# FILE COPY

## SAN LORENZO VALLEY WATER DISTRICT

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

June 30, 2001 and 2000

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EMERITUS Alexander W. Berger Griffith R. Lewis

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general-purpose financial statements of San Lorenzo Valley Water District as of June 30, 2001 and 2000 as listed in the table of contents. The financial statements are the responsibility of San Lorenzo Valley Water District's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 2 to the financial statements, the audit did not include tests of the historical costs of property and equipment acquired prior to July 1, 1986 because complete records are not available. Accordingly, we do not express an opinion as to the fairness of presentation of property and equipment, accumulated depreciation and equity in plant and equipment.

In our opinion, except for fixed assets, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of San Lorenzo Valley Water District as of June 30, 2001 and 2000, and results of its operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

Board of Directors San Lorenzo Valley Water District Page 2

Our report was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on pages 16 - 19 is presented for purposes of supplementary information and is not a required part of the basic financial statements. Such information for the year ended June 30, 2001 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Derget Levis accountancy Corporation

South Cour College in

Santa Cruz, California October 8, 2001

## COMBINED BALANCE SHEETS - ALL PROPRIETARY FUNDS

## June 30, 2001 and 2000

ASSETS		
	2001	2000
CURRENT ASSETS:		
Cash and Investments (Note 6)	\$ 5,168,268	\$ 2,091,807
Receivables:		
Customer Accounts - Net of Allowance for Uncollectibles		
of \$3,252 and \$3,337	239,282	248,865
Interest Receivable	111,382	76,044
Due from Other Funds (Note 7)	15,834	151,206
Other Receivables	29,765	24,279
Inventory (Note 2)	117,524	114,604
Prepaid Expenses and Deferred Charges	-	305
Deposits	2,940	2,940
Note Receivable - Current Portion	970,000	_
Total Current Assets	6,654,995	2,710,050
RESTRICTED CASH AND INVESTMENTS (Note 6):		
Proceeds Certificates of Participation	2,500,255	2,503,475
Cash and Investments with Fiscal Agent	57,403	58,019
Connection and Construction Deposits Investment (Note 9)	144,802	208,515
Customer Deposits (Note 8)	259,944	246,797
Reserve Fund - Certificates of Participation	239,125	239,125
North Boulder Creek Assessments	52,400	49,217
Reserve Fund - Improvement Refunding Bonds	256,257	128,654
Total Restricted Cash and Investments	3,510,186	3,433,802
PROPERTY, PLANT AND EQUIPMENT (Note 3):		
Land	1,113,057	927,275
Utility Plant	19,674,454	19,284,621
Buildings, Equipment and Other Assets	2,275,430	2,175,672
Total Property, Plant and Equipment	23,062,941	22,387,568
Less - Accumulated Depreciation	(7,888,151)	(7,200,611)
•	15,174,790	15,186,957
Construction in Progress	607,536	533, <b>72</b> 1
Total Property, Plant and Equipment	15,782,326	15,720,678
OTHER ASSETS:		
Deferred Charges	368,425	393,012
Note Receivable - Net of Current Portion	6,790,000	
Total Other Assets	7,158,425	393,012
TOTAL ASSETS	\$ 33,105,932	\$ 22,257,542

## LIABILITIES AND NET ASSETS

Of IDD ENTER LANDITUTE		2001		2000
CURRENT LIABILITIES:	_	*****	_	
Accounts Payable	\$	265,202	\$	118,246
Due to Other Funds (Note 7)		15,834		151,206
Accrued Expenses		2,199		1,762
Accrued Interest		62,846		71,620
Current Portion of Long-Term Debt (Note 4)		369,517		322,454
Connection and Construction Deposits (Note 9)		144,802		208,515
Customer Deposits (Note 8)		259,944		246,797
Accrued Vacation and Sick Leave		244,708		248,686
Total Current Liabilities		1,365,052		1,369,286
LONG-TERM LIABILITIES - NET OF CURRENT PORTION (Note 4):				
Special Assessment Bonds		1,170,000		1,199,000
California Special District Lease Financing		220,000		230,000
Notes Payable		4,079,934		4,273,590
Certificates of Participation		2,675,000		2,765,000
Less Current Portion		(369,517)		(322,454)
Total Long-Term Liabilities		7,775,417		8,145,136
Total Liabilities		9,140,469		9,514,422
FUND EQUITY:				
Contributed Fixed Assets:				
Utility Plant		350,474		350,474
Storm Improvements		896,504		896,504
Earthquake Improvements		1,324,811		1,324,811
Total Contributed Fixed Assets		2,571,789		2,571,789
Retained Earnings:				
Reserved for Restricted Assets		756,156		756,156
Reserved for Debt Service		288,385		288,385
Reserved for Maintenance		32,646		32,646
Unreserved:		32,010		32,040
Designated (Note 10)		4,978,898		4,908,898
Undesignated		5,337,589		4,185,246
		3,337,307		7,103,240
Total Retained Earnings	2	1,393,674		10,171,331
Total Fund Equity	2	3,965,463		12,743,120
TOTAL LIABILITIES AND FUND EQUITY	\$ 3	3,105,932	\$ 2	22,257,542

## COMBINED STATEMENTS OF INCOME, EXPENSES AND CHANGES IN RETAINED EARNINGS -

## ALL PROPRIETARY FUNDS

## For the Years Ended June 30, 2001 and 2000

=		
OPERATING INCOME:	2001	2000
Water Fees	\$ 2,677,070	\$ 2,710,567
Sewer Charges	44,522	43,280
Assessments	135,213	137,068
Property Taxes	295,386	275,765
Meter Sales	150,286	167,620
Charges and Penalties	32,425	34,810
Miscellaneous	12,492	11,389
Total Operating Income	3,347,394	3,380,499
OPERATING EXPENSES:		
Salaries and Benefits (Net of Capitalized)	1.264.041	1.051.000
Contractual and Professional Services	1,364,241	1,251,338
	197,188	155,754
Amortization and Depreciation	721,002	716,838
Materials and Supplies	99,147	87,177
Utilities and Telephone	225,544	201,899
Insurance	33,180	49,915
Vehicle and Equipment Maintenance	39,773	52,267
Building Maintenance	27,238	26,477
Collection Fees and Charges	-	342
Miscellaneous	20,809	25,944
Travel, Meals and Conferences	7,502	8,793
Auto Allowance	7,800	7,800
Office Expenses	42,817	44,786
Rental and Permits	17,669	13,440
Reserve for Connection Refunds	20,000	26,000
Total Operating Expenses	2,823,910	2,668,770
NET OPERATING INCOME	523,484	711,729
NON-OPERATING INCOME (EXPENSES):		
Interest Earned	576,793	273,297
Gain (Loss) on Disposition of Assets	10,504,151	(20,800)
Interest Expense	(382,085)	(472,786)
Government Storm Funds	-	227,820
Total Non-Operating Income (Expenses)	10,698,859	7,531
NET INCOME	11,222,343	719,260
RETAINED EARNINGS AT BEGINNING OF YEAR	10,171,331	9,452,071
RETAINED EARNINGS AT END OF YEAR	\$ 21,393,674	\$ 10,171,331

## COMBINED STATEMENTS OF CASH FLOWS - ALL PROPRIETARY FUNDS

## For the Years Ended June 30, 2001 and 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income	<b>\$</b> 523,484	\$ 711,729
Adjustments to Reconcile Operating Income to Net Cash		Ψ /11,725
Provided by Operating Activities:		
Provision for Depreciation	721,002	716,838
(Increase) Decrease in Receivables	4,097	(40,884)
(Increase) Decrease in Restricted Cash	(76,384)	(155,281)
(Increase) Decrease in Inventory	(2,920)	6,706
Decrease in Deposits, Prepaids and Deferred Charges	305	190,821
Increase (Decrease) in Accounts Payable	146,956	(48,867)
Increase (Decrease) in Other Liabilities	(54,239)	99,251
Total Adjustments	738,817	768,584
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,262,301	1,480,313
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Refund Payment - North Boulder Creek Assessment District Bonds	-	(1,227,361)
Acquisition of Capital Assets	(1,139,818)	(693,187)
Transfer Restricted Cash	-	1,327,969
Payment of Principal	(322,656)	(446,489)
Payment of Interest	(390,859)	(435,601)
NET CASH USED FOR CAPITAL AND RELATED		
FINANCING ACTIVITIES	(1,853,333)	(1,474,669)
CASH FLOWS FROM NON-OPERATING ACTIVITIES:		
Interest on Investments	541,455	255,439
Receipt of Government Storm Funds	-	227,820
Proceeds Sale of Fixed Assets	3,126,038	7,980
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,667,493	491,239
NET INCREASE IN CASH	3,076,461	496,883
CASH AND INVESTMENTS AT BEGINNING OF YEAR	2,091,807	1,594,924
CASH AND INVESTMENTS AT END OF YEAR	\$ 5,168,268	\$ 2,091,807

### NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

#### 1. ORGANIZATION:

The San Lorenzo Valley Water District was established April 3, 1941, pursuant to Chapter 592, Status of 1913, since codified into Section 30,000 et seq. of the California Water Code. The District contains approximately 58 square miles. It was created to develop a water supply for domestic requirements as well as for fire protection and recreational facilities in the San Lorenzo Valley (except the Felton area). Since 1969, the District has owned and operated some facilities in Bear Creek Estates. At June 30, 2001, the District owned approximately 2,030 acres of land and was servicing approximately 5,750 customers.

<u>Board of Directors</u> - The San Lorenzo Valley Water District is governed by a five person Board of Directors elected to four-year terms by registered voters throughout the District's boundaries. The Board is responsible for the establishment of policy on the District's mission, goals and operations.

The Board of Directors and expiration of their term, as of June 30, 2001, are as follows:

James Nelson, President	January, 2004
Larry Prather, Vice-President	January, 2002
David Ross, Member	January, 2004
James Rapoza, Member	January, 2002
Terry Vierra, Member	January, 2002

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Fund Accounting

Since the activities of the District are, at this time, totally dedicated to providing services to the general public on a continuing basis, and its costs are to be financed or recovered primarily through user charges, its accounting records are required to be on a proprietary fund type basis. In conformance with generally accepted accounting principles (GAAP), the appropriate fund type and category is defined as follows:

## Proprietary Funds

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

### Fixed Assets

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity, are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

## NOTES TO FINANCIAL STATEMENTS (Continued)

#### June 30, 2001 and 2000

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

## Fixed Assets (Continued):

All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations, and the accumulated depreciation is reported on the balance sheets. Depreciation has been provided, using the straight-line method over the estimated useful lives, as follows:

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

### Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of what measurement focus may be applied.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Unbilled water and sewer fund utility service receivables are recorded at year end.

#### Investments

Investments are stated at cost, which approximates market.

#### Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies held for consumption.

## Accumulated Vacation and Sick Leave

Accumulated vacation and sick leave is accrued when incurred to recognize the employees' rights to receive compensation for future absences. This amount is computed using current employee accumulated vacation hours and one-half accumulated sick leave hours at current pay rates.

### Comparative Data

Comparative total data for the prior year have been present in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

## NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2001 and 2000

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

## Interfund Transactions

The District's interfund transactions during the year relate directly to services rendered or facilities provided. These are recorded as an expense in the receiving fund with a corresponding liability for the amount due to the disbursing fund.

## Unrealized Gains and Losses

Governmental Accounting Standards Board (GASB) has established GASB-31 which requires public agencies to report the financial effect of all unrealized gains and losses on invested funds. As of June 30, 2001 and 2000, the unrealized gains for San Lorenzo Valley Water District were immaterial to the financial statements taken as a whole, and accordingly have not been reflected in the financial statements.

## Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 3. CHANGES IN PROPERTY, PLANT AND EQUIPMENT:

A summary of the changes, by fund, in the fixed asset and depreciation accounts during the fiscal year ended June 30 is as follows:

			Construction		
	_Water Fund	Sewer Fund	in Progress	Total	
Balance, June 30, 1999	\$ 20,389,945	\$ 1,241,476	\$ 575,881	\$ 22,207,302	
Additions and Transfers-In	829,785			829,785	
Deletions and Transfers-Out	(73,638)		(42,160)	(115,798)	
Balance, June 30, 2000	21,146,092	1,241,476	533,721	22,921,289	
Accumulated Depreciation	_ (6,812,189)	(388,422)		(7,200,611)	
Net Property, Plant and					
Equipment	<b>\$</b> 14,333,903	\$ 853,054	\$ 533,721	\$ 15,720,678	
	_	20	01		
			Caratanatia		
			Construction		
	Water Fund	Sewer Fund	in Progress	Total	
Balance, June 30, 2000	Water Fund \$ 21,146,092	Sewer Fund \$ 1,241,476		Total \$ 22,921,289	
Balance, June 30, 2000 Additions and Transfers-In			in Progress		
· ·	\$ 21,146,092	\$ 1,241,476	in Progress \$ 533,721	\$ 22,921,289	
Additions and Transfers-In	\$ 21,146,092 1,058,464	\$ 1,241,476	in Progress \$ 533,721 246,540	\$ 22,921,289 1,312,543	
Additions and Transfers-In Deletions and Transfers-Out	\$ 21,146,092 1,058,464 (390,630)	\$ 1,241,476 7,539	in Progress \$ 533,721 246,540 (172,725)	\$ 22,921,289 1,312,543 (563,355)	
Additions and Transfers-In Deletions and Transfers-Out Balance, June 30, 2001	\$ 21,146,092 1,058,464 (390,630) 21,813,926	\$ 1,241,476 7,539 1,249,015	in Progress \$ 533,721 246,540 (172,725)	\$ 22,921,289 1,312,543 (563,355) 23,670,477	
Additions and Transfers-In Deletions and Transfers-Out Balance, June 30, 2001 Accumulated Depreciation	\$ 21,146,092 1,058,464 (390,630) 21,813,926	\$ 1,241,476 7,539 1,249,015	in Progress \$ 533,721 246,540 (172,725)	\$ 22,921,289 1,312,543 (563,355) 23,670,477	

# NOTES TO FINANCIAL STATEMENTS (Continued)

## June 30, 2001 and 2000

LONG-TERM DEBT:			
At June 30 long-term debt consisted of:	2001	2000	
Special Assessment Bonds within the District's water system. Bonds are issued under the State of California's 1915 Bond Act/Refunding Act of 1984, which are payable by the County Tax Collector through assessments on the property tax rolls:			
1999 Limited Obligation Improvement Refunding Bonds - used to refund and Redeem the North Boulder Creek Assessment District bonds Total Special Assessment Bonds	\$1,170,000 _1,170,000	\$1,199,000 1,199,000	
California Special District Lease Financing bearing interest at 5.25 percent per annum with a maturity at March 1, 2012. Annual principal payments starting at \$10,000, increasing to \$15,000 at December 2002, \$20,000 at December 2008, \$25,000 at December 2011, plus semi-annual interest payments	220,000	230,000	
Notes Payable: California Safe Drinking Water Loan bearing interest at 3.524 percent per annum with a maturity at October 1, 2020. Semi- annual payments of \$11,723 including principal and interest.	3,132,030	3,242,379	
State Resources loan bearing interest at 3.4 percent per annum with a maturity at April 4, 2003. Annual payments of principa and interest totaling \$73,234.	il 139,693	205,926	
California Safe Drinking Refunding loan bearing interest at 7.125 percent per annum with a maturity at June 1, 2022. Semi-annual payments of \$37,788 including principal and Interest.  Total Notes Payable	808,211 4,079,934	825,285 4,273,590	
payments of principal and interest with annual payments of approximately \$239,125.  Total Certificates of Participation Payable  Total Debt  Less: Current Portion	2,675,000 2,675,000 8,144,934 369,517	2,765,000 2,765,000 8,467,590 322,454 \$ 8,145,136	
	At June 30 long-term debt consisted of:  Special Assessment Bonds within the District's water system. Bonds are issued under the State of California's 1915 Bond Act/Refunding Act of 1984, which are payable by the County Tax Collector through assessments on the property tax rolls:  1999 Limited Obligation Improvement Refunding Bonds - used to refund and Redeem the North Boulder Creek Assessment District bonds Total Special District Lease Financing bearing interest at 5.25 percent per annum with a maturity at March 1, 2012. Annual principal payments starting at \$10,000, increasing to \$15,000 at December 2002, \$20,000 at December 2008, \$25,000 at December 2011, plus semi-annual interest payments  Notes Payable: California Safe Drinking Water Loan bearing interest at 3.524 percent per annum with a maturity at October 1, 2020. Semi- annual payments of \$11,723 including principal and interest.  State Resources loan bearing interest at 3.4 percent per annum with a maturity at April 4, 2003. Annual payments of principa and interest totaling \$73,234.  California Safe Drinking Refunding loan bearing interest at 7.125 percent per annum with a maturity at June 1, 2022. Semi-annual payments of \$37,788 including principal and Interest.  Total Notes Payable  Certificates of Participation Water System Improvement Project 1998 - Special obligation of the District payable solely from tax revenues and if and to extent necessary net revenues. Fluctuating payments of principal and interest with annual payments of approximately \$239,125.  Total Certificates of Participation Payable Total Debt	At June 30 long-term debt consisted of:  Special Assessment Bonds within the District's water system. Bonds are issued under the State of California's 1915 Bond Act/Refunding Act of 1984, which are payable by the County Tax Collector through assessments on the property tax rolls:  1999 Limited Obligation Improvement Refunding Bonds - used to refund and Redeem the North Boulder Creek Assessment District bonds Total Special Assessment Bonds  California Special District Lease Financing bearing interest at 5.25 percent per annum with a maturity at March 1, 2012. Annual principal payments starting at \$10,000, increasing to \$15,000 at December 2002, \$20,000 at December 2008, \$25,000 at December 2011, plus semi-annual interest payments  Notes Payable: California Safe Drinking Water Loan bearing interest at 3.524 percent per annum with a maturity at October 1, 2020. Semi- annual payments of \$11,723 including principal and interest.  State Resources loan bearing interest at 3.4 percent per annum with a maturity at April 4, 2003. Annual payments of principal and interest totaling \$73,234.  California Safe Drinking Refunding loan bearing interest at 7.125 percent per annum with a maturity at June 1, 2022. Semi-annual payments of \$31,788 including principal and Interest.  Total Notes Payable  Certificates of Participation Water System Improvement Project 1998 - Special obligation of the District payable solely from tax revenues and if and to extent necessary net revenues. Fluctuating payments of principal and interest with annual payments of approximately \$239,125.  Total Certificates of Participation Payable  Total Debt Less: Current Portion  Samushamana and payments of approximately \$239,125.  Total Certificates of Participation Payable  8,144,934  1,2675,000  2,675,000  2,675,000	At June 30 long-term debt consisted of:  Special Assessment Bonds within the District's water system. Bonds are issued under the State of California's 1915 Bond Act/Refunding Act of 1984, which are payable by the County Tax Collector through assessments on the property tax rolls:  1999 Limited Obligation Improvement Refunding Bonds - used to refund and Redeem the North Boulder Creek Assessment District bonds Total Special District Lease Financing bearing interest at 5.25 percent per annum with a maturity at March 1, 2012. Annual principal payments starting at \$10,000, increasing to \$15,000 at December 2002, \$20,000 at December 2008, \$25,000 at December 2011, plus semi-annual interest payments  Notes Payable: California Safe Drinking Water Loan bearing interest at 3.524 percent per annum with a maturity at October 1, 2020. Semi-annual payments of \$11,723 including principal and interest.  State Resources loan bearing interest at 3.4 percent per annum with a maturity at April 4, 2003. Annual payments of principal and interest totaling \$73,234.  California Safe Drinking Refunding loan bearing interest at 7.125 percent per annum with a maturity at June 1, 2022. Semi-annual payments of \$37,788 including principal and Interest.  Total Notes Payable  Certificates of Participation Water System Improvement Project 1998 - Special obligation of the District payable solely from tax revenues and if and to extent necessary net revenues. Fluctuating payments of principal and interest with annual payments of approximately \$239,125.  Total Certificates of Participation Payable  Less: Current Portion  3e965.17 3224.54

## NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2001 and 2000

## 4. LONG-TERM DEBT (Continued):

The future scheduled maturities of long-term debt are as follows:

June 30, 2002	\$	369,517
June 30, 2003		378,966
June 30, 2004		323,381
June 30, 2005		339,257
June 30, 2006		355,164
Thereafter	_6	,378,649
	<u>\$8</u>	,144,934

#### 5. EMPLOYEE BENEFITS:

## Employees Retirement Plan (Defined Benefit Pension Plan)

Plan Description - The San Lorenzo Valley Water District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The San Lorenzo Valley Water District's defined benefit pension plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), and agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The San Lorenzo Valley Water District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

<u>Funding Policy</u> - Active plan members in the San Lorenzo Valley Water District defined pension plan are required to contribute 3.5% of their annual covered salary. The San Lorenzo Valley Water District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2000/2001 was 0.00%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

## NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2001 and 2000

## 5. EMPLOYEE BENEFITS (Continued):

## Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)

Annual Pension Cost - For fiscal year 2000/2001, the San Lorenzo Valley Water District defined benefit pension plan's annual pension cost was \$0.00 and the San Lorenzo Valley Water District actually contributed \$0.00. The required contribution for fiscal year 2000/2001 was determined as part of the June 30, 1999 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20%, and (c) 3.75% cost-of-living adjustment. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of San Lorenzo Valley Water District's defined benefit pension plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. San Lorenzo Valley Water District's defined benefit pension plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 1998 was 2 years.

Three-Year Trend Information for San Lorenzo Valley Water District's Defined Benefit Pension Plan:

Fiscal	Annual	Percentage	Net
Year	Pension	of APC	Pension
Ending	Cost (APC)	<b>Contributed</b>	<b>Obligation</b>
6/30/97	-0-	100%	N/A
6/30/98	-0-	100%	N/A
6/30/99	-0-	100%	N/A

#### Required Supplementary Information Funded Status of Plan:

The table below displays a short history of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Liability of (Excess Assets), Funded Status (i.e., the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated annual covered payroll and the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of that covered payroll. For those plans include 1st or 2nd level 1959 Survivor Benefit, the liabilities and assets below include the assets and liabilities for current beneficiaries of your 1959 Survivors Benefit program. For all other plans, the assets and liabilities below are without regard to the 1959 Survivor Benefit programs.

#### Funded Status of the Plan

	Entry Age	Actuarial	Unfunded			UAAL
	Normal	Value	Liability/		Annual	As a
Valuation	Accrued	of	(Excess	Funded	Covered	% of
_Date_	<b>Liability</b>	Assets	Assets)	<u>Status</u>	Payroll	<u>Payroll</u>
6/30/97	\$2,022,822	\$3,096,923	\$(1,074,101)	153.1%	\$1,016,571	(105.659%)
6/30/98	2,262,487	3,744,764	(1,482,277)	165.5%	998,057	(148.516%)
6/30/99	2,784,545	4,466,431	(1,681,886)	160.4%	984,309	(170.870%)

## NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2001 and 2000

## 6. CASH AND INVESTMENTS/CREDIT RISK:

Cash on deposit as of June 30, 2001 and 2000 was confirmed by the depositories and reconciled to the balances reflected on the books.

These funds were on deposit in the following depositories:

	_2001_	_2000
Petty Cash	\$ 200	\$ 200
Wells Fargo Bank - Checking	5,013	7,859
Liberty Bank - Checking	2,775	2,223
Liberty Bank - Savings	47,692	83,879
Cash in County Treasury	31,903	40,392
Cash with Fiscal Agent	25,500	17,628
Funds Invested - Local Agency Investment Fund (LAIF)	<u>8,565,371</u>	5,373,428
Total	8,678,454	5,525,609
Less Restricted Cash and Investments	3,510,186	3,433,802
Current Portion	<u>\$5,168,268</u>	\$2,091,807

The District's deposits at banks at year-end were entirely covered by federal deposit insurance or by collateral held by the District's custodial bank in the District's name.

The District's investments at year-end are shown below:

	June 30, 2	2001	June 30, 2000			
	Carrying Amount	Market Value	Carrying Amount	Market Value		
Investment in State Investment Fund (LAIF)	<u>\$8,565,371</u>	\$8,565,371	\$5,373,428	\$5,373,428		
Total	<u>\$8,565,371</u>	\$8,565,371	<u>\$5,373,428</u>	\$5,373,428		

The investment in State Investment Fund (LAIF) is not insured.

## NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2001 and 2000

#### 7. INTERFUND RECEIVABLES AND PAYABLES:

At June 30, 2001 the Sewer Fund was indebted to the Water Fund in the amount of \$15,834.

At June 30, 2000 the Sewer Fund was indebted to the Water Fund in the amount of \$59,434.

#### 8. CUSTOMER DEPOSITS:

In March, 1980, the District implemented a new policy with respect to customer deposits. As of July 1, 1980, all deposits are to be held until the account is closed out. Additionally, all accounts bear interest at the annual rate of 5.5%, up to the date of close out. The deposits plus interest earned are credited against final billings, and any credit balance refunded. The deposit monies are invested, and the total of invested deposits and accrued interest earned is shown in the restricted cash section of the financial statements.

#### 9. CONNECTION DEPOSITS:

District Ordinance No. 48, adopted December 5, 1983, provides for the handling of water service connection charge deposits. Upon proper documentation, such deposits can be refunded if water meters are not set. The deposits are accounted for separately to fulfill this obligation.

### 10. RETAINED EARNINGS - DESIGNATED:

An analysis of designated retained earnings at June 30 consists of the following:

	2001	2000
Designated for:		
Emergency Reserve	\$ 733,898	\$ 733,898
Vacation and Sick Leave	125,000	125,000
Capital Project Reserve	2,170,000	2,100,000
Wastewater Reserve	850,000	850,000
Vehicle Reserve	100,000	100,000
Capital Improvement Project	1,000,000	1,000,000
Total	<u>\$4,978,898</u>	<u>\$4,908,898</u>

## 11. CASH AND CASH EQUIVALENTS:

For the purpose of the Statement of Cash Flows the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

## NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2001 and 2000

## 12. RISK MANAGEMENT:

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

General Liability, Automotive Liability, Property Damage, and Errors and Omissions:

The San Lorenzo Valley Water District participates in a joint powers authority, the Special District Risk Management Authority (the Authority). The Authority was formed to provide member districts with general liability, automotive liability and property damage, and errors and omissions risk financing coverage.

The San Lorenzo Valley Water District participates in the liability and property program. The District has an auto and general liability self-insured retention level of \$1,500 and a \$2,000 property program deductible. A self-retention is similar to a deductible.

The Authority is governed by a board which controls the operations of the Authority independent of any influence by the San Lorenzo Valley Water District. The Authority is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. The relationship between the District and the Authority is such that the Authority is not a component unit of the San Lorenzo Valley Water District for financial reporting purposes.

Workers Compensation: Statutory - through State Compensation Insurance Fund.

#### 13. WATERMAN GAP TRANSACTION:

On September 21, 2000, the Board of Directors of the San Lorenzo Valley Water District unanimously approved District Ordinance 98 (00-01) which authorized the sale of approximately 1,340 acres of unimproved forestland generally know as Waterman Gap (Santa Cruz County Assessor's Parcel Nos. 87-0311-03, 04, 05, 06, 87-041-01 and 88-091-18) to Sempervirens Fund, Inc., a non-profit organization for the sum of Ten Million Nine Hundred Thousand Dollars (\$10,900,000). Covenants to the real estate purchase contract assigned from Sempervirens Fund, Inc. to San Lorenzo Valley Water District the exclusive right to purchase two (2) additional real properties APN 79-011-02 and -22 (generally known as Cook and Hulse properties). On October 30, 2000, the San Lorenzo Valley Water District purchased APN 79-011-02, a parcel of approximately 40 acres from Cook, for the sum of Ninety Five Thousand Dollars (\$95,000) and APN 79-011-22 a parcel of approximately 100 acres from Hulse, for a sum of Four Hundred Fifty Thousand Dollars (\$450,000). The transaction was completed on October 18, 2000. As part of the transaction the District seller financed \$9,700,000 of the transaction. The terms of the promissory noted are as follows:

<u>2001</u> <u>2000</u>

Note Receivable – Sempervirens Fund, Inc. of \$9,700.000, secured by a first deed of trust, due in annual installments of \$970,000 plus Interest at the rate of 8.0 percent per annum. Balance as of June 30:

\$7,760,000

SUPPLEMENTARY INFORMATION

## COMBINING BALANCE SHEET - WATER AND SEWER FUNDS

## June 30, 2001

## **ASSETS**

	Enterpri		
CURRENT ASSETS:	Water Fund	Sewer Fund	Total
Cash and Investments	\$ 5,168,268		\$ 5,168,268
Receivables:			
Customer Accounts (Net of Allowance			
for Uncollectibles of \$3,252)	239,282		239,282
Interest Receivable	111,382		111,382
Other Receivables	29,765		29,765
Due From Other Funds	15,834		15,834
Inventory	117,524		117,524
Deposits	2,940		2,940
Note Receivable - Current Portion	970,000		970,000
Total Current Assets	6,654,995		6,654,995
RESTRICTED CASH:			
Proceeds Certificates of Participation	2,500,255		2,500,255
Cash and Investments with Fiscal Agent	57,403		57,403
Connection and Construction Deposits	144,802		144,802
Customer Deposits	259,944		259,944
Reserve Fund - Certificates of Participation	239,125		239,125
North Boulder Creek Assessments	52,400		52,400
Reserve Fund - Improvement Refunding Bonds	256,257		256,257
Total Restricted Cash	3,510,186		3,510,186
PROPERTY, PLANT AND EQUIPMENT:	-		
Land	1,084,844	e 20.112	1 112 057
Utility Plant	• •	\$ 28,213	1,113,057
Building, Equipment, and Other Assets	18,465,333	1,209,121	19,674,454
Total Property, Plant and Equipment	2,263,749	11,681	2,275,430
Less: Accumulated Depreciation	21,813,926	1,249,015	23,062,941
Loss. Accumulated Depreciation	<u>(7,469,608)</u> 14,344,318	(418,543)	(7,888,151)
Construction in Progress	607,536	830,472	15,174,790
Total Property, Plant and Equipment (Net)	14,951,854	830,472	607,536
Total Property, Plant and Equipment (1901)	14,931,034	830,472	15,782,326
OTHER ASSETS:			
Deferred Charges	368,425		368,425
Note Receivable - Net of Current Portion	6,790,000		6,790,000
Total Other Assets	7,158,425		7,158,425
TOTAL ASSETS	\$ 32,275,460	\$ 830,472	\$ 33,105,932

## LIABILITIES AND FUND EQUITY

	Enterprise Funds					
CURRENT LIABILITIES:	W	ater Fund	Se	wer Fund		Total
Accounts Payable	\$	265,097	\$	105	\$	265,202
Due to Other Funds				15,834		15,834
Accrued Expenses		1,679		520		2,199
Accrued Interest		62,846				62,846
Current Portion of Long-Term Debt		369,517				369,517
Connection and Construction Deposits		144,802				144,802
Customer Deposits		259,944				259,944
Accrued Vacation and Sick Leave		241,929		2,779		244,708
Total Current Liabilities		1,345,814		19,238		1,365,052
Long-Term Liabilities (Net of Current Portion):						
Special Assessment Bonds		1,170,000				1,170,000
California Special District Lease Financing		220,000				220,000
Notes Payable		4,079,934				4,079,934
Certificates of Participation		2,675,000				2,675,000
Less Current Portion		(369,517)				(369,517)
Total Long-Term Liabilities	·	7,775,417				7,775,417
Total Liabilities		9,121,231		19,238		9,140,469
FUND EQUITY:						
Contributed Fixed Assets:						
Utility Plant		249,073		101,401		350,474
Storm Improvements		896,504				896,504
Earthquake Improvements		1,324,811				1,324,811
Total Contributed Fixed Assets		2,470,388		101,401		2,571,789
Retained Earnings:						
Reserved for Restricted Assets		756,156				756,156
Reserved for Debt Service		288,385				288,385
Reserved for Maintenance				32,646		32,646
Unreserved:						•
Designated		4,977,918		980		4,978,898
Undesignated	1	4,661,382		676,207		15,337,589
Total Retained Earnings	2	0,683,841		<b>709</b> ,833		21,393,674
Total Fund Equity	2	3,154,229		811,234		23,965,463
TOTAL LIABILITIES AND FUND EQUITY	\$ 3	2,275,460	\$	830,472	\$	33,105,932

# COMBINING STATEMENT OF INCOME, EXPENSES CHANGES IN RETAINED EARNINGS - WATER AND SEWER FUNDS

## For the Year Ended June 30, 2001

	Water Fund	Sewer Fund	Total	
OPERATING INCOME:				
Water Fees	\$ 2,677,070		\$ 2,677,070	
Sewer Charges		\$ 44,522	44,522	
Assessments	135,213		135,213	
Property Taxes	295,386		295,386	
Meter Sales	150,286		150,286	
Charges and Penalties	32,425		32,425	
Miscellaneous	12,256	236	12,492	
Total Operating Income	3,302,636	44,758	3,347,394	
OPERATING EXPENSES:				
Salaries and Benefits (Net of Capitalized)	1,351,937	12,304	1,364,241	
Contractual and Professional Services	188,630	8,558	197,188	
Amortization and Depreciation	690,749	30,253	721,002	
Material and Supplies	97,217	1,930	99,147	
Utilities and Telephone	221,106	4,438	225,544	
Insurance	32,876	304	33,180	
Vehicle and Equipment Maintenance	39,422	351	39,773	
Building Maintenance	27,238		27,238	
Miscellaneous	20,809		20,809	
Travel, Meals and Conferences	7,502		7,502	
Auto Allowance	7,800		7,800	
Office Expenses	42,482	335	42,817	
Rentals and Permits	16,430	1,239	17,669	
Refunds of Connection Charges	20,000		20,000	
Total Operating Expenses	2,764,198	59,712	2,823,910	
OPERATING INCOME (LOSS)	538,438	(14,954)	523,484	
NON-OPERATING INCOME (EXPENSES):				
Interest Earned	576,793		576,793	
Gain on Disposition of Assets .	10,504,151		10,504,151	
Interest Expense	(382,085)		(382,085)	
Total Non-Operating Income (Expenses)	10,698,859		10,698,859	
NET INCOME (LOSS)	11,237,297	(14,954)	11,222,343	
RETAINED EARNINGS AT BEGINNING				
OF YEAR	9,446, <b>544</b>	724,787	10,171,331	
RETAINED EARNINGS AT END OF YEAR	<b>\$</b> 20,683, <b>841</b>	\$ 709,833	\$ 21,393,674	

## COMBINING STATEMENT OF CASH FLOWS - WATER AND SEWER FUNDS

June 30, 2001

	Water Fund		Sewer Fund		Total	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Operating Income (Loss)	\$	538,438	\$	(14,954)	_\$_	523,484
Adjustments to Reconcile Operating Income to Net						
Cash Provided by Operating Activities:						
Provision for Amortization and Depreciation		690,749		30,253		721,002
(Increase) Decrease in Receivables		4,097				4,097
(Increase) Decrease in Restricted Cash		(76,384)				(76,384)
(Increase) Decrease in Inventory		(2,920)				(2,920)
(Increase) Decrease in Prepaid Expense and Deposits		305				305
Increase (Decrease) in Accounts Payable		146,873		83		146,956
Increase (Decrease) in Other Liabilities		(54,453)		214		(54,239)
Interfund Receivable/Payable		94,026		(94,026)		-
Interfund Receivable/Payable		(50,426)		50,426		
Total Adjustments		<b>751</b> ,867		(13,050)		738,817
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		1,290,305		(28,004)		1,262,301
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition of Capital Assets		(1,132,279)		(7,539)		(1,139,818)
Scheduled Payments of Principal		(322,656)		(,,,,,,,		(322,656)
Payment of Interest		(390,859)				(390,859)
				-		(0) 0,00)
NET CASH USED FOR CAPITAL AND RELATED						
FINANCING ACTIVITIES		(1,845,794)		(7,539)		(1,853,333)
						<u>(-)</u>
CASH FLOWS FROM NON-OPERATING ACTIVITIES:						
Proceeds Sale of Fixed Assets		3,126,038				3,126,038
Interest on Investments		<b>54</b> 1,455				<b>54</b> 1,455
NET CASH PROVIDED BY INVESTING ACTIVITIES		3,667,493				<b>3,667</b> ,493
NET INCREASE (DECREASE) IN CASH		3,112,004		(35,543)		3,076,461
CASH AND INVESTMENTS AT BEGINNING OF YEAR		2.056.264		25.542		0.001.00**
CAGIT AND INVESTIGENTS AT BEGINNING OF TEAK		2,056,264		35,543		<b>2,09</b> 1,807
CASH AND INVESTMENTS AT END OF YEAR	\$	5,168,268	\$	-	\$	5,168,268