 30, 2018, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

| | Discount Rate - 1% 6.15% | Current Discount Rate 7.15% | Discount Rate + 1% 8.15% |
|----------------------------------|---|--|---|
| District's Net Pension Liability | \$ 6,339,173 | 3,969,598 | 2,007,073 |

Payable to the Pension Plan

At June 30, 2018, the District reported no payables for the outstanding amount of contribution to the pension plan.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 50 through 51 for the Required Supplementary Schedules.

(8) Long-Term Debt

Changes in long-term debt for the year ended June 30, 2018, are as follows:

| | Balance 2017 | Transfer/ Additions | Transfer/ Payments | Balance 2018 |
|---|-------------------------|--------------------------------|-------------------------------|-------------------------|
| Loans payable: | | | | |
| Felton Safe Drinking Water Loan | \$ 1,650,440 | - | (147,776) | 1,502,664 |
| State of California Revolving Fund Loan | 1,590,784 | - | (63,756) | 1,527,028 |
| Government Obligation Contract | 310,019 | - | (28,076) | 281,943 |
| Total loans payable | 3,551,243 | - | (239,608) | 3,311,635 |
| Bonds payable | | | | |
| Bank of Nevada Refunding Bonds | 2,494,854 | - | (649,031) | 1,845,823 |
| Water Bond of 1964 - Third Division | 46,000 | - | (46,000) | - |
| Water Bond of 1964 - Fourth Division | 15,000 | - | (15,000) | - |
| Total bonds payable | 2,555,854 | - | (710,031) | 1,845,823 |
| Obligation under capital lease: | | | | |
| Capital lease payable | 114,302 | - | (21,778) | 92,524 |
| Total capital lease payable | 114,302 | - | (21,778) | 92,524 |
| Total long-term debt payable | 6,221,399 | - | (971,417) | 5,249,982 |
| Less: current portion | (971,437) | | | (934,440) |
| Long-term portion | \$ 5,249,962 | | | 4,315,542 |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(8) Long-Term Debt, continued

Felton Safe Drinking Water Loan

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

| <u>Year</u> | | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|----|------------------|-----------------|--------------|
| 2019 | \$ | 151,371 | 35,427 | 186,798 |
| 2020 | | 155,010 | 31,788 | 186,798 |
| 2021 | | 158,863 | 27,935 | 186,798 |
| 2022 | | 162,686 | 24,112 | 186,798 |
| 2023 | | 166,642 | 20,155 | 186,797 |
| 2024-2027 | | 708,092 | 39,095 | 747,187 |
| Total | | 1,502,664 | 178,512 | 1,681,176 |
| Less: current | | (151,371) | | |
| Long-term | \$ | 1,351,293 | | |

State of California Revolving Fund Loan

On June 30, 2014, the District entered into a grant funding agreement with California Department of Public Health ("State") for a construction loan and grant under the Safe Drinking Water State Revolving Fund Law of 1997 ("Revolving Fund Law") at a rate of 2.6%. The District makes semi-annual payments of \$52,122, including principal and interest on July 1st and January 1st. Final maturity is January 1, 2037.

| <u>Year</u> | | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|----|------------------|-----------------|--------------|
| 2019 | \$ | 65,417 | 38,827 | 104,244 |
| 2020 | | 67,109 | 37,135 | 104,244 |
| 2021 | | 68,845 | 35,399 | 104,244 |
| 2022 | | 70,626 | 33,618 | 104,244 |
| 2023 | | 72,452 | 31,791 | 104,243 |
| 2024-2028 | | 391,360 | 129,858 | 521,218 |
| 2029-2033 | | 444,660 | 76,559 | 521,219 |
| 2033-2037 | | 346,559 | 18,029 | 364,588 |
| Total | | 1,527,028 | 401,216 | 1,928,244 |
| Less: current | | (65,417) | | |
| Long-term | \$ | 1,461,611 | | |

Government Obligation Contract

On November 7, 2016, the District entered into a loan agreement with NBH Bank at an interest rate of 3.67% in order to finance the installation of the solar electric system in three different locations as noted in Exhibit B of the agreement. The District makes monthly payments of \$3,250, including principal and interest commencing on December 15, 2016. Final maturity is November 15, 2026.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(8) Long-Term Debt, continued

Government Obligation Contract, continued

| <u>Year</u> | | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|----|------------------|-----------------|--------------|
| 2019 | \$ | 29,132 | 9,862 | 38,994 |
| 2020 | | 30,220 | 8,775 | 38,995 |
| 2021 | | 31,348 | 7,647 | 38,995 |
| 2022 | | 32,518 | 6,477 | 38,995 |
| 2023 | | 33,731 | 5,263 | 38,994 |
| 2024-2027 | | 124,994 | 8,194 | 133,188 |
| Total | | 281,943 | 46,218 | 328,161 |
| Less: current | | (29,132) | | |
| Long-term | \$ | 252,811 | | |

Bank of Nevada Refunding Bond

On March 22, 2012, the District entered into a refunding bond agreement with Bank of Nevada at a rate of 2.6% in order to pay off several other previously held loans. The District makes semi-annual payments of \$354,855, including principal and interest on September 1st and March 1st. Final maturity is September 1, 2022.

| <u>Year</u> | | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|----|------------------|-----------------|--------------|
| 2019 | \$ | 666,015 | 43,695 | 709,710 |
| 2020 | | 582,031 | 26,267 | 608,298 |
| 2021 | | 494,531 | 12,354 | 506,885 |
| 2022 | | 103,246 | 1,345 | 104,591 |
| Total | | 1,845,823 | 83,661 | 1,929,484 |
| Less: current | | (666,015) | | |
| Long-term | \$ | 1,179,808 | | |

General Obligation Bonds

Pursuant to an election held on June 9, 1964, Lompico was authorized to issue general obligation bonds in aggregate amount of \$1,500,000. The bonds were issued in four divisions as needed for construction purposes with the final issuance in May 1978. The bonds were issued in fully registered form in the name of the United States of America, Farmers Home Administration. The District acquired these general obligation bonds as of June 1, 2016. The Water Bond of 1964 – Third and Fourth Division were paid off as of June 30, 2018 in the amount of \$46,000 and \$15,000, respectively.

Capital Lease

On May 31, 2017, the District entered into a municipal lease purchase agreement (agreement) with Leasource Financial Services, Inc to purchase the three vehicles (lease asset). The agreement has a bargain purchase option, where the District has the option to purchase the lease asset following the expiration of the lease at below market rate. Per Exhibit E of the agreement, the value at the end of the lease term is zero. As of June 30, 2018, the total amount of lease asset amounted to \$94,308.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(8) Long-Term Debt, continued

Capital Lease, continued

The District makes monthly payments of \$2,101, including principal and interest commencing on June 30, 2017. Final maturity is May 31, 2022.

| <u>Year</u> | | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|----|------------------|-----------------|--------------|
| 2019 | \$ | 22,505 | 2,703 | 25,208 |
| 2020 | | 23,256 | 1,953 | 25,209 |
| 2021 | | 24,031 | 1,177 | 25,208 |
| 2022 | | 22,732 | 375 | 23,107 |
| Total | | 92,524 | 6,208 | 98,732 |
| Less: current | | (22,505) | | |
| Long-term | \$ | 70,019 | | |

(9) Net Position

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

| | <u>2018</u> |
|---|----------------------|
| Net investment in capital assets: | |
| Capital assets, net | \$ 34,528,731 |
| Loans payable – current | (245,920) |
| Loans payable – non-current | (3,065,715) |
| Bonds payable – current | (666,015) |
| Bonds payable – non-current | (1,179,808) |
| Capital lease payable – current | (22,505) |
| Capital lease payable – non-current | (70,019) |
| Total net investment in capital assets | <u>29,278,749</u> |
| Restricted net position: | |
| Restricted for debt service | <u>637,205</u> |
| Total restricted net position | <u>637,205</u> |
| Unrestricted net position: | |
| Non-spendable net position | |
| Materials and supplies inventory | <u>253,996</u> |
| Total non-spendable net position | <u>253,996</u> |
| Spendable net position designated for the following purpose: | |
| Assessment Reserve Fund | <u>407,174</u> |
| Spendable net position are designated as follows: | |
| Unrestricted (deficit) | <u>(1,488,180)</u> |
| Total unrestricted net position (deficit) | <u>(827,010)</u> |
| Total net position | <u>\$ 29,088,944</u> |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(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, 2018, the District participated in the liability and property programs of the SDRMA as follows:

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

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

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

Governmental Accounting Standards Board Statement No. 84, continued

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

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

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

(12) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to an audit by the grantor agencies. Such an audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

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.

(13) Subsequent Event

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of November 28, 2018, which is the date the financial statements were available to be issued.

Required Supplementary Information

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San Lorenzo Valley Water District
Schedule of Changes in Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2018
Last Ten Years*

Defined Benefit OPEB Plan

| | <u>2018</u> |
|--|----------------------------|
| Total OPEB Liability | |
| Service cost | \$ 69,318 |
| Interest | 30,730 |
| Changes in assumptions | (37,834) |
| Benefit payments | <u>(29,229)</u> |
| Net change in total OPEB liability | 32,985 |
| Total OPEB liability - beginning of year | <u>996,281</u> |
| Total OPEB liability - end of year (a) | \$ <u>1,029,266</u> |
| Plan Fiduciary Net Position | |
| Contributions - employer | \$ 29,229 |
| Benefit payments | <u>(29,229)</u> |
| Net change in plan fiduciary net position | - |
| Plan Fiduciary Net Position - beginning of year | <u>-</u> |
| Plan Fiduciary Net Position - end of year (b) | <u>-</u> |
| Net OPEB Liability - ending (a) - (b) | \$ <u><u>1,029,266</u></u> |
| Plan Fiduciary Net Position as a percentage of the Total OPEB Liability | 0.00% |
| Covered - employee payroll | 2,962,700 |
| Net OPEB Liability as a percentage of covered-employee payroll | 34.74% |

Notes to Schedule

Benefit changes – None noted.

Changes of assumptions – None noted.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

**San Lorenzo Valley Water District
Schedule of OPEB Contributions
For the Year Ended June 30, 2018
Last Ten Years***

Defined Benefit OPEB Plan

| | <u>2018</u> |
|---|-------------|
| Actuarially Determined Contribution** | \$ - |
| Contributions in relation to the Actuarially Determined Contribution | <u>-</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> |
| District's Covered-Employee Payroll | 2,962,700 |
| Contribution's as a percentage of Covered-Employee Payroll | N/A |

Valuation date:

**The calculation of an actuarially determined contribution amount was not asked by the District.

Methods and assumptions used to determine contribution rates:

| | |
|-----------------------------|---|
| Valuation Date | July 1, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial cost method | Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75 |
| Salary increases | 3% per annum, in aggregate |
| Age-adjustment factor | 3% |
| Mortality | Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate without projection. |
| Service requirement | Per the service schedule contained in California Government Code Section 22893. |
| Discount rate | 3.62% per year net of expenses; the discount rate is based on the yield or index rate for a 20 year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher since assumed long-term return on plan on OPEB plan investments is not met. |
| Healthcare cost trend rates | 6% for 2017; 5% for 2018 and later years. |

* The District has presented information for those years for which information is available until a full 10- year trend is compiled.

** Source: Actuarial Study of Retiree Health Liabilities under GASB 74/75 prepared by Demsey, Filliger & Associate as of the June 30, 2018 measurement date.

San Lorenzo Valley Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last Ten Years*

Defined Benefit Pension Plan

| Description | Measurement Dates | | | |
|---|-------------------|-----------|-----------|-----------|
| | 6/30/2017 | 6/30/2016 | 6/30/2015 | 6/30/2014 |
| District's Proportion of the Net Pension Liability | 0.04003% | 0.04058% | 0.03675% | 0.03709% |
| District's Proportionate Share of the Net Pension Liability | \$ 3,969,598 | 3,511,169 | 2,522,518 | 2,307,630 |
| District's Covered-Employee Payroll | \$ 2,524,999 | 2,446,674 | 2,319,224 | 1,995,604 |
| District's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll | 157.21% | 143.51% | 108.77% | 115.64% |
| Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability | 76.96% | 78.58% | 83.20% | 83.03% |

Notes:

Changes in Benefit Terms – The District can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for the District's plan can be found in the plan's annual valuation report.

Changes of Assumptions – In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

San Lorenzo Valley Water District
Schedules of Pension Plan Contributions
As of June 30, 2018
Last Ten Years*

Defined Benefit Pension Plan

| Description | Fiscal Years Ended | | | | |
|--|---------------------------|------------------|------------------|------------------|------------------|
| | 6/30/2018 | 6/30/2017 | 6/30/2016 | 6/30/2015 | 6/30/2014 |
| Actuarially Determined Contribution | \$ 433,466 | 324,612 | 282,083 | 284,005 | 193,763 |
| Contributions in Relation to the Actuarially Determined Contribution | (427,195) | (522,774) | (172,110) | (232,831) | (200,451) |
| Contribution Deficiency (Excess) | \$ 6,271 | (198,162) | 109,973 | 51,174 | (6,688) |
| District's Covered Payroll | \$ 2,701,505 | 2,524,999 | 2,446,674 | 2,319,224 | 1,995,604 |
| Contribution's as a percentage of Covered-Employee Payroll | 15.81% | 20.70% | 7.03% | 10.04% | 10.04% |

Notes to the Schedule of Pension Plan Contributions

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

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Supplemental Information

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San Lorenzo Valley Water District
Combining Schedule of Net Position
June 30, 2018

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|---|---------------------|-------------------|-------------------|
| Current assets: | | | |
| Cash & cash equivalents | \$ 694,844 | - | 694,844 |
| Cash & cash equivalents – restricted | 637,205 | - | 637,205 |
| Investments | 2,062,184 | - | 2,062,184 |
| Accounts receivable – water sales and services, net | 1,411,630 | - | 1,411,630 |
| Accounts receivable – property taxes | 2,477 | - | 2,477 |
| Accounts receivable – other | 13,754 | - | 13,754 |
| Internal balances | 124,678 | (124,678) | - |
| Prepaid expenses | 54,052 | - | 54,052 |
| Materials and supplies inventory | 253,996 | - | 253,996 |
| Total current assets | <u>5,254,820</u> | <u>(124,678)</u> | <u>5,130,142</u> |
| Non-current assets: | | | |
| Capital assets – not being depreciated | 7,919,465 | 90,685 | 8,010,150 |
| Capital assets – being depreciated | 26,144,206 | 374,375 | 26,518,581 |
| Total non-current assets | <u>34,063,671</u> | <u>465,060</u> | <u>34,528,731</u> |
| Total assets | <u>39,318,491</u> | <u>340,382</u> | <u>39,658,873</u> |
| Deferred outflows of resources | | | |
| Deferred pension outflows | 1,253,820 | - | 1,253,820 |
| Total deferred outflows of resources | <u>\$ 1,253,820</u> | <u>-</u> | <u>1,253,820</u> |

Continued on next page

San Lorenzo Valley Water District
Combining Schedule of Net Position, continued
June 30, 2018

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|--|----------------------|-------------------|-------------------|
| Current liabilities: | | | |
| Accounts payable and accrued expense | \$ 383,269 | 1,078 | 384,347 |
| Accrued wages and related payables | 233,296 | - | 233,296 |
| Unearned revenues – customer deposits | 102,445 | - | 102,445 |
| Unearned revenues – construction deposits | 15,478 | - | 15,478 |
| Accrued interest payable | 15,999 | - | 15,999 |
| Long-term liabilities – due in one year: | | | |
| Compensated absences | 185,103 | - | 185,103 |
| Loans payable – current | 245,920 | - | 245,920 |
| Bonds payable – current | 666,015 | - | 666,015 |
| Capital lease payable – current | 22,505 | - | 22,505 |
| Total current liabilities | <u>1,870,030</u> | <u>1,078</u> | <u>1,871,108</u> |
| Non-current liabilities: | | | |
| Long-term liabilities – due in more than one year: | | | |
| Compensated absences | 329,071 | - | 329,071 |
| Net OPEB liability | 1,029,266 | - | 1,029,266 |
| Net pension liability | 3,969,598 | - | 3,969,598 |
| Loans payable – non-current | 3,065,715 | - | 3,065,715 |
| Bonds payable – non-current | 1,179,808 | - | 1,179,808 |
| Capital lease payable – non-current | 70,019 | - | 70,019 |
| Total non-current liabilities | <u>9,643,477</u> | <u>-</u> | <u>9,643,477</u> |
| Total liabilities | <u>11,513,507</u> | <u>1,078</u> | <u>11,514,585</u> |
| Deferred inflows of resources | | | |
| Deferred pension inflows | 276,001 | - | 276,001 |
| Deferred OPEB inflows | 33,163 | - | 33,163 |
| Total deferred inflows of resources | <u>309,164</u> | <u>-</u> | <u>309,164</u> |
| Net position | | | |
| Net investment in capital assets | 28,813,689 | 465,060 | 29,278,749 |
| Restricted for debt service | 637,205 | - | 637,205 |
| Unrestricted (deficit) | (701,254) | (125,756) | (827,010) |
| Total net position | <u>\$ 28,749,640</u> | <u>339,304</u> | <u>29,088,944</u> |

San Lorenzo Valley Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|---|----------------------|-------------------|-------------------|
| Operating revenues: | | | |
| Water consumption sales | \$ 8,983,340 | - | 8,983,340 |
| Wastewater service | - | 100,138 | 100,138 |
| Meter sales, charges and penalties | 128,305 | - | 128,305 |
| Other charges and services | 3,581 | - | 3,581 |
| Total operating revenues | <u>9,115,226</u> | <u>100,138</u> | <u>9,215,364</u> |
| Operating expenses: | | | |
| Salaries and benefits | 4,792,722 | 47,796 | 4,840,518 |
| Professional services | 1,390,856 | 28,423 | 1,419,279 |
| Operational | 304,760 | 16,116 | 320,876 |
| Maintenance | 142,608 | 1,106 | 143,714 |
| Facilities | 546,163 | 8,384 | 554,547 |
| General and administrative | 381,119 | 1,738 | 382,857 |
| Total operating expenses | <u>7,558,228</u> | <u>103,563</u> | <u>7,661,791</u> |
| Operating income before overhead absorption | 1,556,998 | (3,425) | 1,553,573 |
| Overhead absorption | 163,697 | - | 163,697 |
| Operating income (loss) before depreciation expense | 1,720,695 | (3,425) | 1,717,270 |
| Depreciation expense | (1,597,917) | (42,356) | (1,640,273) |
| Operating income (loss) | <u>122,778</u> | <u>(45,781)</u> | <u>76,997</u> |
| Non-operating revenues (expenses): | | | |
| Property taxes | 747,404 | - | 747,404 |
| Assessment revenues | 349,130 | - | 349,130 |
| Investment earnings | 23,040 | - | 23,040 |
| Rental revenues | 56,647 | - | 56,647 |
| Interest expense | (150,507) | - | (150,507) |
| Total non-operating revenues, net | <u>1,025,714</u> | <u>-</u> | <u>1,025,714</u> |
| Net income (loss) before capital contributions | <u>1,148,492</u> | <u>(45,781)</u> | <u>1,102,711</u> |
| Capital contributions: | | | |
| Capital grants - other governments | 434,908 | - | 434,908 |
| Total capital contributions | <u>434,908</u> | <u>-</u> | <u>434,908</u> |
| Change in net position | <u>1,583,400</u> | <u>(45,781)</u> | <u>1,537,619</u> |
| Net position, beginning of year as previously stated | 27,870,350 | 385,085 | 28,255,435 |
| Prior period adjustment | (704,110) | - | (704,110) |
| Net position, beginning of year as restated | <u>27,166,240</u> | <u>385,085</u> | <u>27,551,325</u> |
| Net position, end of year | <u>\$ 28,749,640</u> | <u>339,304</u> | <u>29,088,944</u> |

Statistical Information Section

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San Lorenzo Valley Water District Statistical Section

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the District's overall financial health.

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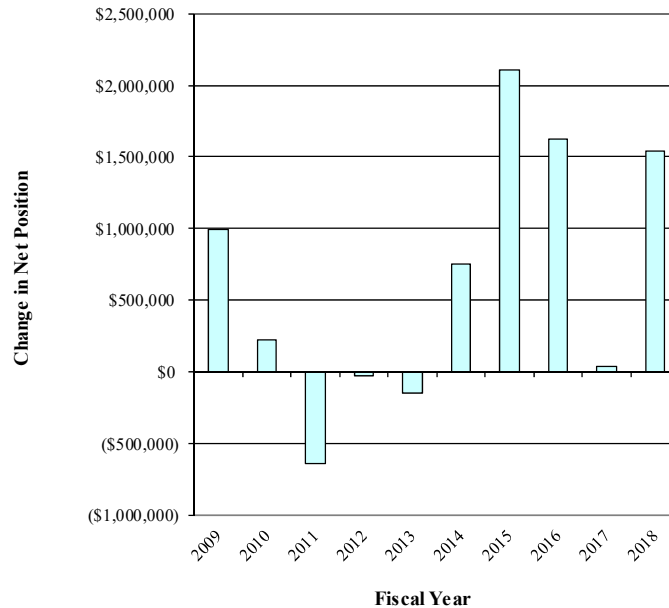
| | <u>Page No.</u> |
|--|-----------------|
| Financial Trends These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time. | 56-59 |
| Revenue Capacity These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales. | 60-63 |
| Debt Capacity These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future. | 64-65 |
| Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place. | 66 |
| Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides. | 67-68 |

San Lorenzo Valley Water District

Changes in Net Position

Last Ten Fiscal Years

| | Fiscal Year | | | | |
|--|----------------------|--------------------|-------------------|-------------------|-------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| Changes in net position: | | | | | |
| Operating revenues (see Schedule 2) | \$ 4,004,362 | 4,481,317 | 4,819,542 | 5,292,035 | 5,544,632 |
| Operating expenses (see Schedule 3) | (4,234,583) | (4,275,569) | (4,245,987) | (4,399,636) | (4,736,829) |
| Overhead absorption | | | | | 48,543 |
| Depreciation and amortization | (1,245,221) | (1,379,615) | (1,334,021) | (1,293,195) | (1,293,732) |
| Operating income(loss) | (1,475,442) | (1,173,867) | (760,466) | (400,796) | (437,386) |
| Non-operating revenues(expenses) | | | | | |
| Property taxes | 527,421 | 504,342 | 492,443 | 467,181 | 459,834 |
| Rental income | 25,216 | 26,038 | 24,468 | 23,402 | 28,461 |
| Assessment Revenue | | | | | |
| Investment income/(loss) | 603,405 | 532,957 | 217,145 | 233,421 | (80,321) |
| Amortization of deferred charges | (25,252) | (25,252) | (25,252) | (35,021) | |
| Gain/(Loss) on sale/disposition of assets | (38,877) | | (236,970) | - | 1,874 |
| Interest expense | (455,204) | (349,705) | (357,274) | (352,109) | (211,233) |
| Grant related expenses | | | | | |
| Other revenue/(expense), net | - | 711,712 | 8,748 | 31,412 | 85,369 |
| Total non-operating revenues(expenses), net | 636,709 | 1,400,092 | 123,308 | 368,286 | 283,984 |
| Net income(loss) before capital contributions | (838,733) | 226,225 | (637,158) | (32,510) | (153,402) |
| Capital contributions | 1,833,993 | | | | |
| Changes in net position | \$ 995,260 | 226,225 | (637,158) | (32,510) | (153,402) |
| Net position by component: | | | | | |
| Invested in capital assets, net of related debt | \$ 15,999,096 | 15,991,991 | 16,564,381 | 16,665,481 | 18,309,392 |
| Restricted | 940,077 | 935,665 | 865,923 | 653,538 | 355,162 |
| Unrestricted | 9,450,288 | 9,688,030 | 8,548,224 | 8,626,999 | 6,898,478 |
| Total net position | \$ 26,389,461 | 26,615,686 | 25,978,528 | 25,946,018 | 25,563,032 |



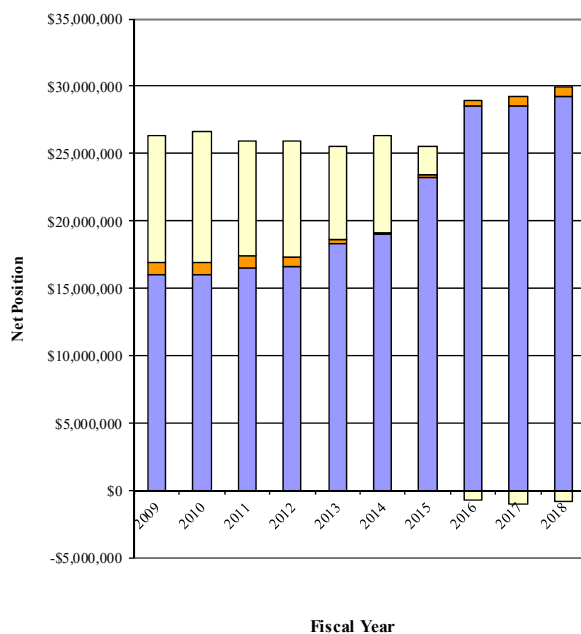
Notes:

* Unrestricted net position decrease from 2015 to 2016 due to Lompico County Water District being dissolved and annexed with the District as of June 1, 2016.

Source: SLVWD Finance Department

Schedule 1

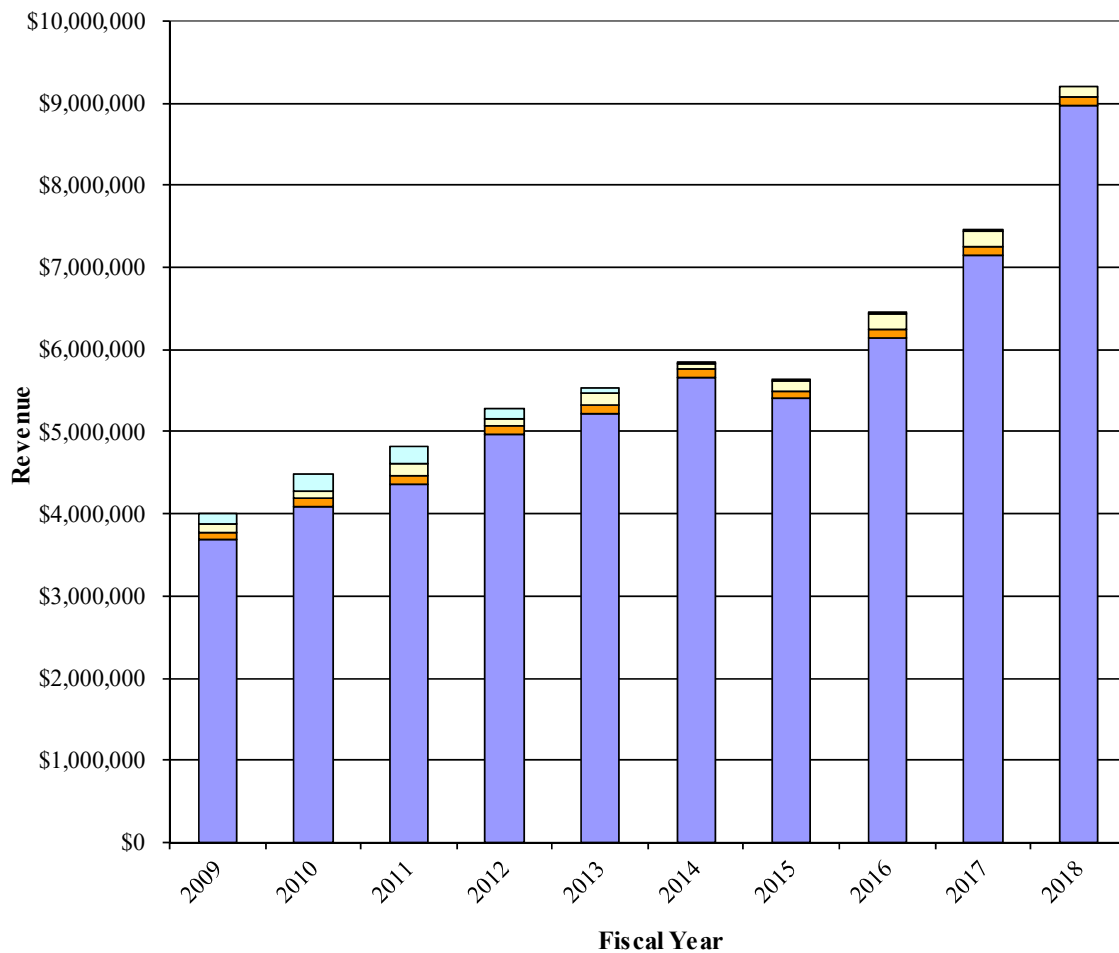
| 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------|-------------|-------------|-------------|-------------|
| 5,838,488 | 5,643,471 | 6,456,181 | 7,446,130 | 9,215,364 |
| (5,173,764) | (5,552,334) | (5,560,839) | (7,109,458) | (7,661,791) |
| 132,347 | 24,644 | 19,637 | 74,683 | 163,697 |
| (1,172,504) | (1,139,110) | (1,326,056) | (1,417,477) | (1,640,273) |
| (375,433) | (1,023,329) | (411,076) | (1,006,122) | 76,997 |
| 478,632 | 527,308 | 577,023 | 707,262 | 731,146 |
| 30,378 | 29,713 | 43,921 | 61,851 | 56,647 |
| | 235,444 | 33,611 | 358,469 | 349,130 |
| 159,023 | (1,909) | 11,502 | 13,858 | 23,040 |
| | | | - | - |
| 2,000 | 34,499 | - | - | - |
| (295,513) | (127,850) | (185,411) | (166,204) | (150,507) |
| 3,352 | 145,257 | - | 71,804 | 16,258 |
| 377,872 | 842,462 | 480,647 | 1,047,040 | 1,025,714 |
| 2,439 | (180,867) | 69,570 | 40,918 | 1,102,711 |
| 753,600 | 2,287,233 | 1,557,589 | - | 434,908 |
| 756,039 | 2,106,366 | 1,627,159 | 40,918 | 1,537,619 |
| 18,981,706 | 23,227,784 | 28,535,901 | 28,551,697 | 29,278,749 |
| 168,185 | 229,790 | 403,624 | 686,020 | 637,205 |
| 7,169,180 | 2,120,592 * | (725,008) | (982,282) | (827,010) |
| 26,319,071 | 25,578,166 | 28,214,517 | 28,255,435 | 29,088,944 |



**San Lorenzo Valley Water District
Operating Revenue by Source
Last Ten Fiscal Years**

Schedule 2

| Fiscal Year | Water Services | Wastewater Services | Meter Sales, Charges and Penalties | Other Charges and Services | Total Operating Revenue |
|--------------------|-----------------------|----------------------------|---|-----------------------------------|--------------------------------|
| 2009 | 3,694,064 | 81,466 | 92,574 | 136,258 | 4,004,362 |
| 2010 | 4,093,942 | 89,519 | 98,412 | 199,444 | 4,481,317 |
| 2011 | 4,369,713 | 99,764 | 149,469 | 200,596 | 4,819,542 |
| 2012 | 4,976,987 | 99,199 | 76,113 | 139,736 | 5,292,035 |
| 2013 | 5,226,845 | 98,653 | 155,973 | 63,161 | 5,544,632 |
| 2014 | 5,669,459 | 101,637 | 54,111 | 13,281 | 5,838,488 |
| 2015 | 5,402,115 | 100,088 | 124,896 | 16,372 | 5,643,471 |
| 2016 | 6,145,076 | 98,262 | 194,444 | 18,399 | 6,456,181 |
| 2017 | 7,157,650 | 102,107 | 178,632 | 7,741 | 7,446,130 |
| 2018 | 8,983,340 | 100,138 | 128,305 | 3,581 | 9,215,364 |

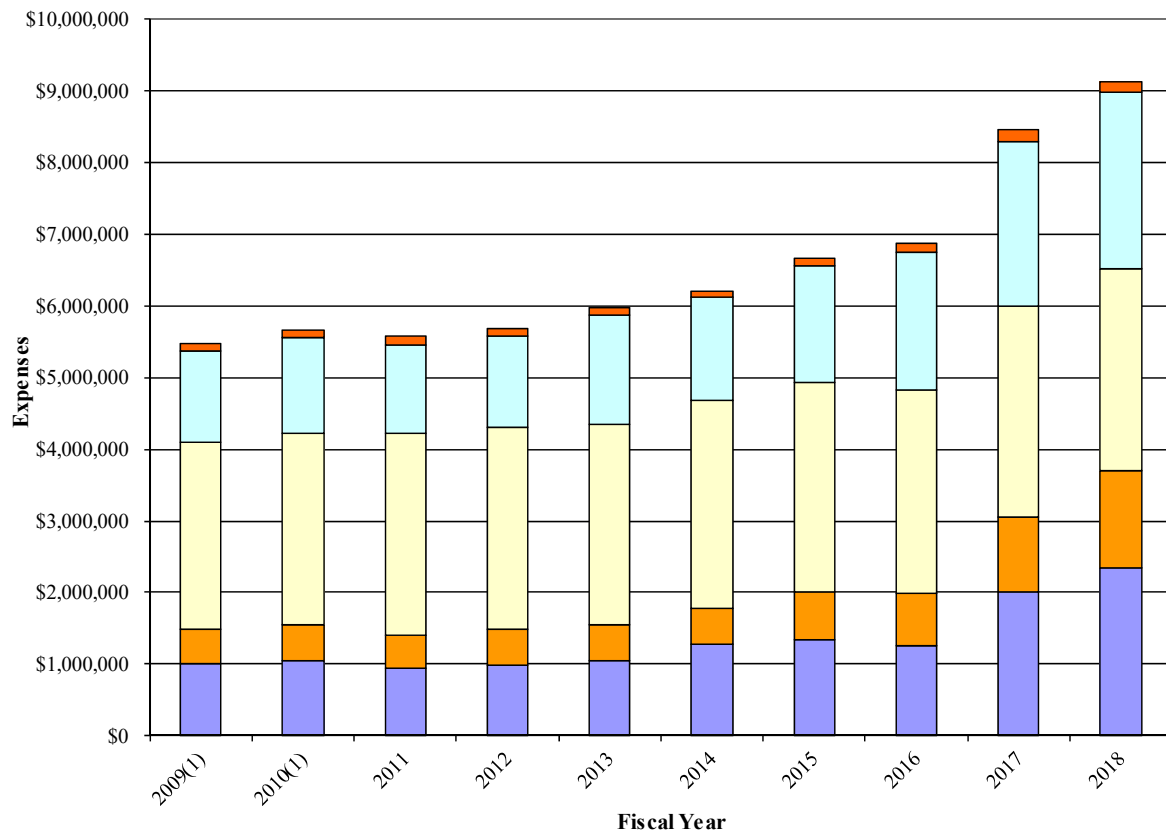


Source: SLVWD Finance Department

**San Lorenzo Valley Water District
Operating Expenses by Activity
Last Ten Fiscal Years**

Schedule 3

| Fiscal Year | General and Administrative | Finance Customer Service | Transmission and Distribution | Water Treatment | Wastewater Fund | Total Operating Expenses |
|-------------|----------------------------|--------------------------|-------------------------------|-----------------|-----------------|--------------------------|
| 2009(1) | 1,013,877 | 481,524 | 2,601,970 | 1,281,918 | 100,515 | 5,479,804 |
| 2010(1) | 1,046,326 | 496,935 | 2,685,246 | 1,322,945 | 103,732 | 5,655,184 |
| 2011 | 939,754 | 458,070 | 2,833,504 | 1,222,661 | 126,019 | 5,580,008 |
| 2012 | 977,775 | 500,906 | 2,837,272 | 1,258,211 | 118,667 | 5,692,831 |
| 2013 | 1,042,651 | 502,235 | 2,811,020 | 1,515,459 | 110,653 | 5,982,018 |
| 2014 | 1,281,334 | 504,981 | 2,901,718 | 1,430,749 | 95,139 | 6,213,921 |
| 2015 | 1,334,189 | 681,895 | 2,925,734 | 1,622,687 | 102,296 | 6,666,800 |
| 2016 | 1,265,026 | 719,525 | 2,850,569 | 1,908,139 | 123,998 | 6,867,258 |
| 2017 | 2,002,222 | 1,060,345 | 2,937,280 | 2,289,576 | 162,829 | 8,452,252 |
| 2018 | 2,344,942 | 1,347,160 | 2,817,296 | 2,483,050 | 145,919 | 9,138,367 |



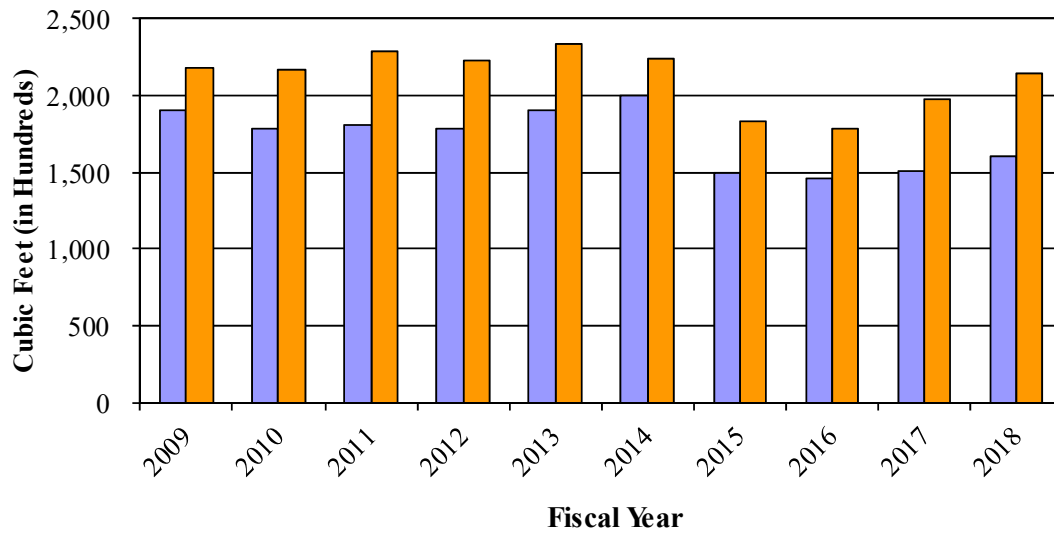
Note: (1) Activity break down data not available, a ratio of the next 5 years was applied to the total Operating Expenses.

Source: SLVWD Finance Department

**San Lorenzo Valley Water District
Revenue Base
Last Ten Fiscal Years**

Schedule 4

| Fiscal Year | Water Sales (Acre Feet) | Water Produced (Acre Feet) |
|--------------------|------------------------------------|---------------------------------------|
| 2009 | 1,905 | 2,180 |
| 2010 | 1,781 | 2,168 |
| 2011 | 1,806 | 2,283 |
| 2012 | 1,789 | 2,234 |
| 2013 | 1,910 | 2,335 |
| 2014 | 1,995 | 2,239 |
| 2015 | 1,500 | 1,828 |
| 2016 | 1,461 | 1,787 |
| (1) 2017 | 1,503 | 1,976 |
| (2) 2018 | 1,601 | 2,142 |



Notes: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

(1) Fiscal Year 2017 saw a more dramatic loss from water production to water sales. This discrepancy was due to loss from storm damage and a more significant flushing process with the Lompico system.

(2) Fiscal Year 2018 had more significant leaks show up and increased flushing. Fixing tanks and leaks identified by the leak detection consultants should help to reduce this.

Source: SLVWD Finance Department

San Lorenzo Valley Water District
Revenue Rates⁽¹⁾
Last Ten Fiscal Years

Schedule 5

Water Consumption Rates

| Fiscal Year | | 2009(2) | 2010(2) | 2011(2) | 2012(2) | 2013(2) | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------------|----|---------|---------|---------|---------|---------|-------|--------|--------|--------|--------|
| Residential - Tier 1 (per HCF) | \$ | 2.180 | 2.360 | 2.710 | 2.710 | 2.710 | 3.090 | 3.430 | 3.810 | 3.810 | n/a |
| Residential - Tier 2 (per HCF) | | 2.860 | 3.080 | 3.540 | 3.540 | 3.540 | 4.040 | 4.480 | 4.970 | 4.970 | n/a |
| Residential - Tier 3 (per HCF) | | 3.420 | 3.690 | 4.240 | 4.240 | 4.240 | 4.840 | 5.370 | 5.960 | 5.960 | n/a |
| Residential - Tier 4 (per HCF) | | 3.700 | 3.990 | 4.590 | 4.590 | 4.590 | 5.360 | 5.950 | 6.610 | 6.610 | n/a |
| Residential - Tier 5 (per HCF) | | 4.030 | 4.350 | 5.000 | 5.000 | 5.000 | n/a | n/a | n/a | n/a | n/a |
| Commercial/Flat (per HCF) | | * | * | * | * | * | 3.770 | 4.180 | 4.640 | 4.640 | 10.120 |
| Wholesale - Boulder Creek (per HCF) | | * | * | * | * | * | * | 10.000 | 10.000 | 10.000 | 14.390 |

* based on residential tiers above

Ready-to-serve Fees per Month

| | | Fiscal Year | | | | | | | | | |
|--------------------------------|----|-------------|---------|---------|---------|---------|--------|--------|--------|--------|--------|
| Meter Size | | 2009(2) | 2010(2) | 2011(2) | 2012(2) | 2013(2) | 2014 | 2015 | 2016 | 2017 | 2018 |
| 3/4" or smaller | \$ | 40.04 | 43.24 | 49.73 | 49.73 | 49.73 | 55.20 | 30.64 | 34.00 | 34.00 | 28.27 |
| 1" | | 66.75 | 72.09 | 82.90 | 82.90 | 82.90 | 92.02 | 51.00 | 56.50 | 56.50 | 42.36 |
| 1 1/2" | | 134.40 | 145.15 | 166.92 | 166.92 | 166.92 | 185.00 | 102.50 | 114.00 | 114.00 | 77.61 |
| 2" | | 213.92 | 231.03 | 265.68 | 265.68 | 265.68 | 295.00 | 163.50 | 181.50 | 181.50 | 119.91 |
| 3" | | 401.46 | 433.58 | 498.62 | 498.62 | 498.62 | 553.00 | 307.00 | 341.00 | 341.00 | 232.70 |
| 4" | | 668.08 | 721.53 | 829.76 | 829.76 | 829.76 | 921.00 | 511.00 | 567.00 | 567.00 | 359.58 |
| 6" | | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 8" | | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 10" | | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Fire service per inch diameter | | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |

Notes:

(1) Rates as of June 30 of each fiscal year.

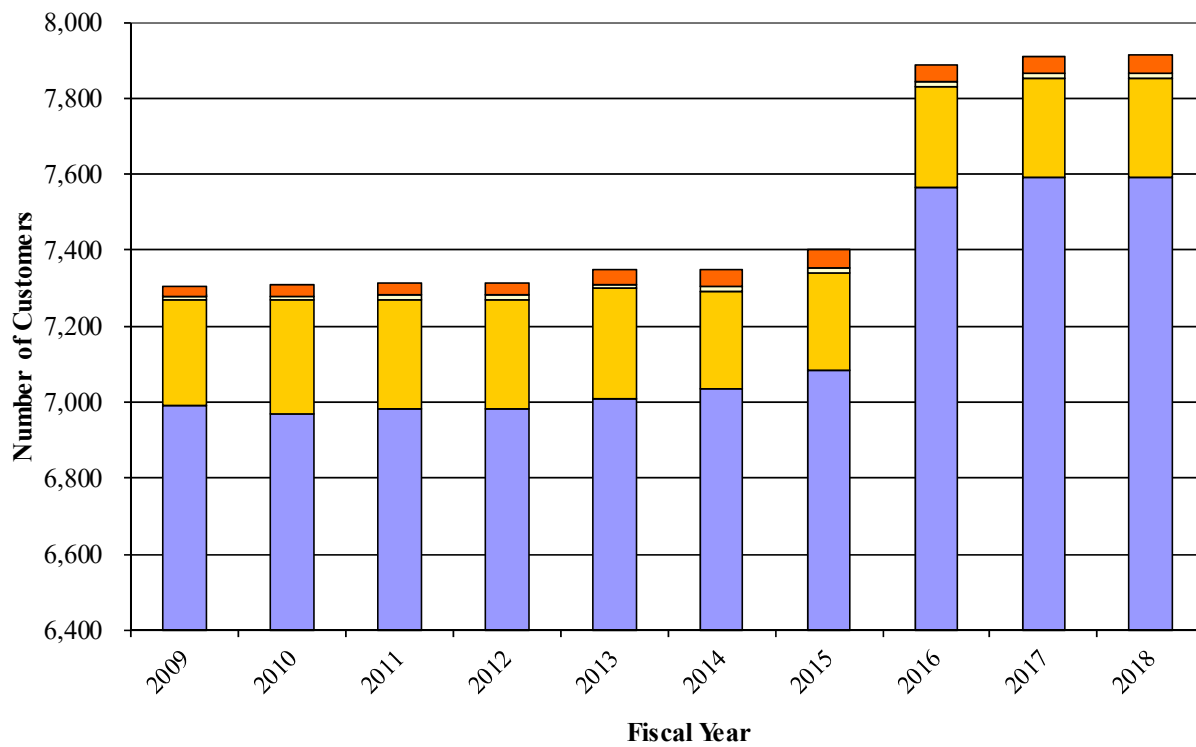
(2) Bi-Monthly Billing Rates

Source: SLVWD Board of Directors approved Rates and Charges

**San Lorenzo Valley Water District
Customers by Type
Last Ten Fiscal Years**

Schedule 6

| Fiscal Year | Customer Type | | | | Total |
|-------------|---------------|------------|-----------|-----------|-------|
| | Residential | Industrial | Landscape | Wholesale | |
| 2009 | 6,990 | 278 | 11 | 26 | 7,305 |
| 2010 | 6,968 | 300 | 12 | 29 | 7,309 |
| 2011 | 6,982 | 289 | 12 | 31 | 7,314 |
| 2012 | 6,981 | 289 | 12 | 33 | 7,315 |
| 2013 | 7,010 | 289 | 12 | 37 | 7,348 |
| 2014 | 7,035 | 258 | 12 | 44 | 7,349 |
| 2015 | 7,083 | 258 | 12 | 50 | 7,403 |
| 2016 | 7,566 | 266 | 13 | 42 | 7,887 |
| 2017 | 7,592 | 260 | 14 | 42 | 7,908 |
| 2018 | 7,593 | 260 | 14 | 46 | 7,913 |



Note: Number of customers as of June 30 of fiscal year.

Source: SLVWD Finance Department

**San Lorenzo Valley Water District
Principal Customers
Current Fiscal Year and Ten Years Ago**

Schedule 7

| Customer | 2018 | | 2014 ⁽¹⁾ | |
|---------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | Water Consumed (AF) | Percentage of Total | Water Consumed (AF) | Percentage of Total |
| 005165-000 | 37 | 2.31% | - ⁽²⁾ | 0.00% |
| 005534-000 | 33 | 2.06% | 47 | 2.36% |
| 006297-000 | 20 | 1.25% | 24 | 1.20% |
| 005279-000 | 11 | 0.69% | 14 | 0.70% |
| 011506-000 | 11 | 0.69% | 12 | 0.60% |
| 009080-000 | 10 | 0.62% | 14 | 0.70% |
| 005001-000 | 7 | 0.44% | 6 | 0.30% |
| 007497-000 | 7 | 0.44% | 4 | 0.20% |
| 006011-000 | 6 | 0.37% | 9 | 0.45% |
| 005280-000 | 6 | 0.37% | 9 | 0.45% |
| Total | 148 | 9.25% | 139 | 6.97% |
| Total Water Consumed (AF) | 1,601 | 100.00% | 1,995 | 100.00% |

AF = Acre Feet

Notes:

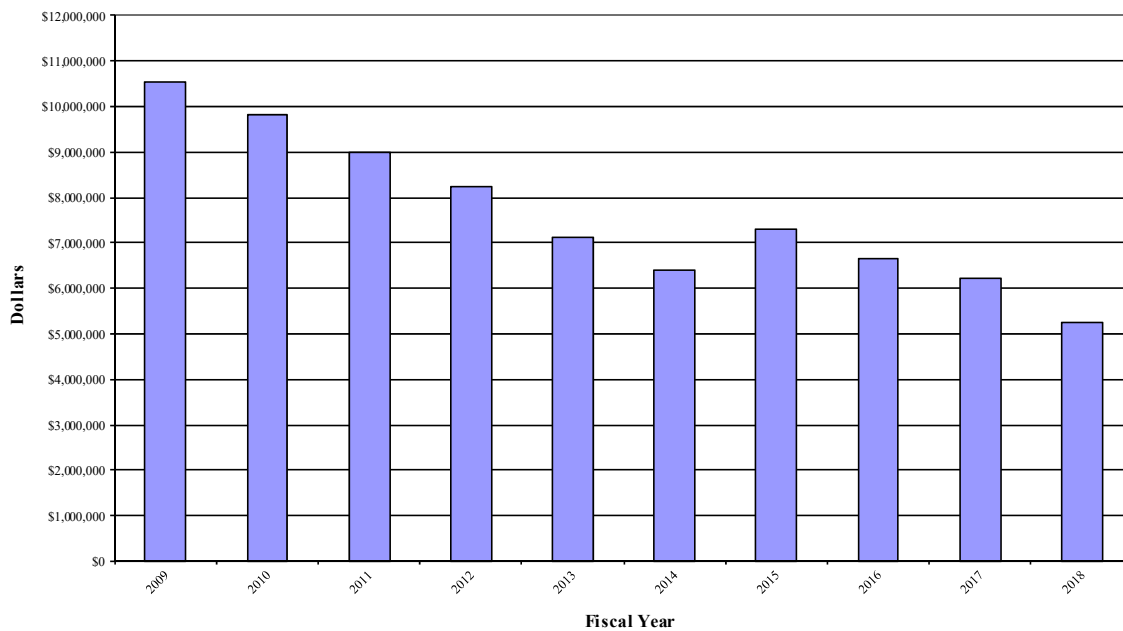
- (1) Individual records will continue to be maintained to allow for a ten year comparison over time.
(2) Did not become customer until November 2014

Source: SLVWD Finance Department

**San Lorenzo Valley Water District
Ratio of Outstanding Debt
Last Ten Fiscal Years**

Schedule 8

| Fiscal Year | Bonds Payable | Notes Payable | Capital Lease | Total Debt | Per Capita | As a Share of Personal Income |
|--------------------|----------------------|----------------------|----------------------|-------------------|-------------------|--------------------------------------|
| 2009 | 645,000 | 9,892,885 | | 10,537,885 | 576.71 | 1.35% |
| 2010 | 565,000 | 9,268,985 | | 9,833,985 | 537.82 | 1.26% |
| 2011 | 480,000 | 8,519,250 | | 8,999,250 | 492.10 | 1.08% |
| 2012 | 5,898,472 | 2,338,401 | | 8,236,873 | 448.39 | 0.91% |
| 2013 | 4,930,026 | 2,207,278 | | 7,137,304 | 388.48 | 0.78% |
| 2014 | 4,344,115 | 2,073,045 | | 6,417,160 | 346.73 | 0.66% |
| 2015 | 3,743,682 | 3,554,130 | | 7,297,812 | 370.12 | 0.65% |
| 2016 | 3,253,332 | 3,416,993 | | 6,670,325 | 338.29 | 0.57% |
| 2017 | 2,555,854 | 3,551,243 | 114,302 | 6,221,399 | 314.69 | * |
| 2018 | 1,845,823 | 3,311,635 | 92,524 | 5,249,982 | 265.39 | * |



Notes:

* Data not available as of November 2018

Source: SLVWD Finance Department

**San Lorenzo Valley Water District
Debt Coverage
Last Ten Fiscal Years**

Schedule 9

| Fiscal Year | Net Revenues | Operating Expenses⁽¹⁾ | Net Available Revenues | Debt Service | | Total | Coverage Ratio |
|--------------------|-------------------------|---|-----------------------------------|---------------------|-----------------|--------------|---------------------------|
| | | | | Principal | Interest | | |
| 2009 | 4,641,071 | (4,234,583) | 406,488 | (708,425) | (455,204) | (1,163,629) | 0.35 |
| 2010 | 5,881,409 | (4,275,569) | 1,605,840 | (703,900) | (349,705) | (1,053,605) | 1.52 |
| 2011 | 4,942,850 | (4,245,987) | 696,863 | (834,735) | (357,274) | (1,192,009) | 0.58 |
| 2012 | 5,660,321 | (4,399,636) | 1,260,685 | (762,377) | (352,109) | (1,114,486) | 1.13 |
| 2013 | 5,828,616 | (4,736,829) | 1,091,787 | (1,099,569) | (211,233) | (1,310,802) | 0.83 |
| 2014 | 6,216,360 | (5,173,764) | 1,042,596 | (720,144) | (295,513) | (1,015,657) | 1.03 |
| 2015 | 6,485,933 | (5,552,334) | 933,599 | (737,932) | (127,850) | (865,782) | 1.08 |
| 2016 | 6,936,828 | (5,560,839) | 1,375,989 | (757,130) | (185,411) | (942,541) | 1.46 |
| 2017 | 8,493,170 | (7,109,458) | 1,383,712 | (873,247) | (166,204) | (1,039,451) | 1.33 |
| 2018 | 10,241,078 | (7,661,791) | 2,579,287 | (971,417) | (150,507) | (1,121,924) | 2.30 |

Notes:

(1) Operating expenses exclude depreciation expense.

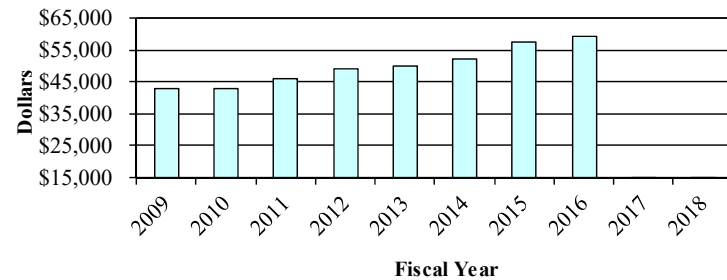
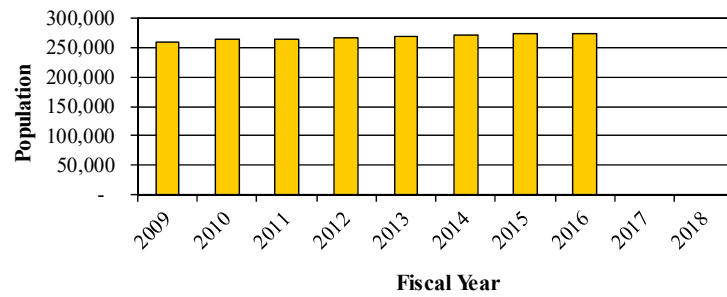
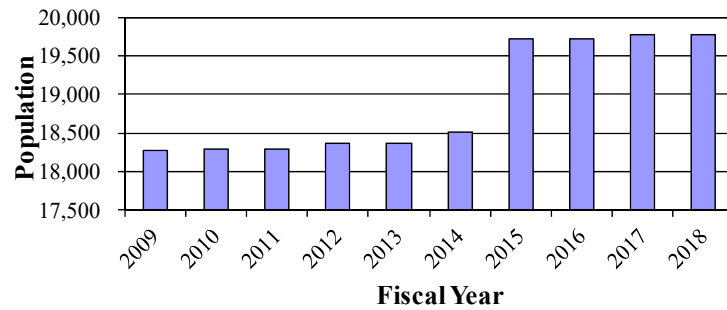
Source: SLVWD Finance Department

San Lorenzo Valley Water District Demographics and Economics Statistics Last Ten Fiscal Years

Schedule 10

| Year | District Population ⁽²⁾ | Unemployment Rate | County of Santa Cruz ⁽¹⁾ | | |
|------|---------------------------------------|----------------------|-------------------------------------|---|----------------------------------|
| | | | Population | Personal Income (thousands of dollars) | Personal Income per Capita |
| 2009 | 18,273 | 11.1% | 260,009 | 11,080,626 | 42,616 |
| 2010 | 18,285 | 13.3% | 263,213 | 11,267,634 | 42,808 |
| 2011 | 18,288 | 13.1% | 264,923 | 12,125,514 | 45,770 |
| 2012 | 18,370 | 11.8% | 266,632 | 13,116,916 | 49,195 |
| 2013 | 18,373 | 10.3% | 269,444 | 13,456,565 | 49,942 |
| 2014 | 18,508 | 8.7% | 271,804 | 14,209,814 | 52,280 |
| 2015 | 19,718 | 7.5% | 274,146 | 15,696,689 | 57,257 |
| 2016 | 19,718 | 6.9% | 274,673 | 16,330,704 | 59,455 |
| 2017 | 19,770 | 5.7% | * | * | * |
| 2018 | 19,783 | * | * | * | * |

* Current data not available yet



Notes:

- (1) Only County data is updated annually. Therefore, the District has chosen to use its data since the District believes that the County data is representative of the conditions and experience of the District.
- (2) Population data is assumed at 2.5 persons per connection.

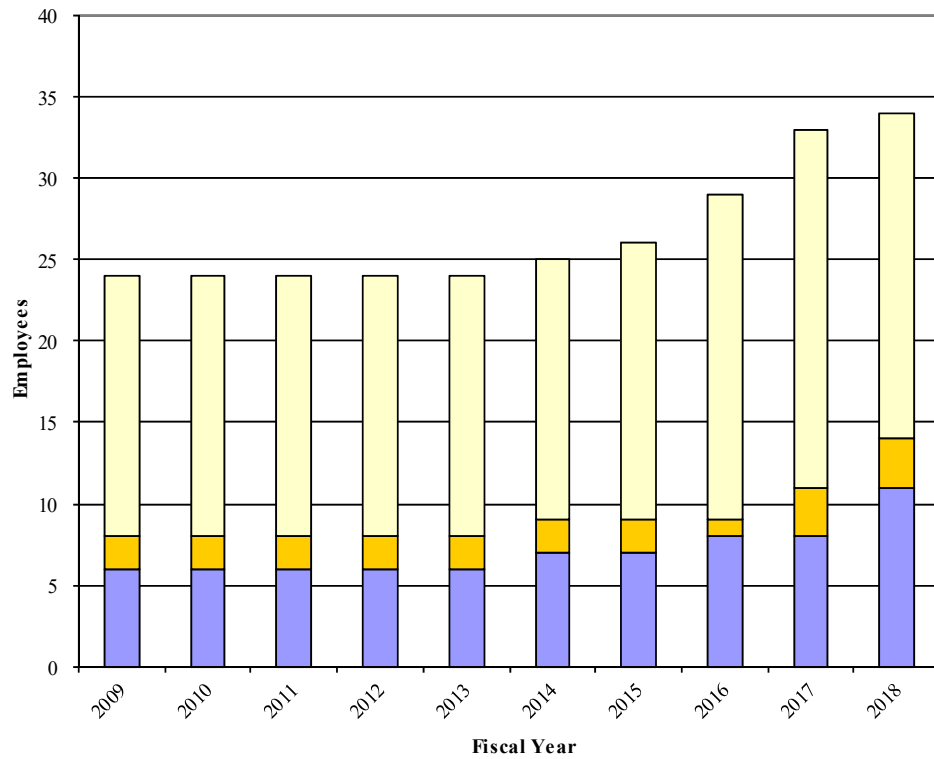
Sources: California Department of Finance, Bureau of Economic Analysis (BEA)
Bureau of Labor Statistics

**San Lorenzo Valley Water District
Full-Time Equivalent Employees
Last Ten Fiscal Years**

Schedule 11

Full-time Equivalent District Employees by Department

| Fiscal Year | District Administration | Watershed & Engineering | Treatment & Operations | Total |
|--------------------|--------------------------------|------------------------------------|-----------------------------------|--------------|
| 2009 | 6 | 2 | 16 | 24 |
| 2010 | 6 | 2 | 16 | 24 |
| 2011 | 6 | 2 | 16 | 24 |
| 2012 | 6 | 2 | 16 | 24 |
| 2013 | 6 | 2 | 16 | 24 |
| 2014 | 7 | 2 | 16 | 25 |
| 2015 | 7 | 2 | 17 | 26 |
| 2016 | 8 | 1 | 20 | 29 |
| 2017 | 8 | 3 | 22 | 33 |
| 2018 | 11 | 3 | 20 | 34 |



Source: SLVWD Finance Department

**San Lorenzo Valley Water District
Operating and Capacity Indicators
Last Ten Fiscal Years**

Schedule 12

Other Operating and Capacity Indicators

| Fiscal Year | District Area (Square Miles) | Miles of Pipeline | Storage Capacity (MG) | Production Capacity TP ⁽¹⁾ (MGD) | Production Capacity Wells ⁽¹⁾ (MGD) |
|--------------------|---|------------------------------|----------------------------------|--|---|
| 2009 | 58 | 140 | 8,472,000 | 2,300,000 | 1,800,000 |
| 2010 | 58 | 140 | 8,472,000 | 2,300,000 | 1,800,000 |
| 2011 | 58 | 140 | 8,472,000 | 2,300,000 | 1,800,000 |
| 2012 | 58 | 140 | 8,472,000 | 2,300,000 | 1,800,000 |
| 2013 | 58 | 140 | 8,472,000 | 2,300,000 | 1,800,000 |
| 2014 | 58 | 140 | 8,472,000 | 2,300,000 | 1,800,000 |
| 2015 | 58 | 140 | 8,472,000 | 2,300,000 | 1,800,000 |
| 2016 | 60 | 169 | 9,297,000 | 2,700,000 | 1,800,000 |
| 2017 | 60 | 169 | 9,297,000 | 2,700,000 | 1,800,000 |
| 2018 | 60 | 169 | 9,297,000 | 2,700,000 | 1,800,000 |

MG - Millions of Gallons

MGD - Millions of Gallons per Day

TP - Treatment Plant

Notes:

(1) Production capacity varies based on water levels during the year.

Sources: SLVWD Operations Department and Urban Water Management Plan

Report on Internal Controls and Compliance

DRAFT

DRAFT

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Lorenzo Valley Water District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 28, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Fedak & Brown LLP
Cypress, California
November 28, 2018

MEMO

TO: BOARD OF DIRECTORS
FROM: DISTRICT MANGER
SUBJECT: BOARD OF DIRECTORS MEETING 2018 DECEMBER DATE CHANGE
DATE: November 28, 2017

RECOMMENDATION

It is recommended that the Board of Directors discuss and adopt a meeting schedule adjustment for December 2018. The recommendation of staff is to move the regularly scheduled Board of Directors meeting from December 20th to December 13th.

BACKGROUND

Since January 2017, the regular day for the Board of Directors' meetings has been the third Thursday of each month. Due to a scheduling conflict with several Board members it is recommended that the meeting be moved to December 13th. The time and location of the meeting will remain the same.

STRATEGIC PLAN:

Element 9.0 - Administrative Management

FISCAL IMPACT:

None

MEMO

TO: Board of Directors

FROM: District Manager

SUBJECT: AUTHORIZATION FOR THE EXECUTION OF A CONVEYANCE
AGREEMENT AND AN INSTALLMENT PURCHASE CONTRACT, AND
RELATED ACTIONS

DATE: November 28, 2018

RECOMMENDATION:

It is recommended that the Board of Directors ("Board") review and adopt Resolution No. 15 (18-19), entitled "A RESOLUTION OF THE SAN LORENZO VALLEY WATER DISTRICT APPROVING A CONVEYANCE AGREEMENT AND AN INSTALLMENT PURCHASE CONTRACT, MAKING CERTAIN DETERMINATIONS RELATING THERETO; AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH."

It is further recommended that the Board review and approve the attached Addendum No. 1 to Engagement Agreement for Legal Services with Nossaman LLP.

BACKGROUND:

The San Lorenzo Valley Water District (the "District") desires to finance the cost of high-priority water system capital improvements, in particular the Probation Tank replacement ("Project"), and to reimburse the District for costs previously expended on the Project. In order to finance the Project and to pay the costs of the transaction, the District desires to enter into a Conveyance Agreement and Installment Purchase Contract with a lender.

The aggregate principal amount of the debt may not exceed \$2,000,000, with an interest rate of 4.15% Fixed Coupon for 20 years.

The Resolution would authorize the execution of the necessary agreements and certain related actions. At the time of this memorandum being written, there were still a handful of details to be worked out, so there are a few blanks in the attached Resolution. These will all be ironed out prior to Board action and completed copies will be made available as soon as possible.

The Resolution also would appoint Nossaman as Special Counsel representing the District in connection with this financing. Although the existing Engagement Letter with Nossaman covers public finance advice, this type of matter typically has a different fee

structure as set forth in the attached Addendum. It will be billed at a flat fee of \$20,000 (rather than hourly), including expenses, payable only upon closing of the financing, and only from the proceeds of the financing.

FINANCING STRUCTURE:

This type of debt is known as an Installment Purchase Contract financing. Essentially, we are conveying to the bank approximately \$2 million worth of our pipelines, tanks, etc., and they are giving us that amount of money in return. We then agree to buy back our assets from them at a specified rate and term. In this case, it is a 20 year term at 4.15%. These actions will occur simultaneously, so there will never really be any actual change in ownership of our assets. This type of financing structure is done routinely and is in compliance with all laws related to our agency.

ATTACHMENTS:

1. Draft Resolution No. 15 (18-19)
2. Proposed Addendum No. 1 to Engagement Agreement for Legal Services

The Resolution in final form and transaction documents will be provided as soon as possible to the distribution list for Board agenda packets. These documents also will be made available for review at the District's office located at 13057 Highway 9, Boulder Creek, CA 95006. For questions, please contact Stephanie Hill, District Director of Finance and Business Services.

FISCAL IMACT:

Total principal and interest to be paid over 20 years will be approximately \$2,982,500.

RESOLUTION NO. 15 (18-19)

A RESOLUTION OF THE SAN LORENZO VALLEY WATER DISTRICT APPROVING A CONVEYANCE AGREEMENT AND AN INSTALLMENT PURCHASE CONTRACT, MAKING CERTAIN DETERMINATIONS RELATING THERETO; AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the San Lorenzo Valley Water District (the “District”) is a county water agency duly organized and validly existing under the laws of the State of California; and

WHEREAS, the District is authorized by the laws of the State of California to acquire any real or personal property within or outside the District, to hold, manage, occupy, dispose of, convey, and encumber the property, and to create a leasehold interest in the property for the benefit of the District through the execution of installment purchase contracts; and

WHEREAS, the District desires to enter into a Conveyance Agreement between the District and _____ (the “Lender”), pursuant to which the District will sell the Project (as defined in the Installment Purchase Contract defined below) to the Lender in return for certain funds, which the District will use to finance construction, acquisitions, and improvements associated with District water storage facilities (the “Project”); and

WHEREAS, in order to finance the Project, the District has determined to enter into an Installment Purchase Contract, currently dated as December 1, 2018 (the “Installment Purchase Contract”), between the District and the Lender, pursuant to which the District will repurchase the Project from the Lender; and

WHEREAS, under and pursuant to such Installment Purchase Contract, the District will be obligated to make certain installment payments to the Lender; and

WHEREAS, there have been presented at this meeting forms of the Conveyance Agreement and the Installment Purchase Contract; and

WHEREAS, the District desires to appoint Nossaman LLP, as special counsel (“Special Counsel”), in connection with the financing of the Project; and

WHEREAS, Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) (“SB 450”) requires that the Board of Directors of the District (the “Board”) obtain from an underwriter, municipal advisor or private lender and disclose, prior to authorization of the issuance of bonds, including debt instruments such as the Installment Purchase Contract, with a term of greater than 13 months, good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the Installment Purchase Contract, (b) the sum of all fees and charges paid to third parties with respect to the Installment Purchase Contract, (c) the amount of proceeds of the Installment Purchase Contract expected to be received net of the fees and charges paid to third parties and any reserves or capitalized

interest paid or funded with proceeds of the Installment Purchase Contract, and (d) the sum total of all debt service payments on the Installment Purchase Contract calculated to the final maturity of the Installment Purchase Contract plus the fees and charges paid to third parties not paid with the proceeds of the Installment Purchase Contract; and

WHEREAS, in compliance with SB 450, the Board obtained from Municipal Capital Markets Group, Inc. (the “Placement Agent”) the required good faith estimates and such estimates are disclosed and set forth on Exhibit A attached hereto; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the financing and refinancing authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the District is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such financing for the purpose, in the manner and upon the terms herein provided

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED BY THE SAN LORENZO VALLEY WATER DISTRICT AS FOLLOWS:

SECTION 1. Recitals. All of the recitals herein contained are true and correct and the Board of Directors so finds.

SECTION 2. Approval of Conveyance Agreement. The form of Conveyance Agreement, currently dated as of December 1, 2018 (the “Conveyance Agreement”), between the District and the Lender, as presented to the District at this meeting, is hereby approved. The President of the Board of Directors, District Manager, the Director of Finance and Business Services, and the District Secretary or any other officers duly designated by the District (collectively, the “Officers”) are hereby authorized and directed, for and on behalf of the District, to execute, acknowledge and deliver the Conveyance Agreement, in substantially the form presented to the District at this meeting, with such changes therein as such Officers may require or approve, with the advice and approval of counsel to the District and Nossaman LLP (“Special Counsel”), such approval to be conclusively evidenced by the execution and delivery thereof.

SECTION 3. Approval of Installment Purchase Contract. The form of Installment Purchase Contract as presented to the District at this meeting, is hereby approved. The Officers are hereby authorized and directed, for and on behalf of the District, to execute, acknowledge and deliver the Installment Purchase Contract, in substantially the form presented to the District at this meeting, with such changes therein as such Officers may require or approve, with the advice and approval of counsel to the District and Special Counsel, such approval to be conclusively evidenced by the execution and delivery thereof. In connection therewith, the District approves the execution and delivery of the Installment Purchase Contract, so long as at the time of execution of the Installment Purchase Contract, the maturity does not exceed [20] years, the interest rate with respect to the Installment Payments does not initially exceed __%, and the principal amount does not exceed \$_____.

SECTION 4. SB 450 Information. In accordance with SB 450, good faith estimates of the following have been obtained from the Placement Agent and are set forth on Exhibit A attached hereto: (a) the true interest cost of the Installment Purchase Contract, (b) the sum of all fees and charges paid to third parties with respect to the Installment Purchase Contract, (c) the amount of proceeds of the Installment Purchase Contract expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Installment Purchase Contract, and (d) the sum total of all debt service payments on the Installment Purchase Contract calculated to the final maturity of the Installment Purchase Contract plus the fees and charges paid to third parties not paid with the proceeds of the Installment Purchase Contract.

SECTION 5. Special Counsel. The Board of Directors hereby appoints the firm of Nossaman LLP, as Special Counsel, in connection with the financing of the Project. The Board of Directors hereby authorizes the District Manager to execute and deliver an agreement with said firms for their respective services. Payment of fees and expenses with respect to such agreements shall be contingent upon the execution of the Installment Purchase Contract.

SECTION 6. Other Acts. The Officers and staff of the District are hereby authorized and directed, jointly and severally, to do any and all things, to execute and deliver any and all documents, including but not limited to a fee agreement, costs of issuance agreement, custodian agreement or other similar agreements, which in consultation with the District's General Counsel and Special Counsel, they may deem necessary or advisable in order to effectuate the purposes of this Resolution, and any and all such actions previously taken by such Officers or staff members are hereby ratified and confirmed.

SECTION 7. Effective Date. This Resolution shall take effect upon adoption.

PASSED, ADOPTED AND APPROVED at a public noticed meeting of the Board of Directors of the San Lorenzo Valley Water District held on November 28, 2018, by the following roll call vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED:

ATTEST:

Chairman

Board Secretary

Exhibit A

GOOD FAITH ESTIMATES

The following information was obtained from the Placement Agent and is provided in compliance with Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) with respect to the Installment Purchase Contract:

1. *True Interest Cost of the Installment Purchase Contract.* A good faith estimate of the true interest cost of the Installment Purchase Contract, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for Installment Purchase Contract, is ____%.

2. *Finance Charge of the Installment Purchase Contract.* A good faith estimate of the District's finance charge of the Installment Purchase Contract, which means the sum of all fees and charges paid to third parties (or costs associated with the Installment Purchase Contract), is \$_____.

3. *Amount of Proceeds to be Received by the District.* A good faith estimate of the amount of proceeds expected to be received by the District for sale of the Installment Purchase Contract less the finance charge of the Installment Purchase Contract described in paragraph 2 above, is \$____,000,000.

4. *Total Payment Amount.* A good faith estimate of the total payment amount, which means the sum total of all payments the District will make to pay debt service on the Installment Purchase Contract plus the finance charge of the Installment Purchase Contract described in paragraph 2 above not paid with the proceeds of the Installment Purchase Contract, calculated to the final maturity of the Installment Purchase Contract, is \$_____.

Addendum No. 1 to Engagement Agreement for Legal Services

THIS ADDENDUM (the "Addendum") is made and entered into this ____ day of November 2018, by and between the San Lorenzo Valley Water District, whose address is 13060 Highway 9, Boulder Creek, CA 95006 (the "District"), and Nossaman LLP, a partnership including professional corporations ("Nossaman"), whose address is 777 S. Figueroa Street, 34th Floor, Los Angeles, CA 90017.

WITNESSETH:

WHEREAS, the District and Nossaman have previously entered into an Engagement Agreement for Legal Services as General Counsel to San Lorenzo Valley Water District, dated as of June 20, 2017 (the "Agreement"), pursuant to which certain special counsel services, including bond and financial services, are to be billed on an hourly basis at the rates set forth therein;

WHEREAS, the District now proposes to finance the acquisition and construction of certain improvements to its water system of the District (the "Project"); and

WHEREAS, Nossaman is specifically trained and experienced in the conduct of proceedings for accomplishing financing of the Project through the preparation of a Conveyance Agreement and the Installment Purchase Contract and related documents and agreements for such purposes (the "Obligations"); and

NOW, THEREFORE, in consideration of the covenants and premises herein contained and other good and valuable consideration, the parties hereto agree as follows:

1. Duties. Nossaman shall provide legal services in connection with the authorization, execution and delivery of the Obligations (the "Transaction"). Such services shall include, but not be limited to, the following:

a. Conferring and consulting with the District's officers, administrative staff, financial advisor, underwriter and other representatives of the District in connection with the preparation and formulation of the Transaction.

b. Attendance at all meetings of the District and any administrative meetings at which the Transaction is to be discussed or otherwise deemed necessary for the proper planning of the Transaction, when requested to attend such meetings by the District.

c. Preparation of the Resolution, security documents and all other resolutions, agreements, notices and other documents necessary for the proper conduct and consummation of the Transaction.

d. A review of all financial documents for legal sufficiency.

e. Preparation of an incumbency certificate, an arbitrage certificate, and any and all other closing documents required of the District to accompany delivery of the financing documents.

f. Attendance at and supervision of the closing, and issuing the legal opinion of Nossaman stating that the interest payments with respect to the Obligations is exempt from present Federal and State income taxes, as the case may be, and approving in all respects the legality of all proceedings for the authorization, issuance, sale and delivery of the Obligations and other agreements relating to the Transaction.

j. Preparation of a transcript of the closing of the Transaction.

h. Conferring and consulting with District officials and agents with regard to any problems which may arise prior to the maturity of the issuance.

i. Providing any other necessary services, including ongoing monitoring of the Transaction after the sale of the Obligations and assistance to the District regarding the Transaction, generally expected of Nossaman not listed above.

2. Compensation. For provision of the services to be rendered pursuant to this Addendum relating to the financing of the Project, and in lieu of the usual hourly billing for legal services described in the Agreement, the District shall pay Nossaman a flat fee of not to exceed \$20,000, which fee shall include any out-of-pocket expenses incurred by it in the course of this engagement, such as reproduction and printing costs, word processing time, long distance telephone calls, travel at the request of the District and similar items. Said fee is payable only upon issuance of the Obligations, and shall be paid from proceeds thereof.

In the event Nossaman is requested to perform additional work outside of its normal and customary services as special counsel or disclosure counsel, such as litigation, Nossaman will be paid pursuant to the standard terms of the Agreement.

3. Assignment. This Addendum may be assigned by the District to any other issuer of the securities as may be necessary to consummate the Transaction, without the consent of but with notice to Nossaman.

4. No Guarantees; Entire Agreement. Nothing in this Addendum and nothing in our statements to you should be construed as a guarantee or promise about the outcome of the Transaction or any phase thereof. We make no such guarantees or promises. Comments about the course or outcome of the Transaction or any phase thereof which we may make from time to time are expressions of opinion only. This written Addendum constitutes the entire agreement between the parties hereto with respect to Nossaman services with respect to the Transaction and the Obligations only, and neither party has been induced to make or enter into this Addendum by reason or promise, agreement, representation, statement or warranty other than as herein contained.

5. Counterparts. This Addendum may be executed in counterparts each of which shall be deemed an original but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Addendum to be executed by their respective officers and representatives thereto duly authorized, all as of the day and year first above written.

**SAN LORENZO VALLEY WATER
DISTRICT**

By: _____
District Manager

NOSSAMAN LLP, a partnership including
professional corporations

By: _____
Katherine Thursby, a Partner