

NOTICE OF SPECIAL BUDGET & FINANCE COMMITTEE MEETING

Responsible for the review of District finances including: rates, fees, charges and other sources of revenue; budget and reserves; audit; investments; insurance; and other financial matters.

NOTICE IS HEREBY GIVEN that the San Lorenzo Valley Water District has called a special meeting of the Budget & Finance Committee to be held on Tuesday, **November 14, 2017 at 9:30 a.m.** at the Operations Building, 13057 Highway 9, Boulder Creek, California.

AGENDA

1. Convene Meeting/Roll Call
2. Oral Communications
This portion of the agenda is reserved for Oral Communications by the public for items which are not on the Agenda. Please understand that California law (The Brown Act) limits what the Board can do regarding issues raised during Oral Communication. No action or discussion may occur on issues outside of those already listed on today's agenda. Any person may address the Committee at this time, on any subject that lies within the jurisdiction of this committee. Normally, presentations must not exceed three (3) minutes in length, and individuals may only speak once during Oral Communications. Any Director may request that the matter be placed on a future agenda or staff may be directed to provide a brief response.
3. Old Business:
Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.
 - A. COMPENSATION STUDY
Discussion and possible action by the Committee regarding a review of draft documents for the Compensation Study.
4. New Business:
Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.
 - A. REVIEW DRAFT FISCAL YEAR 16-17 COMPREHENSIVE ANNUAL FINANCIAL REPORT
Discussion and possible action by the Committee regarding the draft FY16-17 CAFR.
 - B. REVISED FISCAL YEAR 17/18 BUDGET
Discussion and possible action by the Committee regarding a review of draft updates for the Revised FY17/18 Budget.

C. STABILIZATION RATE COMSUMPTION SCHEDULE

Discussion and possible action by the Committee regarding a review of draft Stabilization Rate Consumption Schedule.

5. Informational Material: None.

6. Adjournment

In compliance with the requirements of Title II of the American Disabilities Act of 1990, the San Lorenzo Valley Water District requires 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 Office at (831) 338-2153 a minimum of 72 hours prior to the scheduled meeting.

Agenda documents, including materials related to an item on this agenda submitted to the Committee 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 may also be available on the District website at www.slvwd.com subject to staff's ability to post the documents before the meeting.

Certification of Posting

I hereby certify that on November 9, 2017, 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 Budget & Finance Committee of the San Lorenzo Valley Water District in compliance with California Government Code Section 54956.

Executed at Boulder Creek, California, on November 9, 2017.

Holly B. Morrison, District Secretary
San Lorenzo Valley Water District



MEMORANDUM OF AGREEMENT

BETWEEN THE CLASSIFIED EMPLOYEES UNIT,
THE MANAGEMENT EMPLOYEES UNIT,
AND
THE SAN LORENZO VALLEY WATER DISTRICT

Purpose

This Memorandum of Agreement ("MOA") sets forth the terms by which the San Lorenzo Valley Water District ("the District"), Classified Employees Unit, and Management Employees Unit will work together to conduct a Classification & Compensation Study. The intention of this study is to analyze the District's classification system and total compensation package through a comprehensive process of internal and external evaluation, and implement relevant changes to the District's pay range structure. The last compensation study that the District engaged in was in 2002, so this study is critical in determining whether the District's pay structure is appropriate or may need adjustments.

Key Stakeholders

- ❖ Classification & Compensation Study Committee
 - *Brian Lee - District Manager*
 - *Stephanie Hill – Management Employee Representative*
 - *James Furtado - Management Employee Representative*
 - *Detlef Adam – Classified Employee Representative*
 - *Carol McEwan – AFSCME Business Agent*
 - *Kendra Conrad – Human Resources Specialist*
- ❖ Budget & Finance Committee
 - *Gene Ratcliffe, Board President*
 - *Charles Baughman, Board Vice President*
 - *John Hayes (public member)*

Process and Objectives

The first step of this study includes an internal review of classifications, ensuring that all job descriptions are accurate, up-to-date, and in alignment with each classification. This process will be conducted in partnership with managers, employees, Human Resources, and AFSCME. If there is a need for any job description changes or title changes, those changes will go through the bargaining process. Promotional opportunities will not be reviewed as part of this process. It is anticipated that this portion of the study will be completed by January 31, 2017.

The second step of this study includes hiring an external consultant to benchmark District classifications, benefits, and pay ranges against the market data of comparable agencies. The Classification & Compensation Study Committee, and the Board of Directors will be responsible for selecting a consultant who has an understanding of the challenges the District faces relative to finding comparable agencies and classifications. Based on the market data, pay levels and adjustments will then be discussed, and the Classification & Compensation Study Committee will determine how to implement those adjustments in partnership with the



consultant. Although the District's total compensation package will be reviewed, no changes to benefits will be made as a result of any findings, and salary ranges will not be adjusted in the negative. The District is committed to providing equitable pay scales that are in alignment with the market median for all classifications, and each position should fall within an agreed upon and reasonable range that is in alignment with consultant recommendations. It is anticipated that this portion of the study will be completed by June 30, 2018, with implementation beginning in FY18/19.

Once it is determined that adjustments need to be made to the MOU for Classified Employees (dated on January 19, 2017) and/or the MOU for Management Employees (also dated on January 19, 2017), a letter of agreement will be added to the current MOU's, reflecting the updates.

Authorization

The signing of this MOA implies that the signatories will strive to reach, to the best of their ability, the objectives stated in the MOA.

Brian Lee, District Manager

Date

James Furtado, Management Employee Representative

Date

Stephanie Hill, Management Employee Representative

Date

Detlef Adam, Classified Employee Representative

Date

Carol McEwan, AFSCME Business Agent

Date

Kendra Conrad, Human Resources Specialist

Date

Gene Ratcliff, Board President

Date



REQUEST FOR PROPOSALS

TO PROVIDE:

COMPENSATION STUDY

PROJECT TITLE:

2018 COMPENSATION STUDY

RESPONSE DUE BEFORE 4:00 P.M.

ON

JANUARY 5, 2018

**San Lorenzo Valley Water District
13060 Highway 9
Boulder Creek, CA 95006
(831) 430-4620**

INTRODUCTION

The San Lorenzo Valley Water District (the District) is soliciting proposals from qualified consultants to conduct a comprehensive compensation study and analysis of all District staff positions. The selected consultant is expected to develop externally competitive and internally equitable salary schedule recommendations for all job classifications, as well as perform an analysis of current job classifications and pay differential relationships relative to the organizational hierarchy. A detailed scope of services is included.

1. GENERAL INFORMATION

San Lorenzo Valley Water District (SLVWD or the District) is an rural water supplier established in 1941 and serves a population of approximately 20,000 people (7,900 connections) in several communities within the 136 square-mile San Lorenzo River watershed. The District is governed by a five-member Board elected at-large for four-year overlapping terms.

The District owns, operates, and maintains four permitted water systems comprised of thirty-four pressure zones. Each service area has separate individual water sources. The North Service Area includes the unincorporated communities of Boulder Creek, Brookdale, Ben Lomond and Lompico. The South Service Area encompasses portions of the City of Scotts Valley and adjacent unincorporated neighborhoods. The Felton Service Area includes the town of Felton and adjacent unincorporated areas.

The District's legal boundaries encompass approximately 60 square miles. Land uses include timber, State and regional parks, water supply watersheds, rural residential, low-density urban residential and commercial, quarries, agriculture, and other open space. Within these boundaries, the District's service areas have a combined area of approximately 26 square miles and individual areas as follows: North Service Area (23 square miles), South Service Area (0.8 square mile), and Felton Service Area (2.2 square miles). Their individual water supply systems are referred to as the North, South, and Felton Systems.

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.

The scale and complexity of SLVWD's water distribution system (34 pressure zones) reflect the San Lorenzo Valley's rugged topography, dispersed pattern of development, and widely distributed raw water sources. The District's systems have limited above-ground storage capacity equal to a few days' average use, and rely on groundwater for seasonal and year-to-year storage. The District produces and treats water based on immediate water demand.

The District also operates a wastewater system. The Bear Creek Estates Sanitary System (BCESS) serves approximately 50 homes.

The overall enterprise budget for the 2017/2018 year are budgeted at \$11.4M, with \$7.2M being operating expenses, \$3.1M capital expenditures and \$1.1M debt related.

2. BACKGROUND INFORMATION REGARDING THE RFP

- a. There are 22 job classifications encompassing 34 full-time employees
 - i. Classified Employees Unit, represented by a union, consists of 24 employees
 - ii. Management, Supervisory and Confidential Employee Unit, self-represented, consists of 9 employees

- iii. District Manager has an employment contract with the Board of Directors, consists of 1 employee
- b. Current salary schedules consist of 7 steps, with 5% increases between each step
- c. Cost of living increases are determined by the respective Unit's Memorandum of Understanding (MOU) and go into effect January of each year
- d. The District's fiscal year begins July 1st and ends June 30th
- e. The RFP Management Team (Management Team) that will coordinate and work with the consultant will consist of the following:
 - i. 3 members of the Budget & Finance Committee
 - ii. District Manager
 - iii. Direct of Finance
 - iv. Human Resources Specialist
 - v. Classified Unit Representative
 - vi. Management Unit Representative

3. SCOPE OF SERVICES

The District expects ongoing and open communication between the Management Team and the Consultant during each phase of the study. The Management Team will work with the Consultant to review job classifications, understand the District's organizational chart, and identify organizations that are similar and relevant to the District in terms of size (as measured by annual budget and/or connections), system characteristics and geography. The Management Team will also assist the consultant in finding comparable job classifications in comparison with the District's. While the Compensation Study is expected to compare full benefit packages against comparable agencies, only the District's salary schedule will be review and adjusted if deemed necessary.

a. PHASE I

- i. The District will provide the following information to the Consultant:
 - 1. Job classification descriptions. These are currently being reviewed and updated
 - 2. All salary schedules
 - 3. Current year 2017/2018 Budget
 - 4. Organization Chart
- ii. Schedule an initial meeting with the Management Team to discuss the process and tasks to be performed, such as methodology, project timelines and project deliverables
- iii. Phases will continue once an agreed upon strategy is reached.

b. PHASE II

- i. Consultant to provide no fewer than 10 and no more than 25 comparable agencies to discuss with the Management Team
 - 1. The key attributes making the agencies comparable should be identified, such as, but not limited to: number of connections, annual budget, geography, labor market, cost of living, system characteristics etc.
- ii. Management Team and Consultant to agree upon no fewer than 5 comparable agencies
- iii. Consultant to attend a public meeting to explain the study, comparable agency selection, methods and techniques to develop the study and data

c. PHASE III

- i. Consultant to present relevant salary data to be able to show maximum, median and mean salary ranges

- ii. Present the proposed salary range schedule and methodology used to achieve:
 - 1. Internal equity and external validity
 - 2. Proper salary range separation between job classification hierarchy

d. PHASE IV

- i. Provide recommendations for how to implement any changes to the salary ranges
- ii. Recommendations for how to adjust salary ranges in the future

e. PHASE V

- i. Formal presentation to the Board

4. PROPOSAL REQUIREMENTS

- a. The proposal shall not exceed 15 pages excluding cover letter, dividers, front and back covers. Responses to this RFP shall be in the following order and shall include:
 - i. Executive Summary (3 pages maximum) - Summarize the contents of your firm's proposal in a clear and concise manner. Include a timeline of study
 - ii. Firm Description (3 pages maximum) - Describe the nature of your firm's practice and your qualifications for providing services for the District
 - iii. Identification of consultants (2 pages maximum per individual)
 - iv. Experience and Past Performance (3 pages max)
 - 1. Include 3 references, include the following information:
 - a. Contact name and phone number
 - b. Agency size and description
 - c. Agency budget
 - d. Approach for the intricacies in finding comparable agencies and job classifications for comparison
 - v. Firm's Local Experience (2 page maximum) - Describe the firm's experience and knowledge with the County of Santa Cruz and San Lorenzo Valley
 - vi. Proposed Total Professional Fee and Fee Schedules (2 page maximum)

5. EVALUATION CRITERIA

The evaluation criteria and the respective weights that will be given to each criterion are as follows:

| | |
|--|-----|
| 1. Executive Summary | 10% |
| 2. Project Description | 25% |
| 3. Identification of Consultant | 5% |
| 4. Project Organization and Experience | 25% |
| 5. Past Performance, Including Cost and Schedule Control | 20% |
| 6. Firm's Local Experience | 10% |
| 7. Proposed Fee | 5% |

6. SELECTION PROCESS

The Management Team will evaluate proposals based on the criteria listed above. The top 3 proposals may be requested to come in for interviews.

After negotiating a proposed agreement that is fair and reasonable, the District Manager will present the contract to the District's Board for authorization to execute a contract with the most responsive firm.

7. SELECTION SCHEDULE

The District anticipates that the process for selection of firm and awarding of the contract will be according to the following tentative schedule:

| | |
|----------------------------------|------------------------|
| Proposal Due Date | January 5, 2018 |
| Potential Interview | January 18, 2018 |
| Board of Directors Approval | February 15, 2018 |
| Final Selection and Notification | February 19, 2018 |

8. SPECIAL CONDITIONS / ATTACHMENTS

- None

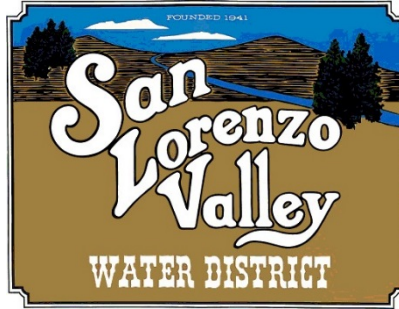
9. SUBMITTAL REQUIREMENTS

1. Four (4) copies of the Proposal shall be submitted. Submit one electronic copy of the proposal in PDF via e-mail or format (on CD, DVD or Thumb Drive). The Response shall be signed by an individual, partner, officer or officers authorized to execute legal documents on behalf of the Firm.
2. The Response Proposal must be received no later than **4:00 p.m.** local time, on or before **January 5, 2018** at the office of:

**San Lorenzo Valley Water District
13060 Highway 9
Boulder Creek, CA 95006**

Attn: Director of Finance (Stephanie Hill)

Failure to comply with the requirements of this RFP may result in disqualification. Questions regarding this RFP shall be submitted in writing to **shill@slvwd.com**.



**San Lorenzo Valley Water District
Comprehensive Annual Financial Report
Fiscal Years June 30, 2017 and 2016**



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, 2017

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

**Brian Lee, 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 Years Ended June 30, 2017 and 2016

Prepared by:

Stephanie Hill, Director of Finance and Business Services

**San Lorenzo Valley Water District
Comprehensive Annual Financial Report
Fiscal Years Ended June 30, 2017 and 2016**

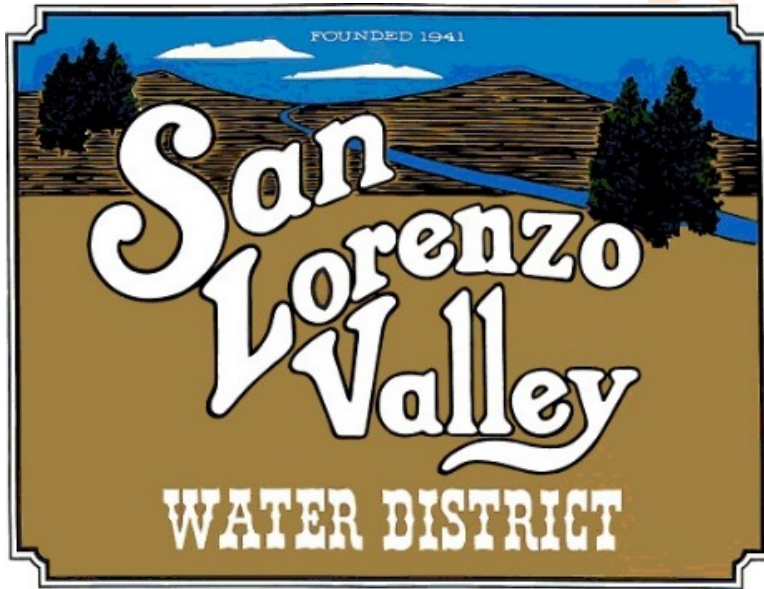
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**San Lorenzo Valley Water District
Comprehensive Annual Financial Report
Fiscal Years Ended June 30, 2017 and 2016**

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Introductory Section



December 7, 2017

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, 2017, 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, 2017. 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 29 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.

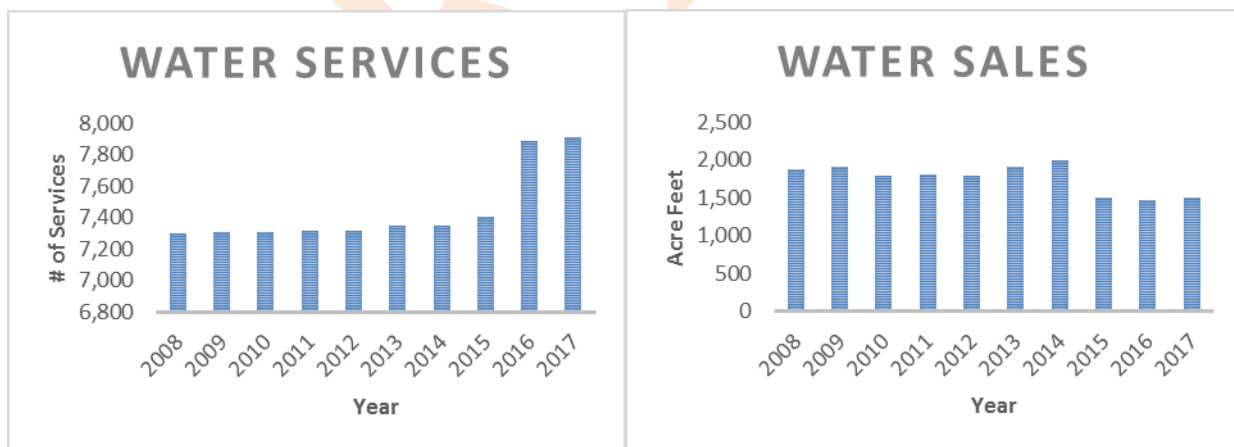
The District owns, operates, and maintains a wastewater system in Boulder Creek's Bear Creek Estates, which serves approximately 56 homes.

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

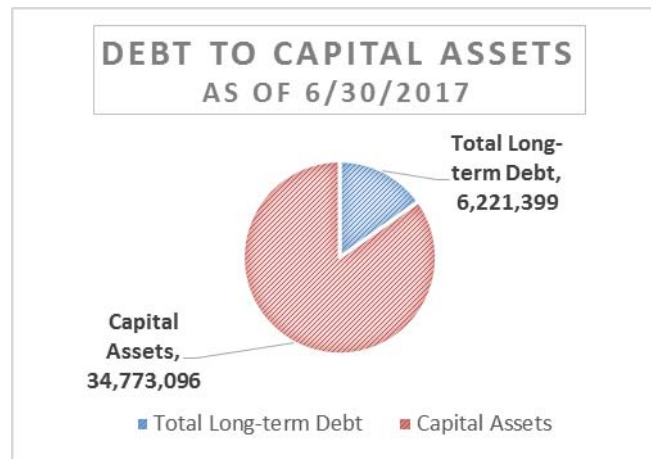
The District's administrative offices are located in the Town of Boulder Creek in Santa Cruz County. The economic outlook for the area is one of cautious growth as the regional economy recovers from prolonged recessionary pressures and drought conditions.

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.



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.

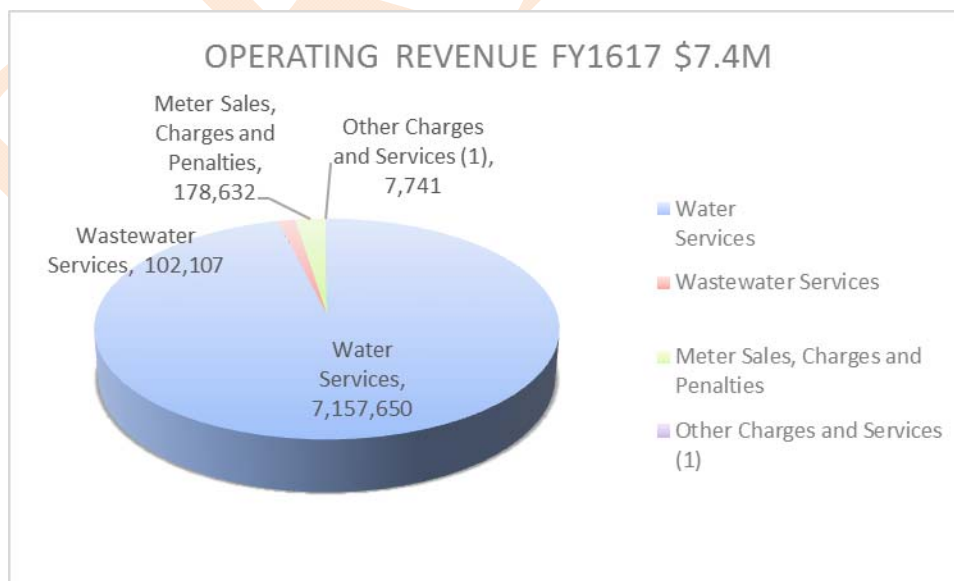
Investment Policy

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 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. In 2016, the District initiated a cost-of-service study, which will lead into a new rate study.



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

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, 2016. 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.

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,

Brian Lee
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:



**Gene Ratcliffe
(Vice-President)**



**Bill Smallman
(Director)**



**Margaret Bruce
(Director)**

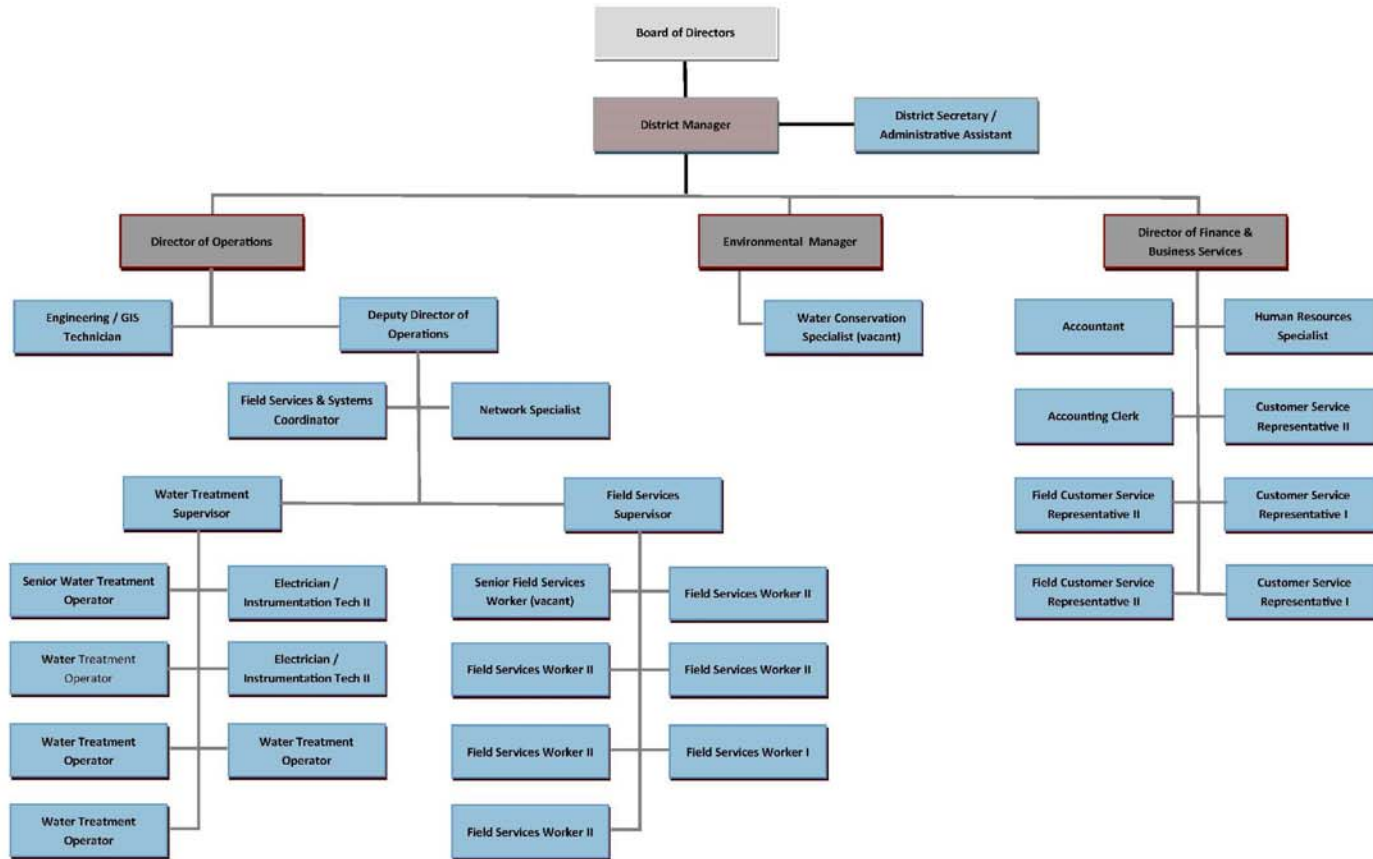


**Charles Baughman
(Vice-President)**



**Eric Hammer
(Director)**

San Lorenzo Valley Water District Organizational Chart



As of 6/30/2017



Government Finance Officers Association

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**San Lorenzo Valley Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morrell

Executive Director/CEO

Financial Section

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 statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; 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 opinions.

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, 2017 and 2016, 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

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 19 and the required supplementary information on pages 56 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 9, the supplemental information schedules on pages 59 through 64, and the statistical section on pages 65 through 78, 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 December 7, 2017, 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 79 and 80

Fedak & Brown LLP
Cypress, California
December 7, 2017

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San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the San Lorenzo Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2017 and 2016. 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 0.15% or \$40,918 to \$28,255,435. In fiscal year 2016, the District's net position increased 10.31% or \$2,636,351 to \$28,214,517.
- Operating revenues increased 15.33% or \$989,949 to \$7,446,130. In fiscal year 2016, the District's operating revenues increased 14.4% or \$812,710 to \$6,456,181.
- Non-operating revenues increased 82.15% or \$547,186 to \$1,213,244. In fiscal year 2016, the District's non-operating revenues decreased 31.36% or \$304,254 to \$666,058.
- Operating expenses increased 27.85% or \$1,548,619 to \$7,109,458. In fiscal year 2016, the District's operating expenses increased 0.15% or \$8,505 to \$5,560,839.
- Non-operating expenses decreased 10.36% or \$19,207 to \$166,204. In fiscal year 2016, the District's non-operating expenses increased 45.02% or \$57,561 to \$185,411.

Required Financial Statements

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

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

The Statements of Net Position include 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 Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the District's operations over the past years and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. These statements can also be used to evaluate profitability and credit worthiness. The final required financial statements are the Statements of Cash Flows, which provide information about the District's cash receipts and cash payments during the reporting period. The Statements 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 Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Financial Analysis of the District, continued

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.

These two statements report the District's *net position* and changes in them. You 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 25 through 55.

Statements of Net Position

Condensed Statements of Net Position

| | <u>2017</u> | <u>2016</u> | <u>Change</u> | <u>As Restated 2015</u> | <u>Change</u> |
|---------------------------------------|----------------------|-------------------|------------------|-----------------------------|--------------------|
| Assets: | | | | | |
| Current assets | \$ 3,928,212 | 4,371,123 | (442,911) | 7,308,477 | (2,937,354) |
| Non-current assets | - | - | - | 102,252 | (102,252) |
| Capital assets | <u>34,773,096</u> | <u>35,206,226</u> | <u>(433,130)</u> | <u>30,525,596</u> | <u>4,680,630</u> |
| Total assets | <u>38,701,308</u> | <u>39,577,349</u> | <u>(876,041)</u> | <u>37,936,325</u> | <u>1,641,024</u> |
| Deferred outflows of resources | <u>1,007,189</u> | <u>378,695</u> | <u>628,494</u> | <u>238,829</u> | <u>139,866</u> |
| Liabilities: | | | | | |
| Current liabilities | 1,860,333 | 2,388,761 | (528,428) | 2,454,228 | (65,467) |
| Non-current liabilities | <u>9,327,625</u> | <u>8,851,089</u> | <u>476,536</u> | <u>9,367,423</u> | <u>(516,334)</u> |
| Total liabilities | <u>11,187,958</u> | <u>11,239,850</u> | <u>(51,892)</u> | <u>11,821,651</u> | <u>(581,801)</u> |
| Deferred inflows of resources | <u>265,104</u> | <u>501,677</u> | <u>(236,573)</u> | <u>775,337</u> | <u>(273,660)</u> |
| Net position: | | | | | |
| Net investment in capital assets | 28,551,697 | 28,535,901 | 15,796 | 23,227,784 | 5,308,117 |
| Restricted | 322,728 | 403,624 | (80,896) | 229,790 | 173,834 |
| Unrestricted (deficit) | <u>(618,990)</u> | <u>(725,008)</u> | <u>106,018</u> | <u>2,120,592</u> | <u>(2,845,600)</u> |
| Total net position | <u>\$ 28,255,435</u> | <u>28,214,517</u> | <u>40,918</u> | <u>25,578,166</u> | <u>2,636,351</u> |

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 \$28,255,435 and \$28,214,517 as of June 30, 2017 and 2016, respectively.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Statements of Net Position, continued

Compared to the prior year, net position of the District increased 0.15% or \$40,918 in fiscal year 2017, and 10.31% or \$2,636,351 in fiscal year 2016. 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% and 101% as of June 30, 2017 and 2016) 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 11 for further information.

At the end of fiscal years 2017 and 2016, the District showed a balance in its unrestricted net position (deficit) of \$(618,990) and \$(725,008), respectively. See Note 11 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>2017</u> | <u>2016</u> | <u>Change</u> | <u>As Restated 2015</u> | <u>Change</u> |
|---|----------------------|-------------------|--------------------|-----------------------------|------------------|
| Revenues: | | | | | |
| Operating revenues | \$ 7,446,130 | 6,456,181 | 989,949 | 5,643,471 | 812,710 |
| Non-operating revenues | 1,213,244 | 666,058 | 547,186 | 970,312 | (304,254) |
| Total revenues | <u>8,659,374</u> | <u>7,122,239</u> | <u>1,537,135</u> | <u>6,613,783</u> | <u>508,456</u> |
| Expenses: | | | | | |
| Operating expenses | 7,109,458 | 5,560,839 | 1,548,619 | 5,552,334 | 8,505 |
| Non-operating expenses | 166,204 | 185,411 | (19,207) | 127,850 | 57,561 |
| Overhead absorption | (74,683) | (19,637) | (94,320) | (24,644) | 5,007 |
| Depreciation | 1,417,477 | 1,326,056 | 91,421 | 1,139,110 | 186,946 |
| Total expenses | <u>8,618,456</u> | <u>7,052,669</u> | <u>1,565,787</u> | <u>6,794,650</u> | <u>258,019</u> |
| Net income (loss) before capital contributions | <u>40,918</u> | <u>69,570</u> | <u>(28,652)</u> | <u>(180,867)</u> | <u>250,437</u> |
| Capital contributions | <u>-</u> | <u>1,557,589</u> | <u>(1,557,589)</u> | <u>2,287,233</u> | <u>(729,644)</u> |
| Change in net position | <u>40,918</u> | <u>1,627,159</u> | <u>(1,586,241)</u> | <u>2,106,366</u> | <u>(479,207)</u> |
| Transfer in from merger | - | 1,009,192 | (1,009,192) | - | 1,009,192 |
| Net position, beginning of period, as restated | 28,214,517 | 25,578,166 | 2,636,351 | 26,319,071 | (740,905) |
| Prior period adjustment (note 8) | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,847,271)</u> | <u>2,847,271</u> |
| Net position, beginning of period, as restated | <u>28,214,517</u> | <u>26,587,358</u> | <u>1,627,159</u> | <u>23,471,800</u> | <u>3,115,558</u> |
| Net position – end of period | <u>\$ 28,255,435</u> | <u>28,214,517</u> | <u>40,918</u> | <u>25,578,166</u> | <u>2,636,351</u> |

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

The District's net position increased 0.15% or \$40,918 to \$28,255,435, as a result of ongoing operations. In fiscal year 2016, the District's net position increased 10.31% or \$2,636,351 to \$28,214,517, which is comprised of an increase from operations of \$1,627,159 and an increase from the transfer of operations of the Lompico County Water District (Lompico) in the amount of \$1,009,192. Please see note 12 of the basic financial statements for further discussion.

Total Revenues

| | <u>2017</u> | <u>2016</u> | <u>Change</u> | <u>As Restated 2015</u> | <u>Change</u> |
|---------------------------------------|---------------------|------------------|-----------------|-----------------------------|------------------|
| Operating revenues: | | | | | |
| Water consumption sales | \$ 7,157,650 | 6,145,076 | 1,012,574 | 5,402,115 | 742,961 |
| Wastewater service | 102,107 | 98,262 | 3,845 | 100,088 | (1,826) |
| Meter sales, charges and penalties | 178,632 | 194,444 | (15,812) | 124,896 | 69,548 |
| Other charges and services | 7,741 | 18,399 | (10,658) | 16,372 | 2,027 |
| Total operating revenues | <u>7,446,130</u> | <u>6,456,181</u> | <u>989,949</u> | <u>5,643,471</u> | <u>812,710</u> |
| Non-operating revenues: | | | | | |
| Property tax/assessment revenues | 1,129,838 | 610,634 | 519,204 | 762,752 | (152,118) |
| Realized gain on investments | 13,858 | 11,502 | 2,356 | - | 11,502 |
| Rental revenue | 59,548 | 43,922 | 15,626 | 29,713 | 14,209 |
| Gain on disposition of capital assets | - | - | - | 34,499 | (34,499) |
| Settlement and purchase agreements | 10,000 | - | 10,000 | 145,257 | (145,257) |
| Total non-operating revenues | <u>1,213,244</u> | <u>666,058</u> | <u>547,186</u> | <u>972,221</u> | <u>(306,163)</u> |
| Capital contributions: | | | | | |
| Capital grants - other governments | - | 1,557,589 | (1,557,589) | 2,287,233 | (729,644) |
| Total revenues | <u>\$ 8,659,374</u> | <u>8,679,828</u> | <u>(20,454)</u> | <u>8,902,925</u> | <u>(223,097)</u> |

The District's total revenues decreased \$20,454. Operating revenues increase by \$989,949, primarily due to an increase in water consumption sales of \$1,012,574, which was offset by decreases in meter sales of \$15,812 and charges and penalties of \$10,658. Non-operating revenues increase by \$547,186, primarily due to an increase of \$519,204 in property tax/assessment revenues. Capital contributions decrease by \$1,557,589 due to the completion of its grant project with the California Department of Public Health (State) in fiscal year 2016.

In fiscal year 2016, total revenues decreased \$223,097. Operating revenues increase by \$812,710, primarily due to an increase in water consumption sales of \$742,961 and an increase in meter sales, charges and penalties of \$69,548. Non-operating revenues decrease by \$306,163, primarily due to decreases of \$152,118 in property tax/assessment revenues and a \$145,257 decrease in settlement and purchase agreements. Capital contributions decrease by \$729,644 due to the completion of its grant project with the California Department of Public Health (State).

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Total Expenses

| | <u>2017</u> | <u>2016</u> | <u>Change</u> | <u>2015</u> | <u>Change</u> |
|--------------------------------|---------------------|------------------|------------------|------------------|---------------|
| Operating expenses: | | | | | |
| Salaries and benefits | \$ 4,498,595 | 3,304,540 | 1,194,055 | 3,463,964 | (159,424) |
| Professional services | 1,202,004 | 868,218 | 333,786 | 764,684 | 103,534 |
| Operational | 464,236 | 410,342 | 53,894 | 312,377 | 97,965 |
| Maintenance | 130,244 | 183,215 | (52,971) | 143,216 | 39,999 |
| Facilities | 499,400 | 442,014 | 57,386 | 495,691 | (53,677) |
| General and administrative | 314,979 | 352,510 | (37,531) | 372,402 | (19,892) |
| Total operating expenses | <u>7,109,458</u> | <u>5,560,839</u> | <u>1,548,619</u> | <u>5,552,334</u> | <u>8,505</u> |
| Non-operating expenses: | | | | | |
| Realized loss on investments | - | - | - | 1,909 | (1,909) |
| Interest expense | <u>166,204</u> | <u>185,411</u> | <u>(19,207)</u> | <u>127,850</u> | <u>57,561</u> |
| Total non-operating expenses | <u>166,204</u> | <u>185,411</u> | <u>(19,207)</u> | <u>129,759</u> | <u>55,652</u> |
| Total expenses | <u>\$ 7,275,662</u> | <u>5,746,250</u> | <u>1,529,412</u> | <u>5,682,093</u> | <u>64,157</u> |

The District's total expenses increased \$1,529,412. The District's operating expenses increased by \$1,548,619, primarily due to an increase in salaries and benefits of \$1,194,055 and an increase in professional services of \$333,786. The District's non-operating expenses decreased \$19,207, primarily due to a decrease in interest expense.

In fiscal year 2016, the District's total expenses increased \$64,157. The District's operating expenses increased by \$8,505. The District's non-operating expenses increased \$55,652, primarily due to an increase in interest expense of \$57,561.

Capital Asset Administration

Change in capital assets amounts for 2017, were as follows:

| | <u>Balance</u> | | <u>Transfers/</u> | <u>Balance</u> |
|--------------------------|----------------------|--------------------|--------------------|---------------------|
| | <u>2016</u> | <u>Additions</u> | <u>Disposals</u> | <u>2017</u> |
| Capital assets: | | | | |
| Non-depreciable assets | \$ 14,972,454 | 946,712 | (8,894,929) | 7,024,237 |
| Depreciable assets | 49,283,735 | 8,932,564 | - | 58,216,299 |
| Accumulated depreciation | <u>(29,049,963)</u> | <u>(1,417,477)</u> | <u>-</u> | <u>(30,467,440)</u> |
| Total capital assets | <u>\$ 35,206,226</u> | <u>8,461,799</u> | <u>(8,894,929)</u> | <u>34,773,096</u> |

Change in capital assets amounts for 2016, were as follows:

| | <u>Balance</u> | | <u>Transfers/</u> | <u>Balance</u> |
|--------------------------|----------------------|--------------------|--------------------|---------------------|
| | <u>2015</u> | <u>Additions</u> | <u>Disposals</u> | <u>2016</u> |
| Capital assets: | | | | |
| Non-depreciable assets | \$ 13,979,427 | 4,789,884 | (3,796,857) | 14,972,454 |
| Depreciable assets | 41,383,575 | 7,900,160 | - | 49,283,735 |
| Accumulated depreciation | <u>(24,837,406)</u> | <u>(4,212,557)</u> | <u>-</u> | <u>(29,049,963)</u> |
| Total capital assets | <u>\$ 30,525,596</u> | <u>8,477,487</u> | <u>(3,796,857)</u> | <u>35,206,226</u> |

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Capital Asset Administration, continued

At the end of fiscal years 2017 and 2016, the District's investment in capital assets amounted to \$34,773,096 and \$35,206,226 (net of accumulated depreciation), respectively. 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.

In fiscal year 2016, the District's additions to accumulated depreciation include depreciation expense of \$1,326,056 and the transfer of accumulated depreciation balance from Lompico in the amount of \$2,886,501.

See Note 5 for further capital asset information.

Debt Administration

Changes in long-term debt amounts for the year ended June 30, 2017, were as follows:

| | <u>Balance 2016</u> | <u>Additions</u> | <u>Principal Payments</u> | <u>Balance 2017</u> |
|-----------------------|-------------------------|------------------|-------------------------------|-------------------------|
| Long-term debt: | | | | |
| Notes payable | \$ 3,416,993 | 310,019 | (175,769) | 3,551,243 |
| Bonds payable | 3,253,332 | - | (697,478) | 2,555,854 |
| Capital lease payable | - | 114,302 | - | 114,302 |
| Total long-term debt | <u>\$ 6,670,325</u> | <u>424,321</u> | <u>(873,247)</u> | <u>6,221,399</u> |

Changes in long-term debt amounts for the year ended June 30, 2016, were as follows:

| | <u>Balance 2015</u> | <u>Additions</u> | <u>Principal Payments</u> | <u>Balance 2016</u> |
|----------------------|-------------------------|------------------|-------------------------------|-------------------------|
| Long-term debt: | | | | |
| Notes payable | \$ 3,554,130 | 3,643 | (140,780) | 3,416,993 |
| Bonds payable | 3,743,682 | 126,000 | (616,350) | 3,253,332 |
| Total long-term debt | <u>\$ 7,297,812</u> | <u>129,643</u> | <u>(757,130)</u> | <u>6,670,325</u> |

The District's long term debt increased by \$424,321, primarily due to additions of \$310,019 and \$114,302 as a result of the Government Obligation Contract and Capital Lease Payable, respectively, which was offset by a \$873,247 decrease due to principal payments. In fiscal year 2016, long term debt increased by \$129,643, primarily due to additions to long term debt of \$126,000, as a result of the Lompico merger, which was offset by a \$757,130 decrease due to principal payments. See Note 9 for further long-term debt service information.

Conditions Affecting Current Financial Position

Due to Lompico County Water District's (Lompico) limited revenue stream and increasing costs to provide adequate service, Lompico was annexed with the San Lorenzo Valley Water District on June 1, 2016. See Notes 1 and 12.

Except for the above condition, management is unaware of any other conditions at June 30, 2017, that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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.

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Basic Financial Statements

San Lorenzo Valley Water District
Statements of Net Position
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|-------------------|
| Current assets: | | |
| Cash & cash equivalents (note 2) | \$ 417,323 | 1,676,923 |
| Cash & cash equivalents – restricted (note 2) | 322,728 | 403,624 |
| Accrued interest receivable | - | 155 |
| Investments (note 2) | 1,866,407 | 930,412 |
| Accounts receivable – water sales and services | 1,025,901 | 993,952 |
| Accounts receivable – property taxes | 2,398 | 1,296 |
| Accounts receivable – settlement agreement (note 3) | 46,392 | 36,392 |
| Accounts receivable – grant and loan receivable (note 4) | - | 31,530 |
| Accounts receivable – other | 13,508 | 29,986 |
| Prepaid expenses | 160 | 41,526 |
| Materials and supplies inventory | 233,395 | 225,327 |
| Total current assets | <u>3,928,212</u> | <u>4,371,123</u> |
| Non-current assets: | | |
| Capital assets – not being depreciated (note 5) | 7,024,237 | 14,972,454 |
| Capital assets – being depreciated (note 5) | 27,748,859 | 20,233,772 |
| Total non-current assets | <u>34,773,096</u> | <u>35,206,226</u> |
| Deferred outflows of resources: | | |
| Deferred pension outflows (note 10) | 1,007,189 | 378,695 |
| Total deferred outflows of resources | <u>\$ 1,007,189</u> | <u>378,695</u> |

Continued on next page

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Net Position, continued
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|-------------------|
| Current liabilities: | | |
| Accounts payable and accrued expense | \$ 329,603 | 941,375 |
| Accrued wages and related payables | 216,305 | 175,956 |
| Unearned revenues – customer deposits | 54,992 | 83,306 |
| Unearned revenues – construction deposits | 95,622 | 121,360 |
| Accrued interest payable | 21,624 | 28,940 |
| Long-term liabilities – due in one year: | | |
| Compensated absences (note 6) | 170,750 | 164,577 |
| Loans payable (note 9) | 239,629 | 175,769 |
| Bonds payable (note 9) | 710,030 | 697,478 |
| Capital lease payable (note 9) | 21,778 | - |
| Total current liabilities | <u>1,860,333</u> | <u>2,388,761</u> |
| Non-current liabilities: | | |
| Long-term liabilities – due in more than one year: | | |
| Compensated absences (note 6) | 303,555 | 292,582 |
| Other post-employment benefits payable (note 7) | 262,939 | 238,911 |
| Net pension liability (note 10) | 3,511,169 | 2,522,518 |
| Loans payable (note 9) | 3,311,614 | 3,241,224 |
| Bonds payable (note 9) | 1,845,824 | 2,555,854 |
| Capital lease payable (note 9) | 92,524 | - |
| Total non-current liabilities | <u>9,327,625</u> | <u>8,851,089</u> |
| Deferred inflows of resources | | |
| Deferred pension inflows (note 10) | 265,104 | 501,677 |
| Total deferred inflows of resources | <u>265,104</u> | <u>501,677</u> |
| Net position: (note 11) | | |
| Net investment in capital assets | 28,551,697 | 28,535,901 |
| Restricted for debt service | 322,728 | 403,624 |
| Unrestricted (deficit) | (618,990) | (725,008) |
| Total net position | <u>\$ 28,255,435</u> | <u>28,214,517</u> |

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|--------------------|
| Operating revenues: | | |
| Water consumption sales | \$ 7,157,650 | 6,145,076 |
| Wastewater service | 102,107 | 98,262 |
| Meter sales, charges and penalties | 178,632 | 194,444 |
| Other charges and services | <u>7,741</u> | <u>18,399</u> |
| Total operating revenues | <u>7,446,130</u> | <u>6,456,181</u> |
| Operating expenses: | | |
| Salaries and benefits | 4,498,595 | 3,304,540 |
| Professional services | 1,202,004 | 868,218 |
| Operational | 464,236 | 410,342 |
| Maintenance | 130,244 | 183,215 |
| Facilities | 499,400 | 442,014 |
| General and administrative | <u>314,979</u> | <u>352,510</u> |
| Total operating expenses | <u>7,109,458</u> | <u>5,560,839</u> |
| Operating income before overhead absorption | 336,672 | 895,342 |
| Overhead absorption | <u>74,683</u> | <u>19,637</u> |
| Operating income before depreciation expense | 411,355 | 914,979 |
| Depreciation expense | <u>(1,417,477)</u> | <u>(1,326,056)</u> |
| Operating loss | <u>(1,006,122)</u> | <u>(411,077)</u> |
| Non-operating revenues (expenses): | | |
| Property tax/assessment revenues | 1,129,838 | 610,634 |
| Realized gain on investments | 13,858 | 11,502 |
| Rental revenue | 59,548 | 43,922 |
| Interest expense | (166,204) | (185,411) |
| Settlement and purchase agreements | <u>10,000</u> | <u>-</u> |
| Total non-operating revenues, net | <u>1,047,040</u> | <u>480,647</u> |
| Net income before capital contributions | <u>40,918</u> | <u>69,570</u> |
| Capital contributions: | | |
| Capital grants – other governments | <u>-</u> | <u>1,557,589</u> |
| Total capital contributions | <u>-</u> | <u>1,557,589</u> |
| Change in net position | 40,918 | 1,627,159 |
| Transfer in from merger (note 12) | - | 1,009,192 |
| Net position, beginning of period (note 8) | <u>28,214,517</u> | <u>25,578,166</u> |
| Net position, end of period | <u>\$ 28,255,435</u> | <u>28,214,517</u> |

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|------------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers for sales and services | \$ 7,358,866 | 6,007,832 |
| Cash paid to employees for salaries and wages | (4,441,100) | (3,316,357) |
| Cash paid to vendors for materials and services | (2,959,301) | (2,587,451) |
| Net cash (used in) provided by operating activities | (41,535) | 104,024 |
| Cash flows from non-capital financing activities: | | |
| Proceeds from property taxes/assessments | 1,128,736 | 612,022 |
| Proceeds from rental revenue | 59,548 | 43,922 |
| Transfer in from merger | - | 1,009,192 |
| Other non-operating revenues, net | 10,000 | - |
| Net cash provided by non-capital financing activities | 1,198,284 | 1,665,136 |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (984,347) | (6,006,686) |
| Proceeds from capital contributions | 31,530 | 4,186,323 |
| Proceeds from long-term debt | 424,321 | 129,643 |
| Principal paid on long-term debt | (873,247) | (757,130) |
| Interest paid on long-term debt | (173,520) | (188,789) |
| Net cash used in capital and related financing activities: | (1,575,263) | (2,636,639) |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | (935,995) | (141,962) |
| Proceeds from investment earnings | 14,013 | 15,331 |
| Net cash used in investing activities | (921,982) | (126,631) |
| Net decrease in cash and cash equivalents | (1,340,496) | (994,110) |
| Cash and cash equivalents, beginning of year | 2,080,547 | 3,074,657 |
| Cash and cash equivalents, end of year | <u>\$ 740,051</u> | <u>2,080,547</u> |
| Reconciliation of cash and cash equivalents to statement of net position: | | |
| Cash and cash equivalents | \$ 417,323 | 1,676,923 |
| Cash and cash equivalents – restricted | 322,728 | 403,624 |
| Total cash and cash equivalents | <u>\$ 740,051</u> | <u>2,080,547</u> |

Continued on next page

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------------|-----------------------|
| Reconciliation of operating loss to net cash (used in) provided by operating activities: | | |
| Operating loss | \$ <u>(1,006,122)</u> | <u>(411,077)</u> |
| Adjustments to reconcile operating loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 1,417,477 | 1,326,056 |
| 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 | (31,949) | (475,690) |
| Accounts receivable – settlement agreement | (10,000) | - |
| Accounts receivable – other | 16,478 | 21,965 |
| Prepaid expenses | 41,366 | 8,144 |
| Materials and supplies inventory | (8,068) | (912) |
| Deferred outflows of resources | (628,494) | (139,866) |
| Increase (decrease) in liabilities and deferred inflows of resources: | | |
| Accounts payable and accrued expense | (611,772) | (201,986) |
| Accrued wages and related payables | 40,349 | 6,655 |
| Unearned revenues – customer deposits | (28,314) | 20,021 |
| Unearned revenues – construction deposits | (25,738) | 3,754 |
| Compensated absences | 17,146 | (18,472) |
| Other post-employment benefits | 24,028 | 24,204 |
| Net pension liability | 988,651 | 214,888 |
| Deferred inflows of resources | <u>(236,573)</u> | <u>(273,660)</u> |
| Total adjustments | <u>964,587</u> | <u>515,101</u> |
| Net cash (used in) provided by operating activities | \$ <u><u>(41,535)</u></u> | <u><u>104,024</u></u> |

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2017 and 2016

(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 Years Ended June 30, 2017 and 2016

(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. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for financial statements for periods beginning after June 15, 2016.

The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

Government Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015.

The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

Government Accounting Standards Board Statement No. 78

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for financial statements for periods beginning after December 15, 2015.

The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

C. Financial Reporting, continued

Government Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, effective for financial statements for periods beginning after June 15, 2016.

The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

Government Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for financial statements for periods beginning after June 15, 2016.

This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

4. Fair Value Measurement, continued

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.

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.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

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.

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.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

15. Pensions, continued

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, 2015 and 2014
- Measurement Date: June 30, 2016 and 2015
- Measurement Period: July 1, 2015 to June 30, 2016 and July 1, 2014 to June 30, 2015

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.
- **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>2017</u> | <u>2016</u> |
|--|---------------------|------------------|
| Cash and cash equivalents | \$ 417,323 | 1,676,923 |
| Cash and cash equivalents – restricted | 322,728 | 403,624 |
| Investments – current | <u>1,866,407</u> | <u>930,412</u> |
| Total cash and investments | <u>\$ 2,606,458</u> | <u>3,010,959</u> |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

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

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|---------------------|------------------|
| Cash on hand | \$ 350 | 600 |
| Deposits with financial institutions | 413,588 | 1,728,641 |
| Investments | <u>2,192,520</u> | <u>1,281,718</u> |
| Total cash and investments | <u>\$ 2,606,458</u> | <u>3,010,959</u> |

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

| | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|
| Deposits held with the California Local Agency Investment Fund | 194 days | 167 days |
| Deposits held with the County of Santa Cruz Investment Fund | 319 days | 377 days |

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

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

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage Of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|--|-------------------------|--|---|
| U.S. Treasury obligations | 5 years | None | None |
| Federal agency and bank obligations | 5 years | None | None |
| Certificates-of-deposit (negotiable or placed) | 5 years | 30% | 10% |
| Commercial paper (prime) | 270 days | 10% | 10% |
| Money market mutual funds | N/A | 20% | None |
| 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, 2016, the District held 7.8% or \$100,289 of its investment portfolio in certificates of deposit.

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:

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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

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

Investment in State Investment Pool

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

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".

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

Investment in County of Santa Cruz Investment Pool, continued

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.

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.

Maturities of investments at June 30, 2017, are as follows:

| Investment Type | Total | Remaining Maturity (in Months) | | | |
|--------------------------------------|--------------|--------------------------------|-----------------|-----------------|-------------------|
| | | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | 61 and Thereafter |
| Local Agency Investment Fund | \$ 3,385 | 3,385 | - | - | - |
| County of Santa Cruz Investment Fund | 1,915,875 | 1,915,875 | - | - | - |
| Held by bond trustee: | | | | | |
| Money market funds | 273,260 | 273,260 | - | - | - |
| Total | \$ 2,192,520 | 2,192,520 | - | - | - |

Maturities of investments at June 30, 2016, are as follows:

| Investment Type | Total | Remaining Maturity (in Months) | | | |
|--------------------------------------|--------------|--------------------------------|-----------------|-----------------|-------------------|
| | | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | 61 and Thereafter |
| Certificates of deposit | \$ 100,289 | 100,289 | - | - | - |
| Local Agency Investment Fund | 3,363 | 3,363 | - | - | - |
| County of Santa Cruz Investment Fund | 828,329 | 828,329 | - | - | - |
| Held by bond trustee: | | | | | |
| Money market funds | 349,737 | 349,737 | - | - | - |
| Total | \$ 1,281,718 | 1,281,718 | - | - | - |

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, 2017 and 2016.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

Credit Risk

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

Credit ratings of investments as of June 30, 2017, were as follows:

| Investment Type | Total | Minimum Legal Rating | Exempt From Disclosure | Rating as of Year End | |
|--------------------------------------|--------------|----------------------------|------------------------------|-----------------------|--------------|
| | | | | AA+ | Not Rated |
| Local Agency Investment Fund | \$ 3,385 | N/A | - | - | 3,385 |
| County of Santa Cruz Investment Fund | 1,915,875 | N/A | - | - | 1,915,875 |
| Held by bond trustee: | | | | | |
| Money market funds | 273,260 | AAA | 273,260 | - | - |
| Total | \$ 2,192,520 | | 273,260 | - | 1,919,260 |

Credit ratings of investments as of June 30, 2016, were as follows:

| Investment Type | Total | Minimum Legal Rating | Exempt From Disclosure | Rating as of Year End | |
|--------------------------------------|--------------|----------------------------|------------------------------|-----------------------|--------------|
| | | | | AA+ | Not Rated |
| Certificates of deposit | \$ 100,289 | N/A | - | - | 100,289 |
| Local Agency Investment Fund | 3,363 | N/A | - | - | 3,363 |
| County of Santa Cruz Investment Fund | 828,329 | N/A | - | - | 828,329 |
| Held by bond trustee: | | | | | |
| Money market funds | 349,737 | AAA | 349,737 | - | - |
| Total | \$ 1,281,718 | | 349,737 | - | 931,981 |

(3) Accounts Receivable – Settlement Agreement

In September 2010, the District entered into a third party escrow agreement with Manana Woods Mutual Water Company (Manana Woods) for reimbursement of operating and maintenance costs of their water treatment system at the Manana Woods well pursuant to the Annexation Agreement entered into by and among the District, Manana Woods and the Oil Companies. Amounts receivable were \$46,392 and \$36,392 for the years ended June 30, 2017 and 2016, respectively. Total reimbursement revenue was \$10,000 for the year ended June 30, 2017.

(4) Accounts Receivable – Grant and Loan Receivable

The balance at June 30, consists of the following:

| | 2017 | 2016 |
|---|------|--------|
| Scotts Valley Water District | \$ - | 31,530 |
| Accounts receivable – grant and loan receivable | \$ - | 31,530 |

In November 2013, the District was involved with various System Intertie Projects with Scotts Valley Water District (Scotts Valley) pursuant to the latter's funding agreement with the State of California's Department of Public Health ("State") under the provisions of the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002, Division 26.5 of the Water Code. Total receivable from Scotts Valley was \$31,530 for the year ended June 30, 2016.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(5) Capital Assets

Changes in capital assets for 2017, were as follows:

| | <u>Balance 2016</u> | <u>Additions/ Transfers</u> | <u>Deletions/ Transfers</u> | <u>Balance 2017</u> |
|-------------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 5,107,583 | - | - | 5,107,583 |
| Construction-in process | <u>9,864,871</u> | <u>946,712</u> | <u>(8,894,929)</u> | <u>1,916,654</u> |
| Total non-depreciable assets | <u>14,972,454</u> | <u>946,712</u> | <u>(8,894,929)</u> | <u>7,024,237</u> |
| Depreciable assets: | | | | |
| Water transmission and distribution | 42,274,057 | 8,475,905 | - | 50,749,962 |
| Wastewater system | 1,447,521 | - | - | 1,447,521 |
| Buildings and structures | 2,943,834 | - | - | 2,943,834 |
| Transportation equipment | 912,915 | 116,086 | - | 1,029,001 |
| Field and shop equipment | 867,710 | 340,573 | - | 1,208,283 |
| Office equipment | <u>837,698</u> | <u>-</u> | <u>-</u> | <u>837,698</u> |
| Total depreciable assets | <u>49,283,735</u> | <u>8,932,564</u> | <u>-</u> | <u>58,216,299</u> |
| Accumulated depreciation: | | | | |
| Water transmission and distribution | (24,726,420) | (1,097,725) | - | (25,824,145) |
| Wastewater system | (988,434) | (42,356) | - | (1,030,790) |
| Buildings and structures | (1,327,429) | (100,936) | - | (1,428,365) |
| Transportation equipment | (768,998) | (44,699) | - | (813,697) |
| Field and shop equipment | (677,180) | (58,804) | - | (735,984) |
| Office equipment | <u>(561,502)</u> | <u>(72,957)</u> | <u>-</u> | <u>(634,459)</u> |
| Total accumulated depreciation | <u>(29,049,963)</u> | <u>(1,417,477)</u> | <u>-</u> | <u>(30,467,440)</u> |
| Total depreciable assets, net | <u>20,233,772</u> | <u>7,515,087</u> | <u>-</u> | <u>27,748,859</u> |
| Total capital assets, net | <u>\$ 35,206,226</u> | <u>8,461,799</u> | <u>(8,894,929)</u> | <u>34,773,096</u> |

In fiscal year 2017, major capital assets additions include upgrades as follows: water transmission and distribution systems \$8,475,905, field and shop equipment \$340,573 and transportation equipment \$116,086.

In fiscal year 2017, depreciation expense was charged to the District's water and sewer fund amounting to \$1,375,120 and \$42,357, respectively.

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. Construction in process during fiscal year 2017 consisted of Solar Panels \$325,983, Felton Meter Change-Out Project \$105,697 and various miscellaneous projects \$515,032, totaling \$946,712. The balance of construction-in-process was \$1,916,654 at June 30, 2017.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(5) Capital Assets, continued

Changes in capital assets for 2016, were as follows:

| | <u>Balance 2015</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>Balance 2016</u> |
|-------------------------------------|-------------------------|------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 5,072,763 | 34,820 | - | 5,107,583 |
| Construction-in process | 8,906,664 | 4,755,064 | (3,796,857) | 9,864,871 |
| Total non-depreciable assets | 13,979,427 | 4,789,884 | (3,796,857) | 14,972,454 |
| Depreciable assets: | | | | |
| Water transmission and distribution | 34,732,246 | 7,541,811 | - | 42,274,057 |
| Wastewater system | 1,447,521 | - | - | 1,447,521 |
| Buildings and structures | 2,904,194 | 39,640 | - | 2,943,834 |
| Transportation equipment | 912,915 | - | - | 912,915 |
| Field and shop equipment | 867,710 | - | - | 867,710 |
| Office equipment | 518,989 | 318,709 | - | 837,698 |
| Total depreciable assets | 41,383,575 | 7,900,160 | - | 49,283,735 |
| Accumulated depreciation: | | | | |
| Water transmission and distribution | (20,820,173) | (3,906,247) | - | (24,726,420) |
| Wastewater system | (948,984) | (39,450) | - | (988,434) |
| Buildings and structures | (1,235,120) | (92,309) | - | (1,327,429) |
| Transportation equipment | (728,179) | (40,819) | - | (768,998) |
| Field and shop equipment | (639,583) | (37,597) | - | (677,180) |
| Office equipment | (465,367) | (96,135) | - | (561,502) |
| Total accumulated depreciation | (24,837,406) | (4,212,557) | - | (29,049,963) |
| Total depreciable assets, net | 16,546,169 | 3,687,603 | - | 20,233,772 |
| Total capital assets, net | \$ 30,525,596 | 8,477,487 | (3,796,857) | 35,206,226 |

In fiscal year 2016, major capital assets additions include upgrades as follows: water transmission and distribution systems \$7,541,811 (includes the transfer from Lompico amounting to \$3,766,240), office equipment \$318,709 (includes the transfer from Lompico amounting to \$86,902).

In fiscal year 2016, the District's additions to accumulated depreciation of \$4,212,557 include depreciation expense of \$1,326,056 and the transfer of accumulated depreciation balance from Lompico amounting to \$2,886,501. Of the District's total depreciation expense of \$1,326,056, \$1,286,606 and \$39,450 was charged to the District's water and sewer fund, respectively.

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. Construction in process during fiscal year 2017 consisted of Intertie Projects \$1,968,844, Olympia Mutual Project \$1,708,993, Springbrook \$231,806 and various miscellaneous projects \$845,421, totaling \$4,755,064. The balance of construction-in-process was \$9,864,871 at June 30, 2016.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(6) 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, 2017, are as follows:

| Balance 2016 | Additions | Deletions | Balance 2017 | Due within One Year | Due in more than one year |
|-------------------------|------------------|------------------|-------------------------|--------------------------------|--------------------------------------|
| \$ 457,159 | 394,584 | (377,438) | 474,305 | 170,750 | 303,555 |

Changes in compensated absences for the year ended June 30, 2016, are as follows:

| Balance 2015 | Additions | Deletions | Balance 2016 | Current Portion | Due in more than one year |
|-------------------------|------------------|------------------|-------------------------|----------------------------|--------------------------------------|
| \$ 475,631 | 336,953 | (355,425) | 457,159 | 164,577 | 292,582 |

(7) Other Post-Employment Benefits Payable

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

Plan Description – Eligibility

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

| | Per Month |
|-------------------------------|------------------|
| Less than 15 years of service | \$ 175 |
| 15 to 24 years of service | 225 |
| 25 + years of service | 275 |

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

| | 2017 | 2016 | 2015 |
|---|-------------|-------------|-------------|
| Active plan members | 22 | 23 | 26 |
| Retirees and beneficiaries receiving benefits | 6 | 5 | 3 |
| Separated plan members entitled to but not yet receiving benefits | - | - | - |
| Total plan membership | 28 | 28 | 29 |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(7) Other Post-Employment Benefits Payable, continued

Plan Description – Benefits

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

Funding Policy

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

Annual Cost

For the years ended June 30, 2017 and 2016, the District's ARC costs are \$41,738 for each year. The District's net OPEB payable obligation amounted to \$262,939 and \$238,911 for the years ended June 30, 2017 and 2016, respectively. The District contributed \$13,450 and \$13,705 in age adjusted contributions for current retiree OPEB premiums for the years ended June 30, 2017 and 2016, respectively.

The balance at June 30, consists of the following:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------------|-----------------|-----------------|
| Annual OPEB expense: | | | |
| Annual required contribution (ARC) | \$ 41,738 | 41,738 | 34,446 |
| Interest on net OPEB obligation | 9,556 | 8,588 | 7,820 |
| Adjustment to annual required contribution | <u>(13,816)</u> | <u>(12,417)</u> | <u>(11,306)</u> |
| Total annual OPEB expense | 37,478 | 37,909 | 30,960 |
| Change in net OPEB payable obligation: | | | |
| Age adjusted contributions made | <u>(13,450)</u> | <u>(13,705)</u> | <u>(11,741)</u> |
| Total change in net OPEB payable obligation | 24,028 | 24,204 | 19,219 |
| OPEB payable – beginning of period | <u>238,911</u> | <u>214,707</u> | <u>195,488</u> |
| OPEB payable – end of period | <u>\$ 262,939</u> | <u>238,911</u> | <u>214,707</u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 and two preceding years are as follows:

| <i>Three-Year History of Net OPEB Obligation</i> | | | | |
|---|-------------------------|----------------------------------|---|------------------------------------|
| Fiscal Year Ended | Annual OPEB Cost | Age Adjusted Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation Payable |
| 2017 | \$ 37,478 | 13,450 | 35.89% | \$ 262,939 |
| 2016 | 37,909 | 13,705 | 36.15% | 238,911 |
| 2015 | 30,960 | 11,741 | 37.92% | 214,707 |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(7) Other Post-Employment Benefits Payable, continued

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability of \$400,654 and an Unfunded Actuarial Accrued Liability of \$400,654. The covered payroll (annual payroll of active employees covered by the plan) was \$2,495,551. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 16.05%. See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on Page 56.

Actuarial Methods and Assumptions

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

| | |
|---------------------------------------|--|
| Valuation date | July 1, 2015 |
| Actuarial cost method | Projected unit credit cost method |
| Average remaining amortization period | 25 years as of the valuation date |
| Actuarial assumptions: | |
| Discount rate | 4.0% |
| Ultimate trend rate | 5.0% |
| Medical trend | 8.0% at 2015 with 1.0% decrease per year until 5.0% at 2018 |
| Dental; vision, and other trend | 4.0% |

(8) Prior Period Adjustment

Unbilled Receivable

In fiscal year 2015, the District did not recognized water usage for the unbilled month of June 2015. As a result, the District recorded a prior period adjustment to net position in the amount of \$164,581. The following table provides a summary of the restatement at June 30, 2016:

| | |
|---|-----------------------------|
| Net position at June 30, 2015, as previously stated | \$ 25,413,585 |
| Effect of adjustment to record unbilled receivable | <u>164,581</u> |
| Net position at June 30, 2015, as restated | <u><u>\$ 25,578,166</u></u> |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(8) Prior Period Adjustment, continued

Net Pension Liability

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the District recognized the pension liability and recorded a net prior period adjustment in the amount of \$2,847,271 to decrease the proprietary activities' beginning net position as of July 1, 2014.

| | |
|--|----------------------|
| Net position at July 1, 2014, as previously stated | \$ 26,319,071 |
| Effect of adjustment to record net pension liability | (3,159,197) |
| Effect of adjustment to record deferred pension outflows | <u>311,926</u> |
| Total adjustments | <u>(2,847,271)</u> |
| Net position at July 1, 2014, as restated | <u>\$ 23,471,800</u> |

(9) Long-Term Debt

Changes in long-term debt for the year ended June 30, 2017 are as follows:

| | <u>Balance 2016</u> | <u>Transfer/ Additions</u> | <u>Transfer/ Payments</u> | <u>Balance 2017</u> |
|---|-------------------------|--------------------------------|-------------------------------|-------------------------|
| Loans payable: | | | | |
| Felton Safe Drinking Water Loan | \$ 1,794,766 | - | (144,326) | 1,650,440 |
| State of California Revolving Fund Loan | 1,622,227 | - | (31,443) | 1,590,784 |
| Government Obligation Contract | <u>-</u> | <u>310,019</u> | <u>-</u> | <u>310,019</u> |
| Total loans payable | <u>3,416,993</u> | <u>310,019</u> | <u>(175,769)</u> | <u>3,551,243</u> |
| Bonds payable | | | | |
| Bank of Nevada Refunding Bonds | 3,127,332 | - | (632,478) | 2,494,854 |
| Water Bond of 1964 - Third Division | 89,000 | - | (43,000) | 46,000 |
| Water Bond of 1964 - Second Division | 8,000 | - | (8,000) | - |
| Water Bond of 1964 - Fourth Division | <u>29,000</u> | <u>-</u> | <u>(14,000)</u> | <u>15,000</u> |
| Total bonds payable | <u>3,253,332</u> | <u>-</u> | <u>(697,478)</u> | <u>2,555,854</u> |
| Obligation under capital lease: | | | | |
| Capital lease payable | <u>-</u> | <u>114,302</u> | <u>-</u> | <u>114,302</u> |
| Total capital lease payable | <u>-</u> | <u>114,302</u> | <u>-</u> | <u>114,302</u> |
| Total long-term debt payable | 6,670,325 | <u>424,321</u> | <u>(873,247)</u> | 6,221,399 |
| Less: current portion | <u>(873,247)</u> | | | <u>(971,437)</u> |
| Long-term portion \$ | <u>5,797,078</u> | | | <u>5,249,962</u> |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(9) Long-Term Debt, continued

Changes in long-term debt for the year ended June 30, 2016 are as follows:

| | <u>Balance 2015</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance 2016</u> |
|---|-------------------------|------------------|------------------|-------------------------|
| Loans payable: | | | | |
| Felton Safe Drinking Water Loan | \$ 1,935,546 | - | (140,780) | 1,794,766 |
| State of California Revolving Fund Loan | <u>1,618,584</u> | <u>3,643</u> | <u>-</u> | <u>1,622,227</u> |
| Total loans payable | <u>3,554,130</u> | <u>3,643</u> | <u>(140,780)</u> | <u>3,416,993</u> |
| Bonds payable | | | | |
| Bank of Nevada Refunding Bonds | 3,743,682 | - | (616,350) | 3,127,332 |
| Water Bond of 1964 - Third Division | - | 89,000 | - | 89,000 |
| Water Bond of 1964 - Second Division | - | 8,000 | - | 8,000 |
| Water Bond of 1964 - Fourth Division | <u>-</u> | <u>29,000</u> | <u>-</u> | <u>29,000</u> |
| Total bonds payable | <u>3,743,682</u> | <u>126,000</u> | <u>(616,350)</u> | <u>3,253,332</u> |
| Total long-term debt payable | 7,297,812 | <u>129,643</u> | <u>(757,130)</u> | 6,670,325 |
| Less: current portion | <u>(757,130)</u> | | | <u>(873,247)</u> |
| Long-term portion \$ | <u>6,540,682</u> | | | <u>5,797,078</u> |

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> |
|---------------|------------------|-----------------|------------------|
| 2018 | \$ 147,777 | 39,021 | 186,798 |
| 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 |
| 2023-2027 | <u>874,733</u> | <u>59,250</u> | <u>933,983</u> |
| Total | 1,650,440 | <u>217,533</u> | <u>1,867,973</u> |
| Less: current | <u>(147,777)</u> | | |
| Long-term \$ | <u>1,502,663</u> | | |

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%.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(9) Long-Term Debt, continued

State of California Revolving Fund Loan, continued

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> |
|---------------|------------------|-----------------|--------------|
| 2018 | \$ 63,768 | 40,476 | 104,244 |
| 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 |
| 2022-2026 | 381,493 | 139,726 | 521,219 |
| 2027-2031 | 433,449 | 87,770 | 521,219 |
| 2032-2036 | 440,077 | 28,738 | 468,815 |
| Total | 1,590,784 | 441,689 | 2,032,473 |
| Less: current | (63,768) | | |
| Long-term \$ | <u>1,527,016</u> | | |

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> |
|---------------|------------------|-----------------|--------------|
| 2018 | \$ 649,030 | 60,680 | 709,710 |
| 2019 | 666,015 | 43,695 | 709,710 |
| 2020 | 582,031 | 26,267 | 608,298 |
| 2021 | 494,532 | 12,354 | 506,886 |
| 2022 | 103,246 | 1,345 | 104,591 |
| Total | 2,494,854 | 144,341 | 2,639,195 |
| Less: current | (649,030) | | |
| Long-term \$ | <u>1,845,824</u> | | |

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 - Second Division was paid off as of June 30, 2017 in the amount of \$8,000.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(9) Long-Term Debt, continued

General Obligation Bonds, continued

The bonds mature in installments of various amounts according to the following schedule:

| | |
|--------------------------------------|---------------------------|
| Water Bond of 1964 - Third Division | February 15 and August 15 |
| Water Bond of 1964 - Second Division | April 15 and October 15 |
| Water Bond of 1964 - Fourth Division | May 15 and November 1 |

Water Bond of 1964 – Third Division

Future annual debt service requirements are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|------------------|-----------------|--------------|
| 2018 | \$ 46,000 | 1,141 | 47,141 |
| Total | 46,000 | 1,141 | 47,141 |
| Less: current | (46,000) | | |
| Long-term \$ | - | | |

Water Bond of 1964 – Fourth Division

Future annual debt service requirements are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|------------------|-----------------|--------------|
| 2018 | \$ 15,000 | 750 | 15,750 |
| Total | 15,000 | 750 | 15,750 |
| Less: current | (15,000) | | |
| Long-term \$ | - | | |

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.

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|------------------|-----------------|--------------|
| 2018 | \$ 28,084 | 10,910 | 38,994 |
| 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 |
| 2023-2027 | 158,717 | 13,457 | 172,174 |
| Total | 310,019 | 57,128 | 367,147 |
| Less: current | (28,084) | | |
| Long-term \$ | 281,935 | | |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(9) Long-Term Debt, continued

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, 2017, the total amount of lease asset amounted to \$116,086.

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> |
|---------------|----|------------------|-----------------|--------------|
| 2018 | \$ | 21,778 | 3,430 | 25,208 |
| 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 | | 114,302 | 9,638 | 123,940 |
| Less: current | | (21,778) | | |
| Long-term | \$ | 92,524 | | |

(10) 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.

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.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(10) Defined Benefit Pension Plan, continued

Benefits Provided, continued

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, 2017, are summarized as follows:

| | Miscellaneous Pool | |
|--|---------------------------|---------------------------|
| | Classic | PEPRA |
| | Prior to January 1, | On or after January 1, |
| Hire date | | |
| 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 | 8.377% | 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 years ended June 30, 2017 and 2016, the contributions recognized as part of pension expense for the Plan was as follows:

| | 2017 | 2016 |
|--------------------------|-------------|-------------|
| Contributions – employer | \$ 172,110 | 232,831 |

Net Pension Liability

As of June 30, 2017 and 2016, the District reported net pension liabilities for the proportionate share of the net pension liability of the Plan as follows:

| | 2017 | 2016 |
|---|-------------|-------------|
| Proportionate share of net pension liability \$ | 3,511,169 | 2,522,518 |

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, 2016 and 2015 (the measurement dates), 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, 2015 and 2014 (the valuation dates), rolled forward to June 30, 2016 and 2015, 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.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(10) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The District's proportionate share of the pension liability for the Plan as of the measurement date June 30, 2015 and 2016 was as follows:

| | <u>Miscellaneous</u> |
|----------------------------|------------------------|
| Proportion – June 30, 2014 | 0.03709% |
| Decrease in proportion | <u>-0.00034%</u> |
| Proportion – June 30, 2015 | 0.03675% |
| Increase in proportion | <u>0.00383%</u> |
| Proportion – June 30, 2016 | <u><u>0.04058%</u></u> |

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2017 and 2016, the District recognized pension expense (credit) of \$681,034 and \$(154,732).

As June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description</u> | <u>2017</u> | | <u>2016</u> | |
|--|---|--|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Pension contributions subsequent to measurement date | \$ 522,774 | - | 172,110 | - |
| Differences between actual and expected experience | 7,467 | - | 15,077 | - |
| Differences in actual contribution and proportionate share of contribution | | (101,269) | 191,508 | |
| Changes in assumptions | - | (91,639) | - | (142,642) |
| Net differences between projected and actual earnings on plan investments | 476,948 | | - | (71,508) |
| Adjustment due to differences in proportions of net pension liability | <u>-</u> | <u>(72,196)</u> | <u>-</u> | <u>(287,527)</u> |
| Total | <u>\$ 1,007,189</u> | <u>(265,104)</u> | <u>378,695</u> | <u>(501,677)</u> |

As of June 30, 2017 and 2016, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to measurement date of \$522,774 and \$172,110, respectively and will be recognized as a reduction of the net pension liability for the fiscal years ended June 30, 2018 and 2017, respectively.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(10) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2017, 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 |
|--|--|
| 2018 | \$ (68,328) |
| 2019 | (57,533) |
| 2020 | 225,185 |
| 2021 | 119,987 |

Actuarial Assumptions

The total pension liabilities were determined by actuarial valuations as of June 30, 2015, which were rolled forward to June 30, 2016, using the following actuarial assumptions:

| | |
|---------------------------|---|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2016 |
| Actuarial cost method | Entry Age Normal in accordance with the requirements of GASB Statement No. 68 |
| Actuarial assumptions: | |
| Discount rate | 7.50% |
| Inflation | 2.75% |
| Salary increases | Varies by Entry Age and Service |
| Investment Rate of Return | 7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation |
| Retirement | The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007 |
| Mortality | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. |

* 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 Years Ended June 30, 2017 and 2016

(10) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized.

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 Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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 the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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 the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(10) Defined Benefit Pension Plan, continued

Discount Rate, continued

As of June 30, 2017, 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% | | |

As of June 30, 2016, 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 | 19.0% | 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 | 2.0% | -0.55% | -1.05% |
| Total | 100.0% | | |

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, 2017, 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% 6.65% | Current Discount Rate 7.65% | Discount Rate + 1% 8.65% |
|----------------------------------|-------------------------------------|--|-------------------------------------|
| District's Net Pension Liability | \$ 5,330,876 | 3,511,169 | 1,843,811 |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(10) Defined Benefit Pension Plan, continued

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

As of June 30, 2016, 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% 6.50% | Current Discount Rate 7.50% | Discount Rate + 1% 8.50% |
|----------------------------------|---|--|---|
| District's Net Pension Liability | \$ 4,109,537 | 2,522,518 | 1,080,639 |

Payable to the Pension Plan

At June 30, 2017 and 2016, 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 57 through 58 for the Required Supplementary Schedules.

(11) Net Position

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

| | 2017 | 2016 |
|---|---------------------|-------------------|
| Net investment in capital assets: | | |
| Capital assets, net | \$ 34,773,096 | 35,206,226 |
| Loans payable – current | (239,629) | (175,769) |
| Loans payable – non-current | (3,311,614) | (3,241,224) |
| Bonds payable – current | (710,030) | (697,478) |
| Bonds payable – non-current | (1,845,824) | (2,555,854) |
| Capital lease payable – current | (21,778) | - |
| Capital lease payable – non-current | (92,524) | - |
| Total net investment in capital assets | 28,551,697 | 28,535,901 |
| Restricted net position: | | |
| Restricted for debt service | 322,728 | 403,624 |
| Total restricted net position | 322,728 | 403,624 |
| Unrestricted net position: | | |
| Non-spendable net position | | |
| Materials and supplies inventory | 233,395 | 225,327 |
| Total non-spendable net position | 233,395 | 225,327 |
| Spendable net position designated for the following purpose: | | |
| Assessment Reserve Fund | 363,292 | - |
| Spendable net position are designated as follows: | | |
| Unrestricted (deficit) | (1,215,677) | (909,417) |
| Total unrestricted net position (deficit) | \$ (618,990) | (684,090) |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(12) Transfer of Operations

Under the Local Agency Formation Commission (LAFCO) Resolution No. 953-A, the Lompico County Water District (Lompico) was dissolved and annexed by the District. On June 1, 2016, Lompico transferred its assets, deferred outflows, liabilities, and deferred inflows to the District and the District's service area has been expanded to include Lompico's service area.

The District recognized the following assets, deferred outflows, liabilities, deferred inflows, and net position:

| | | <u>Carrying Values</u> |
|---|----------------|----------------------------|
| Transferred Assets (Net) | | |
| Cash & cash equivalents | \$ 284,207 | |
| Accounts receivable | 39,436 | |
| Materials and supplies inventory | <u>2,295</u> | |
| Total current assets | | \$ 325,938 |
| Capital assets - not being depreciated | 34,820 | |
| Capital assets - being depreciated | <u>966,641</u> | |
| Total capital assets | | <u>1,001,461</u> |
| Total assets | | <u>1,327,399</u> |
| Transferred Deferred Outflows of Resources | | |
| Deferred pension outflows | | <u>17,754</u> |
| Transferred Liabilities (Net) | | |
| Accounts payable and accrued expense | 60,125 | |
| Unearned revenues - customer deposits | 18,250 | |
| Accrued interest payable | 1,834 | |
| Bonds payable | <u>65,000</u> | |
| Total current liabilities | | 145,209 |
| Net pension liability | 107,880 | |
| Bonds payable | <u>61,000</u> | |
| Total non-current liabilities | | <u>168,880</u> |
| Total liabilities | | <u>314,089</u> |
| Transferred Deferred Inflows of Resources | | |
| Deferred pension inflows | | <u>21,872</u> |
| Net Position of Transferred District Operation | | |
| Net investment in capital assets | \$ 875,461 | |
| Restricted for debt service | 55,681 | |
| Unrestricted | <u>78,050</u> | |
| Total net position | | <u>\$ 1,009,192</u> |

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(13) Risk Management

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

At June 30, 2017, 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.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

Governmental 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.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

Governmental 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.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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) and 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 provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 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.

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 provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

Governmental 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]).

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 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.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 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 provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(15) Commitments and Contingencies

Grant Awards

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

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(15) Commitments and Contingencies, continued

Litigation

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

(16) Subsequent Event

Events occurring after June 30, 2017 have been evaluated for possible adjustment to the financial statements or disclosure as of December 7, 2017, which is the date the financial statements were available to be issued.

DRAFT

Required Supplementary Information

San Lorenzo Valley Water District
Schedules of Funding Status – Other Post-Employment Benefits
For the Fiscal Years Ended June 30, 2017 and 2016

Other Post-Employment Benefits Payable

Required Supplemental Information – Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|--|--|-----------------------------------|--------------------------------------|--|
| 7/1/2015 | \$ - | 400,654 | 400,654 | 0.00% | \$ 2,495,551 | 16.05% |
| 7/1/2012 | 136,529 | 451,717 | 315,188 | 30.22% | 2,233,145 | 14.11% |
| 6/30/2010 | - | 452,179 | 452,179 | 0.00% | 1,908,411 | 23.69% |

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2019 based on the year ending June 30, 2018.

San Lorenzo Valley Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last Ten Years*

Defined Benefit Pension Plan

| Description | Measurement Dates | | |
|---|--------------------------|------------------|------------------|
| | 6/30/2016 | 6/30/2015 | 6/30/2014 |
| District's Proportion of the Net Pension Liability | <u>0.04058%</u> | <u>0.03675%</u> | <u>0.03709%</u> |
| District's Proportionate Share of the Net Pension Liability | <u>\$ 3,511,169</u> | <u>2,522,518</u> | <u>2,307,630</u> |
| District's Covered-Employee Payroll | <u>\$ 2,446,674</u> | <u>2,319,224</u> | <u>1,995,604</u> |
| District's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll | <u>143.51%</u> | <u>108.77%</u> | <u>115.64%</u> |
| Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability | <u>78.52%</u> | <u>83.11%</u> | <u>83.03%</u> |

Notes to the Schedule of the District's Proportionate Share of Net Pension Liability

Changes in Benefit Terms – For the June 30, 2016 measurement date, there were no changes in the benefit terms.

Changes of Assumptions – For the June 30, 2016, measurement date, there were no changes in assumptions.

* Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015 was the first year of implementation required by GASB 68 & 71, therefore only three years are shown.

San Lorenzo Valley Water District
Schedules of Pension Plan Contributions
As of June 30, 2017
Last Ten Years*

Defined Benefit Pension Plan

| Description | Measurement Dates | | |
|--|--------------------------|------------------|------------------|
| | 6/30/2016 | 6/30/2015 | 6/30/2014 |
| Actuarially Determined Contribution | \$ 324,612 | 282,083 | 193,763 |
| Contributions in Relation to the Actuarially Determined Contribution | <u>(172,110)</u> | <u>(232,831)</u> | <u>(200,451)</u> |
| Contribution Deficiency (Excess) | \$ <u>152,502</u> | <u>49,252</u> | <u>(6,688)</u> |
| District's Covered Payroll | \$ <u>2,446,674</u> | <u>2,319,224</u> | <u>1,995,604</u> |
| Contribution's as a percentage of Covered-Employee Payroll | <u>7.03%</u> | <u>10.04%</u> | <u>10.04%</u> |

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

San Lorenzo Valley Water District
Combining Schedule of Net Position
June 30, 2017

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|---|---------------------|-------------------|-------------------|
| Current assets: | | | |
| Cash & cash equivalents | \$ 417,323 | - | 417,323 |
| Cash & cash equivalents – restricted | 322,728 | - | 322,728 |
| Investments | 1,866,407 | - | 1,866,407 |
| Accounts receivable – water sales and services, net | 1,025,901 | - | 1,025,901 |
| Accounts receivable – property taxes | 2,398 | - | 2,398 |
| Accounts receivable – settlement agreement | 46,392 | - | 46,392 |
| Accounts receivable – other | 13,508 | - | 13,508 |
| Internal balances | 115,762 | (115,762) | - |
| Prepaid expenses | 160 | - | 160 |
| Materials and supplies inventory | 233,395 | - | 233,395 |
| Total current assets | <u>4,043,974</u> | <u>(115,762)</u> | <u>3,928,212</u> |
| Non-current assets: | | | |
| Capital assets – not being depreciated | 6,935,423 | 88,814 | 7,024,237 |
| Capital assets – being depreciated | 27,332,128 | 416,731 | 27,748,859 |
| Total non-current assets | <u>34,267,551</u> | <u>505,545</u> | <u>34,773,096</u> |
| Deferred outflows of resources | | | |
| Deferred pension outflows | 1,007,189 | - | 1,007,189 |
| Total deferred outflows of resources | <u>\$ 1,007,189</u> | <u>-</u> | <u>1,007,189</u> |

Continued on next page

San Lorenzo Valley Water District
Combining Schedule of Net Position, continued
June 30, 2017

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|--|----------------------|-------------------|-------------------|
| Current liabilities: | | | |
| Accounts payable and accrued expense | \$ 324,905 | 4,698 | 329,603 |
| Accrued wages and related payables | 216,305 | - | 216,305 |
| Unearned revenues – customer deposits | 54,992 | - | 54,992 |
| Unearned revenues – construction deposits | 95,622 | - | 95,622 |
| Accrued interest payable | 21,624 | - | 21,624 |
| Long-term liabilities – due in one year: | | | |
| Compensated absences | 170,750 | - | 170,750 |
| Loans payable – current | 239,629 | - | 239,629 |
| Bonds payable – current | 710,030 | - | 710,030 |
| Capital lease payable – current | 21,778 | | 21,778 |
| Total current liabilities | <u>1,855,635</u> | <u>4,698</u> | <u>1,860,333</u> |
| Non-current liabilities: | | | |
| Long-term liabilities – due in more than one year: | | | |
| Compensated absences | 303,555 | - | 303,555 |
| Other post-employment benefits payable | 262,939 | - | 262,939 |
| Net pension liability | 3,511,169 | - | 3,511,169 |
| Loans payable – non-current | 3,311,614 | - | 3,311,614 |
| Bonds payable – non-current | 1,845,824 | - | 1,845,824 |
| Capital lease payable – non-current | 92,524 | | 92,524 |
| Total non-current liabilities | <u>9,327,625</u> | <u>-</u> | <u>9,327,625</u> |
| Deferred inflows of resources | | | |
| Deferred pension inflows | 265,104 | - | 265,104 |
| Total deferred inflows of resources | <u>265,104</u> | <u>-</u> | <u>265,104</u> |
| Net position | | | |
| Net investment in capital assets | 28,046,152 | 505,545 | 28,551,697 |
| Restricted for debt service | 322,728 | - | 322,728 |
| Unrestricted (deficit) | (498,530) | (120,460) | (618,990) |
| Total net position | <u>\$ 27,870,350</u> | <u>385,085</u> | <u>28,255,435</u> |

San Lorenzo Valley Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|---|----------------------|-------------------|--------------------|
| Operating revenues: | | | |
| Water consumption sales | \$ 7,157,650 | - | 7,157,650 |
| Wastewater service | - | 102,107 | 102,107 |
| Meter sales, charges and penalties | 178,632 | - | 178,632 |
| Other charges and services | 7,741 | - | 7,741 |
| Total operating revenues | <u>7,344,023</u> | <u>102,107</u> | <u>7,446,130</u> |
| Operating expenses: | | | |
| Salaries and benefits | 4,498,595 | - | 4,498,595 |
| Professional services | 1,135,253 | 66,751 | 1,202,004 |
| Operational | 445,917 | 18,319 | 464,236 |
| Maintenance | 130,244 | - | 130,244 |
| Facilities | 490,997 | 8,403 | 499,400 |
| General and administrative | 314,979 | - | 314,979 |
| Total operating expenses | <u>7,015,985</u> | <u>93,473</u> | <u>7,109,458</u> |
| Operating income before overhead absorption | 328,038 | 8,634 | 336,672 |
| Overhead absorption | <u>101,681</u> | <u>(26,998)</u> | <u>74,683</u> |
| Operating income (loss) before depreciation expense | 429,719 | (18,364) | 411,355 |
| Depreciation expense | <u>(1,375,120)</u> | <u>(42,357)</u> | <u>(1,417,477)</u> |
| Operating loss | <u>(945,401)</u> | <u>(60,721)</u> | <u>(1,006,122)</u> |
| Non-operating revenues (expenses): | | | |
| Property tax/assessment revenues | 1,129,838 | - | 1,129,838 |
| Investment earnings | 13,858 | - | 13,858 |
| Rental revenues | 59,548 | - | 59,548 |
| Interest expenses | (166,204) | - | (166,204) |
| Settlement and purchase agreements | 10,000 | - | 10,000 |
| Total non-operating revenues, net | <u>1,047,040</u> | <u>-</u> | <u>1,047,040</u> |
| Change in net position | <u>101,639</u> | <u>(60,721)</u> | <u>40,918</u> |
| Net position – beginning of year | <u>27,768,711</u> | <u>445,806</u> | <u>28,214,517</u> |
| Net position – end of year | <u>\$ 27,870,350</u> | <u>385,085</u> | <u>28,255,435</u> |

San Lorenzo Valley Water District
Combining Schedule of Net Position
June 30, 2016

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|---|-------------------|-------------------|-------------------|
| Current assets: | | | |
| Cash & cash equivalents | \$ 1,676,923 | - | 1,676,923 |
| Cash & cash equivalents – restricted | 403,624 | - | 403,624 |
| Accrued interest receivable | 155 | - | 155 |
| Investments | 930,412 | - | 930,412 |
| Accounts receivable – water sales and services, net | 993,952 | - | 993,952 |
| Accounts receivable – property taxes | 1,296 | - | 1,296 |
| Accounts receivable – settlement agreement | 36,392 | - | 36,392 |
| Accounts receivable – grant funding | 31,530 | - | 31,530 |
| Accounts receivable – other | 29,986 | - | 29,986 |
| Internal balances | 52,791 | (52,791) | - |
| Prepaid expenses | 41,526 | - | 41,526 |
| Materials and supplies inventory | 225,327 | - | 225,327 |
| | <u>4,423,914</u> | <u>(52,791)</u> | <u>4,371,123</u> |
| Total current assets | | | |
| Non-current assets: | | | |
| Capital assets – not being depreciated | 14,925,498 | 46,956 | 14,972,454 |
| Capital assets – being depreciated | 19,774,685 | 459,087 | 20,233,772 |
| | <u>34,700,183</u> | <u>506,043</u> | <u>35,206,226</u> |
| Total non-current assets | | | |
| Deferred outflows of resources | | | |
| Deferred pension outflows | 378,695 | - | 378,695 |
| Total deferred outflows of resources | <u>\$ 378,695</u> | <u>-</u> | <u>378,695</u> |

Continued on next page

San Lorenzo Valley Water District
Combining Schedule of Net Position, continued
June 30, 2016

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|--|----------------------|-------------------|-------------------|
| Current liabilities: | | | |
| Accounts payable and accrued expense | \$ 933,929 | 7,446 | 941,375 |
| Accrued wages and related payables | 175,956 | - | 175,956 |
| Unearned revenues – customer deposits | 83,306 | - | 83,306 |
| Unearned revenues – construction deposits | 121,360 | - | 121,360 |
| Accrued interest payable | 28,940 | - | 28,940 |
| Long-term liabilities – due in one year: | | | |
| Compensated absences | 164,577 | - | 164,577 |
| Loans payable – current | 175,769 | - | 175,769 |
| Bonds payable – current | 697,478 | - | 697,478 |
| Total current liabilities | <u>2,381,315</u> | <u>7,446</u> | <u>2,388,761</u> |
| Non-current liabilities: | | | |
| Long-term liabilities – due in more than one year: | | | |
| Compensated absences | 292,582 | - | 292,582 |
| Other post-employment benefits payable | 238,911 | - | 238,911 |
| Net pension liability | 2,522,518 | - | 2,522,518 |
| Loans payable – non-current | 3,241,224 | - | 3,241,224 |
| Bonds payable – non-current | 2,555,854 | - | 2,555,854 |
| Total non-current liabilities | <u>8,851,089</u> | <u>-</u> | <u>8,851,089</u> |
| Deferred inflows of resources | | | |
| Deferred pension inflows | 501,677 | - | 501,677 |
| Total deferred inflows of resources | <u>501,677</u> | <u>-</u> | <u>501,677</u> |
| Net position | | | |
| Net investment in capital assets | 28,029,858 | 506,043 | 28,535,901 |
| Restricted for debt service | 403,624 | - | 403,624 |
| Unrestricted (deficit) | (664,771) | (60,237) | (725,008) |
| Total net position | <u>\$ 27,768,711</u> | <u>445,806</u> | <u>28,214,517</u> |

San Lorenzo Valley Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|--|----------------------|-------------------|-------------------|
| Operating revenues: | | | |
| Water consumption sales | \$ 6,145,076 | - | 6,145,076 |
| Wastewater service | - | 98,262 | 98,262 |
| Meter sales, charges and penalties | 194,444 | - | 194,444 |
| Other charges and services | 18,399 | - | 18,399 |
| Total operating revenues | <u>6,357,919</u> | <u>98,262</u> | <u>6,456,181</u> |
| Operating expenses: | | | |
| Salaries and benefits | 3,304,540 | - | 3,304,540 |
| Professional services | 834,427 | 33,791 | 868,218 |
| Operational | 398,057 | 12,285 | 410,342 |
| Maintenance | 183,215 | - | 183,215 |
| Facilities | 426,528 | 15,486 | 442,014 |
| General and administrative | 352,510 | - | 352,510 |
| Total operating expenses | <u>5,499,277</u> | <u>61,562</u> | <u>5,560,839</u> |
| Operating income before overhead absorption | 858,642 | 36,700 | 895,342 |
| Overhead absorption | 42,624 | (22,987) | 19,637 |
| Operating income before depreciation expense | 901,266 | 13,713 | 914,979 |
| Depreciation expense | (1,286,606) | (39,450) | (1,326,056) |
| Operating loss | <u>(385,340)</u> | <u>(25,737)</u> | <u>(411,077)</u> |
| Non-operating revenues (expenses): | | | |
| Property tax/assessment revenues | 610,634 | - | 610,634 |
| Investment earnings | 11,502 | - | 11,502 |
| Rental revenues | 43,922 | - | 43,922 |
| Interest expenses | (185,411) | - | (185,411) |
| Total non-operating revenues, net | <u>480,647</u> | <u>-</u> | <u>480,647</u> |
| Net loss before capital contributions | <u>95,307</u> | <u>(25,737)</u> | <u>69,570</u> |
| Capital contributions: | | | |
| Capital grants - other governments | 1,557,589 | - | 1,557,589 |
| Total capital contributions | <u>1,557,589</u> | <u>-</u> | <u>1,557,589</u> |
| Change in net position | 1,652,896 | (25,737) | 1,627,159 |
| Transfer in due to merger | 1,009,192 | | 1,009,192 |
| Net position – beginning of year | <u>25,106,623</u> | <u>471,543</u> | <u>25,578,166</u> |
| Net position – end of year | <u>\$ 27,768,711</u> | <u>445,806</u> | <u>28,214,517</u> |

Statistical Information Section

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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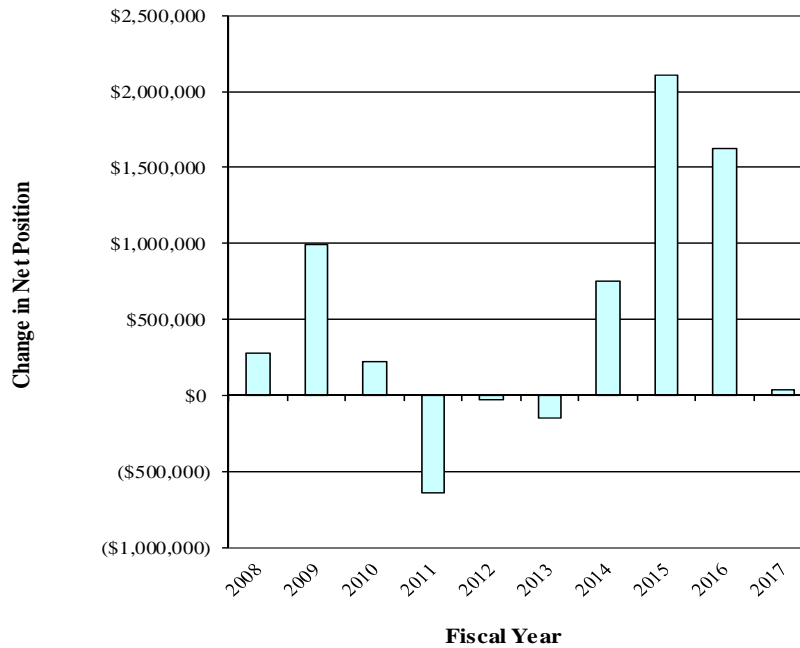
| | <u>Page No.</u> |
|--|------------------------|
| Financial Trends These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time. | 66-69 |
| Revenue Capacity These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales. | 70-73 |
| 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. | 74-75 |
| Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place. | 76 |
| 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. | 77-78 |

San Lorenzo Valley Water District

Changes in Net Position

Last Ten Fiscal Years

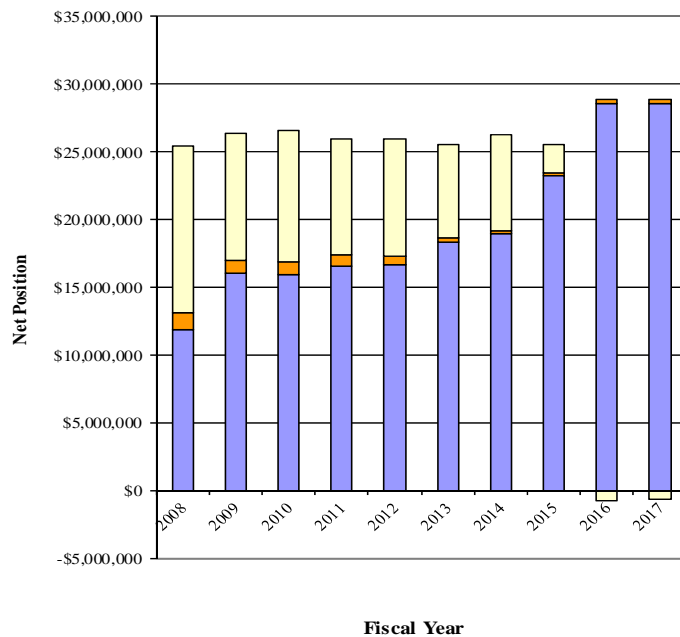
| | Fiscal Year | | | | |
|--|----------------------|--------------------|--------------------|-------------------|-------------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| Changes in net position: | | | | | |
| Operating revenues (see Schedule 2) | \$ 3,459,598 | 4,004,362 | 4,481,317 | 4,819,542 | 5,292,035 |
| Operating expenses (see Schedule 3) | (4,456,030) | (4,234,583) | (4,275,569) | (4,245,987) | (4,399,636) |
| Overhead absorption | | | | | |
| Depreciation and amortization | (947,839) | (1,245,221) | (1,379,615) | (1,334,021) | (1,293,195) |
| Operating income(loss) | (1,944,271) | (1,475,442) | (1,173,867) | (760,466) | (400,796) |
| Non-operating revenues(expenses) | | | | | |
| Property taxes | 505,233 | 527,421 | 504,342 | 492,443 | 467,181 |
| Rental income | 23,186 | 25,216 | 26,038 | 24,468 | 23,402 |
| Assessment Revenue | | | | | |
| Investment income/(loss) | 708,836 | 603,405 | 532,957 | 217,145 | 233,421 |
| Amortization of deferred charges | | (25,252) | (25,252) | (25,252) | (35,021) |
| Gain/(Loss) on sale/disposition of assets | (156,812) | (38,877) | - | (236,970) | - |
| Interest expense | (406,676) | (455,204) | (349,705) | (357,274) | (352,109) |
| Grant related expenses | | | | | |
| Other revenue/(expense), net | 1,073,977 | - | 711,712 | 8,748 | 31,412 |
| Total non-operating revenues(expenses), net | 1,747,744 | 636,709 | 1,400,092 | 123,308 | 368,286 |
| Net income(loss) before capital contributions | (196,527) | (838,733) | 226,225 | (637,158) | (32,510) |
| Capital contributions | 477,570 | 1,833,993 | | | |
| Changes in net position | \$ 281,043 | 995,260 | 226,225 | (637,158) | (32,510) |
| Net position by component: | | | | | |
| Invested in capital assets, net of related debt | \$ 11,901,216 | 15,999,096 | 15,991,991 | 16,564,381 | 16,665,481 |
| Restricted | 1,171,630 | 940,077 | 935,665 | 865,923 | 653,538 |
| Unrestricted | 12,321,355 | 9,450,288 | 9,688,030 | 8,548,224 | 8,626,999 |
| Total net position | \$ 25,394,201 | 26,389,461 | 26,615,686 | 25,978,528 | 25,946,018 |



Source: SLVWD Finance Department

Schedule 1

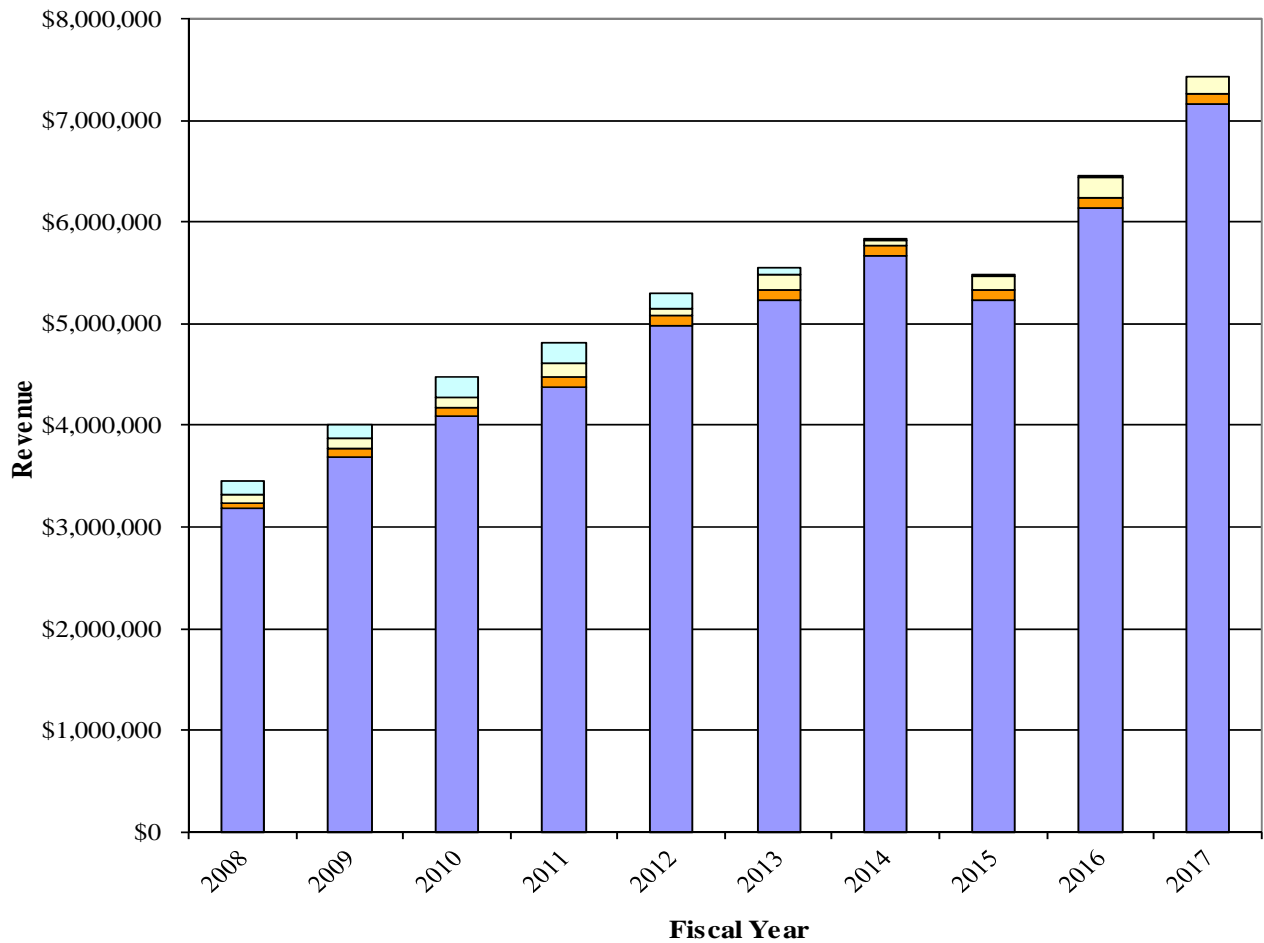
| Fiscal Year | | | | |
|-------------|-------------|-------------|-------------|-------------|
| 2013 | 2014 | 2015 | 2016 | 2017 |
| 5,544,632 | 5,838,488 | 5,643,471 | 6,456,181 | 7,446,130 |
| (4,736,829) | (5,173,764) | (5,552,334) | (5,560,839) | (7,109,458) |
| 48,543 | 132,347 | 24,644 | 19,637 | 74,683 |
| (1,293,732) | (1,172,504) | (1,139,110) | (1,326,056) | (1,417,477) |
| (437,386) | (375,433) | (1,023,329) | (411,076) | (1,006,122) |
| 459,834 | 478,632 | 527,308 | 577,023 | 707,262 |
| 28,461 | 30,378 | 29,713 | 43,921 | 59,548 |
| | | 235,444 | 33,611 | 358,469 |
| (80,321) | 159,023 | (1,909) | 11,502 | 13,858 |
| | | | | - |
| 1,874 | 2,000 | 34,499 | - | - |
| (211,233) | (295,513) | (127,850) | (185,411) | (166,204) |
| 85,369 | 3,352 | 145,257 | - | 74,107 |
| 283,984 | 377,872 | 842,462 | 480,647 | 1,047,040 |
| (153,402) | 2,439 | (180,867) | 69,570 | 40,918 |
| | 753,600 | 2,287,233 | 1,557,589 | - |
| (153,402) | 756,039 | 2,106,366 | 1,627,159 | 40,918 |
| 18,309,392 | 18,981,706 | 23,227,784 | 28,535,901 | 28,551,697 |
| 355,162 | 168,185 | 229,790 | 403,624 | 322,728 |
| 6,898,478 | 7,169,180 | 2,120,592 | (725,008) | (618,990) |
| 25,563,032 | 26,319,071 | 25,578,166 | 28,214,517 | 28,255,435 |



**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 (1) | Total Operating Revenue |
|--------------------|-----------------------|----------------------------|---|---------------------------------------|--------------------------------|
| 2008 | 3,188,266 | 47,036 | 89,981 | 134,315 | 3,459,598 |
| 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 | 5,237,534 | 100,088 | 124,896 | 16,372 | 5,478,890 |
| 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 |



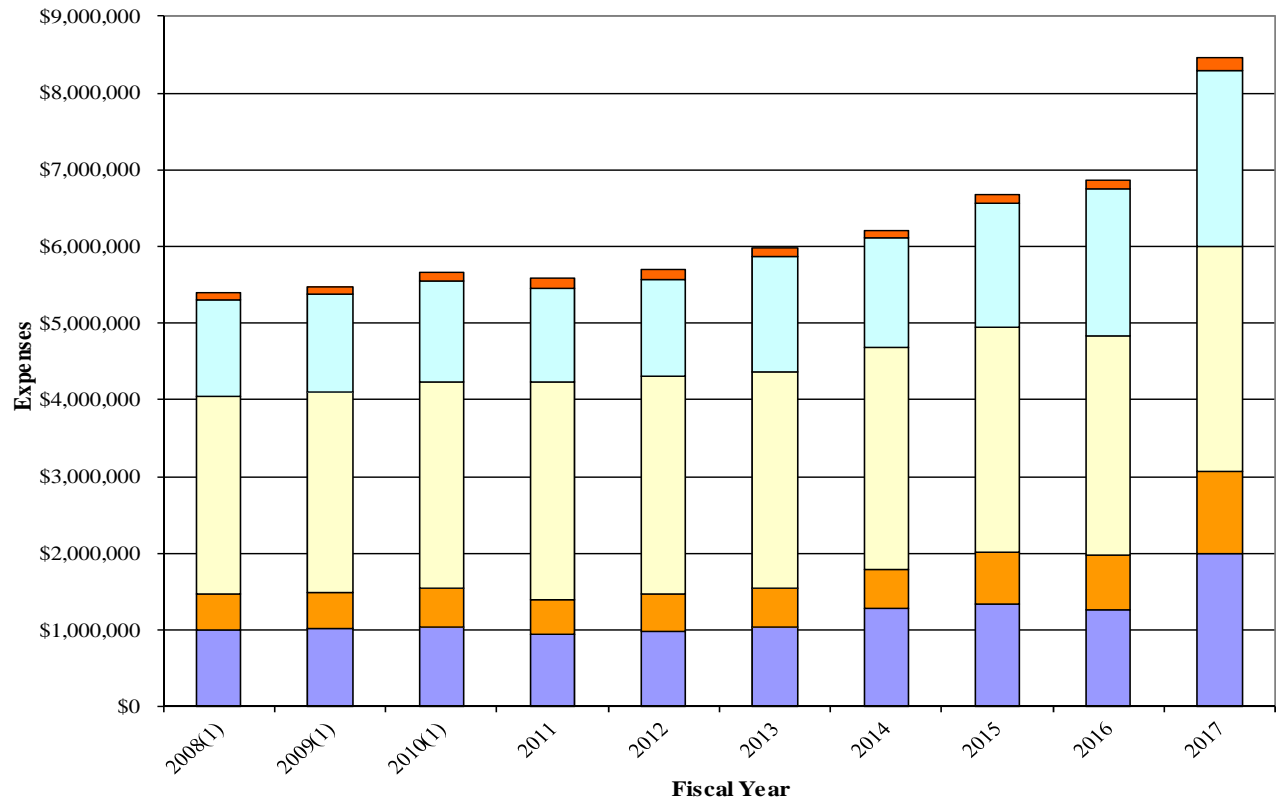
Note: (1) Prior years had "Other Charges & Services" listed as operating, these are deemed more miscellaneous and have been reclassified.

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 |
|--------------------|-----------------------------------|---------------------------------|--------------------------------------|------------------------|------------------------|---------------------------------|
| 2008(1) | 999,827 | 474,851 | 2,565,914 | 1,264,154 | 99,123 | 5,403,869 |
| 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 | 1,265,030 | 719,525 | 2,850,569 | 1,908,139 | 123,998 | 6,867,261 |
| 2017 | 2,002,222 | 1,060,345 | 2,937,280 | 2,289,576 | 162,829 | 8,452,252 |



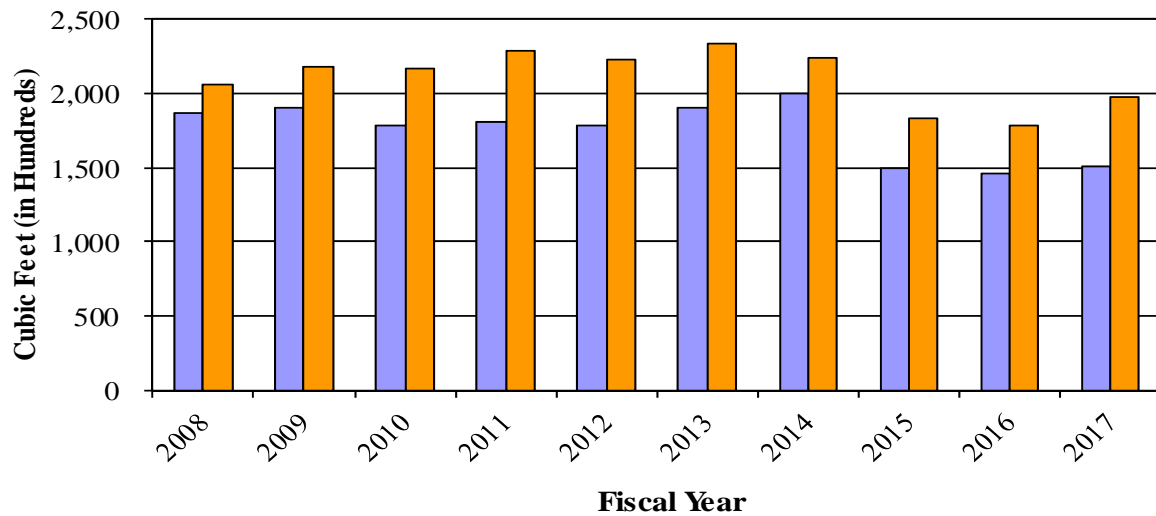
Note: (1) Activity break down data not available, a ratio of the next 5 years was applied to the total Operating Expenses.

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) |
|------------------------|------------------------------------|---------------------------------------|
| 2008 | 1,872 | 2,055 |
| 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 |



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.

Source: SLVWD Finance Department

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

Schedule 5

Water Consumption Rates

| Fiscal Year | | 2008(2) | 2009(2) | 2010(2) | 2011(2) | 2012(2) | 2013(2) | 2014 | 2015 | 2016 | 2017 |
|-------------------------------------|----|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|-------------|-------------|
| Residential - Tier 1 (per HCF) | \$ | 1.950 | 2.180 | 2.360 | 2.710 | 2.710 | 2.710 | 3.090 | 3.430 | 3.810 | 3.810 |
| Residential - Tier 2 (per HCF) | | 2.550 | 2.860 | 3.080 | 3.540 | 3.540 | 3.540 | 4.040 | 4.480 | 4.970 | 4.970 |
| Residential - Tier 3 (per HCF) | | 3.050 | 3.420 | 3.690 | 4.240 | 4.240 | 4.240 | 4.840 | 5.370 | 5.960 | 5.960 |
| Residential - Tier 4 (per HCF) | | 3.300 | 3.700 | 3.990 | 4.590 | 4.590 | 4.590 | 5.360 | 5.950 | 6.610 | 6.610 |
| Residential - Tier 5 (per HCF) | | 3.600 | 4.030 | 4.350 | 5.000 | 5.000 | 5.000 | | | | |
| Commercial/Flat (per HCF) | | * | * | * | * | * | * | 3.770 | 4.180 | 4.640 | 4.640 |
| Wholesale - Boulder Creek (per HCF) | | * | * | * | * | * | * | * | 10.000 | 10.000 | 10.000 |

* based on residential tiers above

Ready-to-serve Fees per Month

| Meter Size | | 2008(2) | 2009(2) | 2010(2) | 2011(2) | 2012(2) | 2013(2) | 2014 | 2015 | 2016 | 2017 |
|--------------------------------|----|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|-------------|-------------|
| 3/4" or smaller | \$ | 35.75 | 40.04 | 43.24 | 49.73 | 49.73 | 49.73 | 55.20 | 30.64 | 34.00 | 34.00 |
| 1" | | 59.60 | 66.75 | 72.09 | 82.90 | 82.90 | 82.90 | 92.02 | 51.00 | 56.50 | 56.50 |
| 1 1/2" | | 120.00 | 134.40 | 145.15 | 166.92 | 166.92 | 166.92 | 185.00 | 102.50 | 114.00 | 114.00 |
| 2" | | 191.00 | 213.92 | 231.03 | 265.68 | 265.68 | 265.68 | 295.00 | 163.50 | 181.50 | 181.50 |
| 3" | | 358.45 | 401.46 | 433.58 | 498.62 | 498.62 | 498.62 | 553.00 | 307.00 | 341.00 | 341.00 |
| 4" | | 596.50 | 668.08 | 721.53 | 829.76 | 829.76 | 829.76 | 921.00 | 511.00 | 567.00 | 567.00 |
| 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.

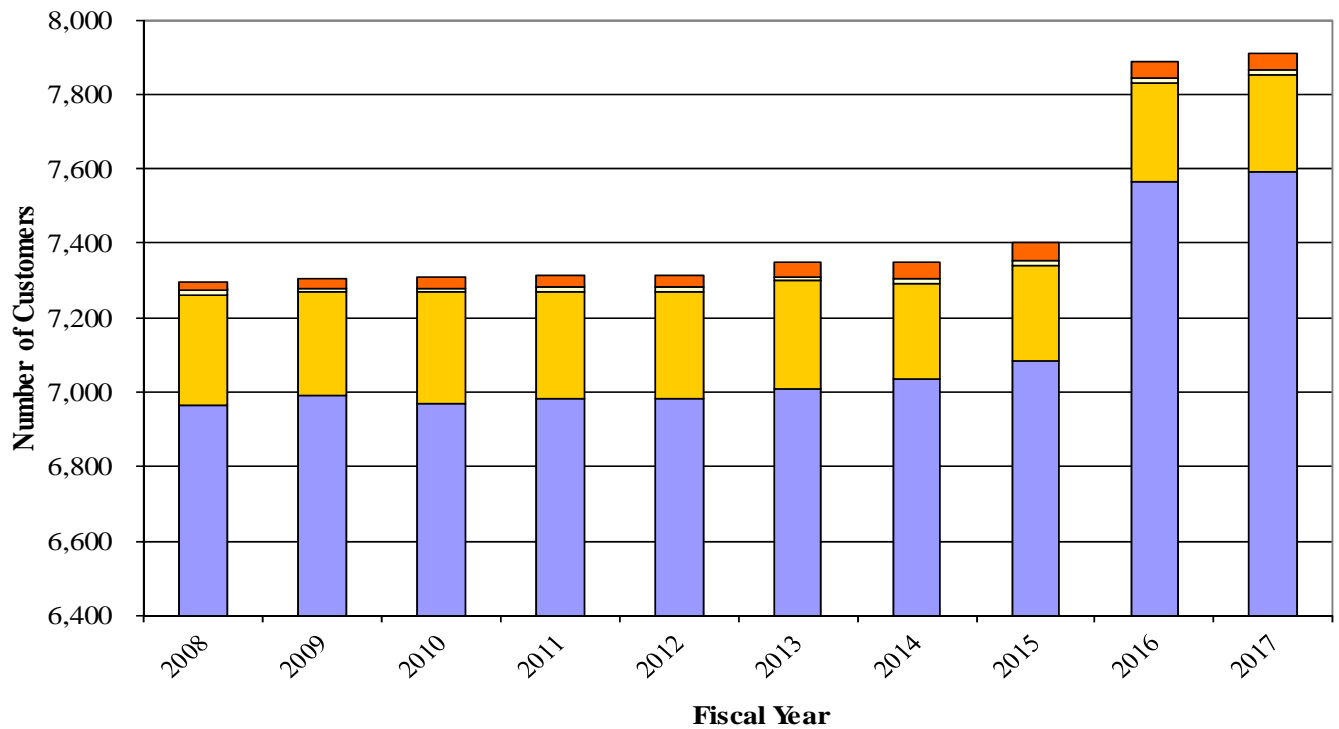
(2) Bi-Monthly Billing Rates

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 | |
| 2008 | 6,964 | 298 | 11 | 23 | 7,296 |
| 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 |



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 | 2017 | | 2013 ⁽¹⁾ | |
|---------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | Water Consumed (AF) | Percentage of Total | Water Consumed (AF) | Percentage of Total |
| 005165-000 | 34 | 2.26% | 34 | 1.82% |
| 005534-000 | 30 | 2.00% | 30 | 1.60% |
| 006297-000 | 17 | 1.13% | 17 | 0.91% |
| 009080-000 | 11 | 0.73% | 11 | 0.59% |
| 011506-000 | 10 | 0.67% | 10 | 0.53% |
| 005279-000 | 9 | 0.60% | 9 | 0.48% |
| 006854-000 | 8 | 0.53% | 8 | 0.43% |
| 005280-000 | 7 | 0.47% | 7 | 0.37% |
| 006011-000 | 6 | 0.40% | 6 | 0.32% |
| 007497-000 | 6 | 0.40% | 6 | 0.32% |
| Total | 138 | 9.18% | 138 | 7.37% |
| Total Water Consumed (AF) | 1,503 | 100.00% | 1,872 | 100.00% |

AF = Acre Feet

Notes:

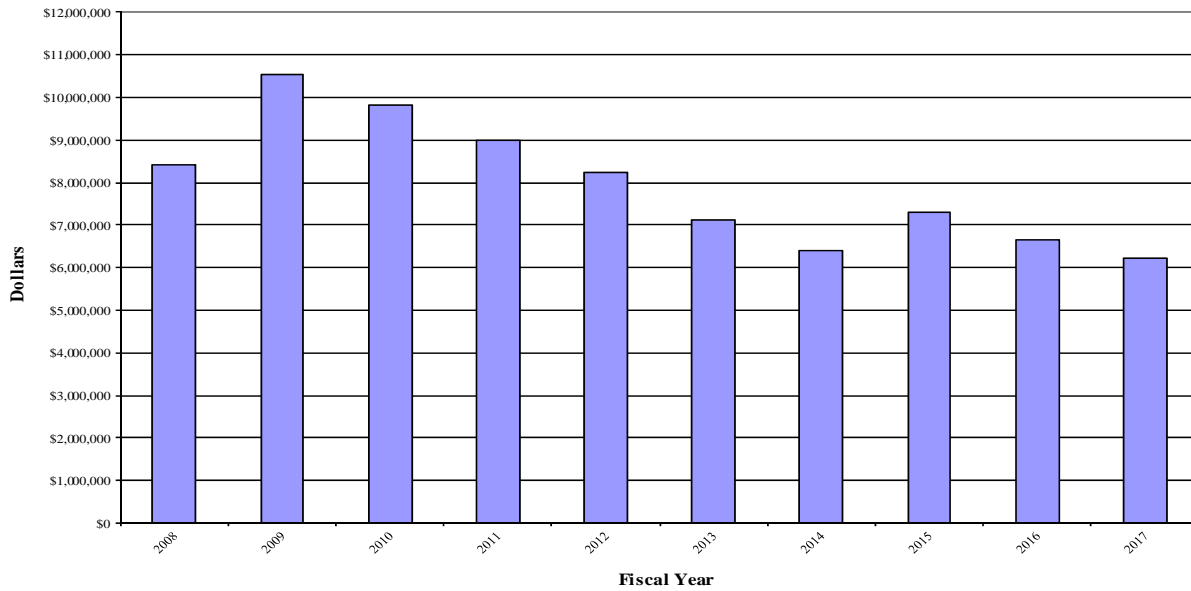
(1) Individual records will continue to be maintained to allow for a ten year comparison over time.

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 |
|--------------------|----------------------|----------------------|----------------------|-------------------|-------------------|--------------------------------------|
| 2008 | 720,000 | 7,694,095 | | 8,414,095 | 460.73 | 0.99% |
| 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 | * |
| 2017 | 2,555,854 | 3,551,243 | 114,302 | 6,221,399 | 314.69 | * |



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 | | |
| 2008 | 5,207,342 | (4,456,030) | 751,312 | (581,662) | (406,676) | (988,338) | (0.76) |
| 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 | (757,130) | (166,204) | (923,334) | (1.50) |

Notes:

(1) Operating expenses exclude depreciation expense.

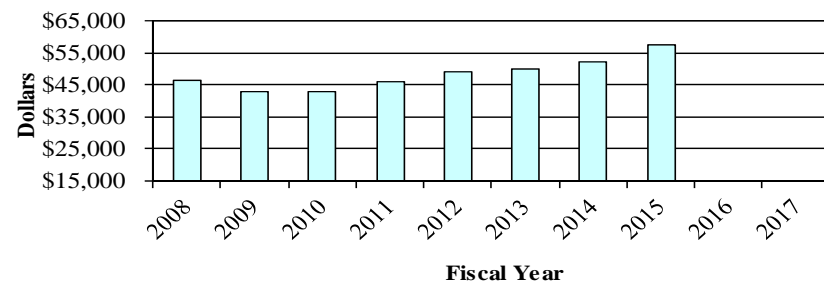
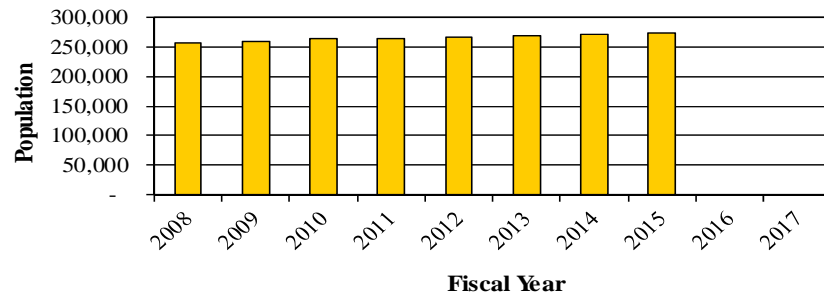
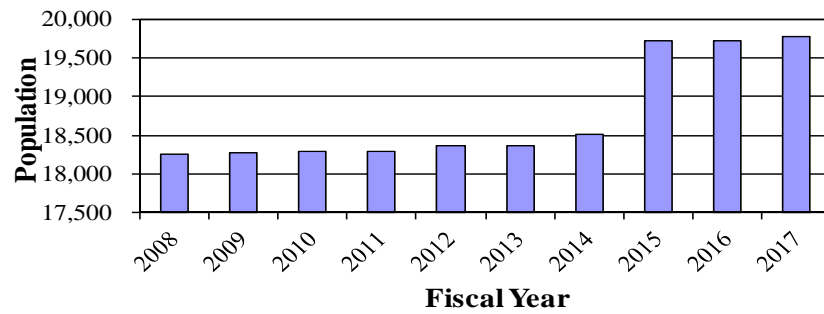
Source: SLVWD Finance Department

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 |
| 2008 | 18,263 | 7.4% | 256,520 | 11,940,819 | 46,549 |
| 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% | * | * | * |
| 2017 | 19,770 | * | * | * | * |

* 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.

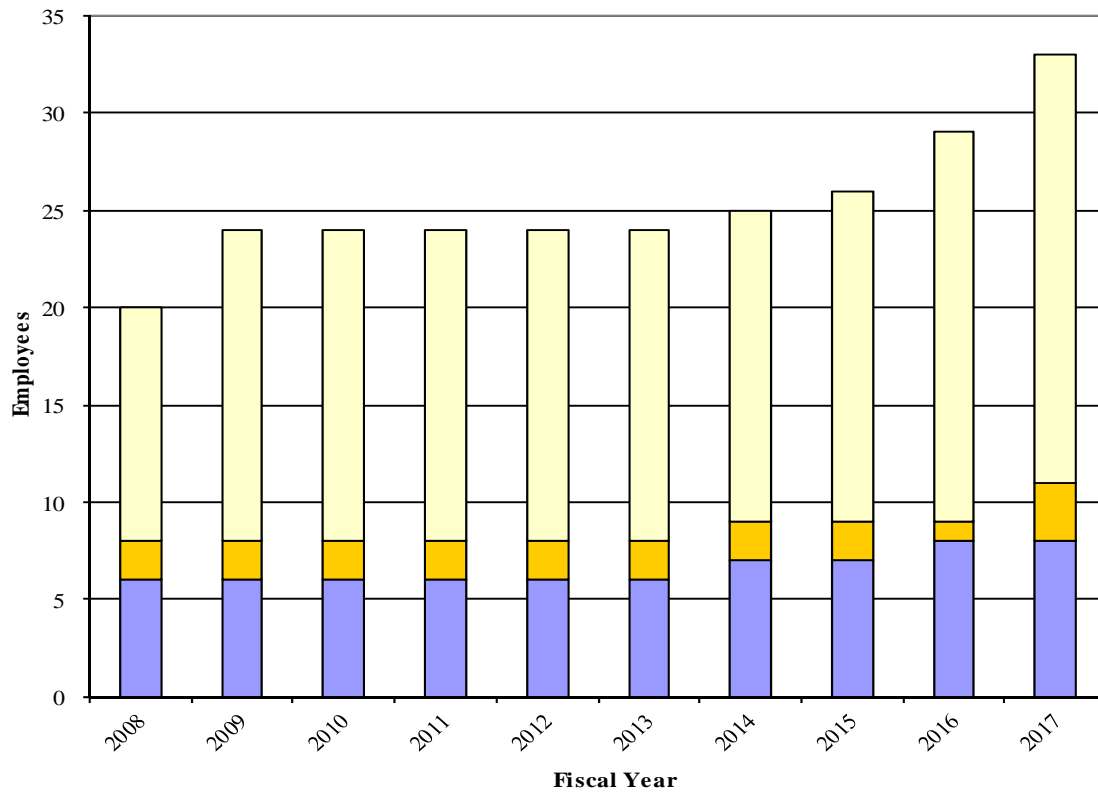
(2) Population data is assumed at 2.5 persons per connection.

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 |
| 2008 | 6 | 2 | 12 | 20 |
| 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 |



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) |
|--------------------|---|------------------------------|----------------------------------|--|---|
| 2008 | 58 | 140 | 8,472,000 | 2,300,000 | 1,800,000 |
| 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 |

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

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Report on Internal Controls and Compliance

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Lorenzo Valley Water District (District), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 7, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on Audits 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
December 7, 2017

M E M O

TO: Budget & Finance Committee
FROM: District Manager
PREPARED BY: Director of Finance & Business Services
SUBJECT: FY1718 BUDGET REVISION REQUEST
DATE: November 14, 2017

RECOMMENDATION:

It is recommended that the Board of Directors review the FY1718 Budget Revision Proposal and make adjustments as needed.

BACKGROUND:

REVENUE REVISION - RATE STUDY

On September 21, 2017, the Board unanimously adopted the proposed rate structure. This will cause an anticipated increase to revenue, as well as a shift in the revenue categories.

Based on data provided by NBS, a revenue projection has been updated based on current revenues received and future projections with the new rates. The results are as follows:

Decrease in Water Basic revenue of \$464,000, to \$3,076,000
Increase in Water Usage revenue of \$1,840,000, to \$5,390,000

Net change to Water Revenue, increase \$1,376,000

EXPENSE REVISION

There are items being requested for a budget expense revision:

- Increase of \$204,500 to the budget for legal expenses expected for the remainder of the year. Increase is a result of transition to a new legal firm and subsequent increase in legal review of District business; current and potentially pending lawsuits, contracts, claims, policies, procedures.
- Increase of \$30,000 for new website design. Current District website is loaded with information that has been added over the course of many years. Staff would like to issue an RFP to have a professional firm revamp

the organization and presentation of our website, increasing the ease-of-use to retrieve information. Staff would like to release the RFP early in 2018 calendar year.

- Increase of \$80,000 for a Master Plan design. Staff would like to issue an RFP to have a professional engineering firm conduct a system wide master plan of the District's water facilities. The intent is to establish a comprehensive and structured prioritization of capital improvement projects based on standard industry concerns: fire protection, low/high pressure zones, operational storage, age and condition of facilities. Staff would like to release the RFP early in 2018 calendar year.

Net change to Water Expenses, increase \$314,500

REVENUE STABILIZATION RATE ANALYSIS

Part of the Rate Study entailed adopting Revenue Stabilization Rates. The policy requires providing consumption over the prior 3 years to create an average baseline current consumption will be compared to. The support shows the prior 3 years and the first 3 months of consumption for the current year. This will become part of the budget package.

FY1718 REVISED BUDGET PROPOSAL

The below will itemize the areas identified for a request to revise the FY1718 Budget

| | ORIG. BUDGET | REVISED BUDGET | CHANGE REQUESTED | Notes |
|-----------------------------------|------------------|-------------------|---------------------|---|
| REVENUE | | | | |
| Water Basic | 3,540,000 | 3,076,000 | (464,000) | |
| Water Usage | 3,550,000 | 5,390,000 | 1,840,000 | Still assumes approximately 650K units of water |
| TOTAL REVENUE | 7,090,000 | 8,466,000 | 1,376,000 | |
| EXPENSES | | | | |
| Admin - Contract/Prof. | | | | |
| Services | 359,400 | 673,900 | 314,500 | Made up of the following items below: |
| <i>Legal Fees</i> | | | 204,500 | Factors in current overage and future estimates |
| <i>Website Design</i> | | | 30,000 | |
| <i>Master Plan Design</i> | | | 80,000 | |
| TOTAL EXPENSES | 359,400 | 673,900 | 314,500 | |
| CHANGE TO OPERATING INCOME | | | 1,061,500 | |

REVENUE STABILIZATION RATE ANALYSIS FY1718

In accordance with the District's Revenue Stabilization Rates Policy & Procedures, the District Manager shall provide the Board of Directors with the average units of water sales (by month) for the rolling previous three years, which will serve as the baseline against which current annual sales to date will be compared. If the District Manager determines that budget-year water sales (in units) to date, and corresponding revenue, is more than 10% below expected year-to-date levels (based on monthly averages over the previous three years), the District Manager shall notify, at a public meeting, the Board of Directors of this determination at or before the next regularly scheduled Board meeting. For more information, please refer to the District's full Policy & Procedures.

MONTHLY CONSUMPTION IN UNITS BY FISCAL YEAR (BASELINE)

| | July | August | September | October | November | December | January | February | March | April | May | June | TOTAL |
|-------------------------|--------|--------|-----------|---------|----------|----------|---------|----------|--------|--------|--------|--------|---------|
| FY1415 | 72,137 | 70,653 | 69,617 | 60,931 | 52,275 | 40,785 | 49,486 | 40,781 | 41,301 | 53,193 | 50,988 | 51,218 | 653,365 |
| FY1516 | 66,779 | 64,961 | 69,609 | 60,022 | 49,837 | 41,773 | 44,025 | 37,290 | 42,433 | 43,153 | 48,328 | 68,129 | 636,340 |
| FY1617 | 74,199 | 73,414 | 71,825 | 59,518 | 41,777 | 45,698 | 45,401 | 37,667 | 41,173 | 42,898 | 52,932 | 68,388 | 654,889 |
| 3 YR AVERAGE (BASELINE) | 71,038 | 69,676 | 70,350 | 60,157 | 47,963 | 42,752 | 46,304 | 38,579 | 41,636 | 46,415 | 50,750 | 62,578 | 648,198 |

ACTUAL FY1718 CONSUMPTION

| | | | | | | | | | | | | | |
|--------|--------|--------|--------|--|--|--|--|--|--|--|--|--|---------|
| FY1718 | 81,254 | 78,331 | 76,259 | | | | | | | | | | 235,844 |
|--------|--------|--------|--------|--|--|--|--|--|--|--|--|--|---------|

CUMULATIVE ANALYSIS

| | | | |
|--------------------------|-----|-----|-----|
| % Above or Below Average | 14% | 12% | 8% |
| Cumulative % | 14% | 13% | 12% |

NOTES:
Consumption is cumulatively higher than the prior three year average baseline. As of September 2017 consumption, the cumulative consumption is 12% above the baseline. There are no triggers identified per the revenue stabilization rate policy.