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SAN LORENZO VALLEY WATER DISTRICT

* * *

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

* * *

June 30, 2004 and 2003

SAN LORENZO VALLEY WATER DISTRICT

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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, 2004 and 2003 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, 2004 and 2003, and results of its operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, for the year ended June 30, 2004.

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 22 - 24 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, 2004 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.

The Management's Discussion and Analysis information and budgetary comparison information as listed the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Berger/Lewis Accountancy Corporation".

BERGER/LEWIS ACCOUNTANCY CORPORATION
Santa Cruz, California
October 13, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

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. This section of the District's financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2004.

Description of the Basic Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include a statement of net assets; a statement of activities and changes in net assets; a statement of cash flows; and notes to financial statements. The statement of net assets presents the financial position of the District on a full accrual historical cost basis. While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. They present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. In addition, supplementary information comparing the budget to actual expenses is presented.

The financial statements were prepared by the District's staff from the detailed books and records of the District. The financial statements were audited and adjusted, if material, during the independent external audit process.

SAN LORENZO VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Condensed Government-wide Financial Data

	2004
Current Assets	\$ 14,649,078
Restricted Cash and Investments	1,974,517
Property, Plant and Equipment, net of accumulated depreciation	17,741,886
Other Assets	<u>325,473</u>
 Total Assets	 <u>\$ 34,690,954</u>
 Current Liabilities	 \$ 1,397,357
Long-term Liabilities	<u>6,740,737</u>
 Total Liabilities	 <u>8,138,094</u>
 Invested in Capital Assets, Net of Related Debt	10,633,393
Restricted for Capital Activity and Debt Service	1,974,517
Unrestricted Net Assets	<u>13,944,950</u>
 Total Net Assets	 <u>26,552,860</u>
 Total Liabilities and Net Assets	 <u>\$ 34,690,954</u>
	2004
Operating Income	\$ 3,800,295
Operating Expenses	<u>(3,753,722)</u>
 Net Operating Income	 46,573
 Non-Operating Income (Expenses)	 <u>105,782</u>
 Change in Net Assets	 <u>\$ 152,355</u>

Financial Analysis of the District as a Whole

For fiscal year 2003-2004 the District ended the year with Net Assets of \$26,552,860. Of this amount \$10,633,393 was invested in Capital Assets, net of related debt; \$1,974,517 was restricted for specific capital activity or debt service; \$13,944,950 was unrestricted, the Board of Directors has designated a portion of the unrestricted Net Assets as described in Note 10 to the financial statements.

For fiscal year 2003-2004 Net Operating Income was \$46,573, Non-Operating Income (Expense) resulted in an additional \$152,355 of revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Budgetary Highlights - Water Fund

For fiscal year 2003-2004 Water Fund Operating Income exceeded approved budget projections by \$212,906 (6%). This variance was primarily due to water fees being \$94,000 (3.17%) greater than anticipated and meter sales being \$81,182 (135.3%) greater than anticipated.

For fiscal year 2003-2004 Water Fund Operating Expenses exceeded approved budget projections by \$952,750 (35%). Amortization and depreciation were not originally budgeted, accounting for \$797,942 of the variance. In addition, two (2) capital projects were classified as expense rather than fixed assets. The two (2) capital projects classified as expense were the Cal-Am Rate Case (\$125,268) and the Olympia Well #2 Erosion Project (\$10,965).

For fiscal year 2003-2004 Water Fund Non-Operating Income was \$105,782. This sum is approximately 34% less than approved projections due to a declining trend in investment market earnings.

Budgetary Highlights - Sewer Fund

For fiscal year 2003-2004 Sewer Fund Operating Income exceeded approved budget projections by \$1,639 (3.68%).

For fiscal year 2003-2004 Sewer Fund Operating Expenses exceeded approved budget projections by \$23,468 (61.53%). This variance was primarily due to the fact that amortization and depreciation were not budgeted.

For fiscal year 2003-2004 Sewer Fund Non-Operating Income for the sewer fund had zero variance since there was zero budgeted and zero actual expenses.

Capital Assets

As of June 30, 2004 the District had invested \$26,982,392 in a broad range of capital assets including land, structures and improvements, machinery and equipment.

This year's major capital asset additions included:

Machinery and Equipment	\$ 7,822
Building Improvements	\$ 4,118
Office Equipment and Furniture	\$ 73,269
Transportation Equipment	\$ 33,959
Wells	\$ 218,635
Pumping Plant Improvements	\$ 409,069
New Mains and Extensions	\$ 414,418
Main Replacements	\$ 10,066
Water Meters and Registers	\$ 49,387

SAN LORENZO VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

District's Capitalization Policy

The San Lorenzo Valley Water District currently does not have a formal written Capitalization Policy for financial statement purposes. Current District policy provides that all capital assets in excess of \$500 are recorded as fixed assets. District staff is currently in the process of developing a revised Asset Management Program. The revised Asset Management Program will be in compliance with reporting requirements established by Government Accounting Standards Board (GASB) statements number 34 and number 35, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Public Colleges and Universities. Included in the revised Asset Management Program will be specific written policies regarding asset category definitions, capitalization thresholds, depreciation methodologies and guidelines for financial statement purposes. Estimated completion date for the revised Asset Management Program is June 30, 2005.

Long-Term Liabilities

The District's long-term liabilities (net of current portion) was \$6,740,737 at the end of the fiscal year ending June 30, 2004. This amount consisted of the following debt:

Special Assessment Bonds	\$ 995,000
California Special District Financing	180,000
Note Payable	3,558,493
Certificates of Participation	2,375,000
Less Curtion Portion	(367,756)
Total	<u>\$ 6,740,737</u>

The District's debt decreased by approximately \$347,000 during fiscal year 2003-2004 due to regularly scheduled debt service payments.

Economic Factors and Next Year's Budget

For fiscal year 2004-2005 and fiscal year 2005-2006 the San Lorenzo Valley Water District will experience an annual reduction in ad valorem property tax revenue of approximately \$340,000 per year. This represents a reduction in property tax revenues from approximately \$380,000 per year to \$40,000 per year (90%). Property tax revenue represents approximately 10% of the District's total recurring revenue.

The loss of revenue is the direct result of a large deficit in the State of California budget for fiscal year 2004-2005. As a result of the State budget deficit, an agreement was approved to temporarily shift \$350 million annually for two years in property tax revenue that would normally go to special districts to the state. The San Lorenzo Valley Water District is an enterprise special district.

For fiscal year 2004-2005 the District offset the loss of property tax revenue due to this revenue shift agreement (approximately \$340,000) with investment earnings from the prior sale of the District's Waterman Gap property. The budget for fiscal year 2005-2006 has not yet been discussed or approved, therefore, no statement can be expressed regarding the loss of property tax revenue.

Contacting the District's Financial Management

This financial statement is designed to provide a general overview of the District's finances. If you have any questions about this financial statement or need additional information, contact the District's office at 13060 Highway 9, Boulder Creek, California 95006, telephone number (831) 338-2153 facsimile (831) 338-7986.

SAN LORENZO VALLEY WATER DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004 and 2003

	ASSETS	
	2004	2003
CURRENT ASSETS:		
Cash and Investments (Note 3)	\$ 14,060,681	\$ 11,714,768
Receivables:		
Customer Accounts - Net of Allowance for Uncollectibles of \$3,252 as of June 30, 2004 and 2003	267,963	221,681
Interest Receivable	83,910	200,964
Due from Other Funds (Note 7)	37,831	12,784
Other Receivables	2,861	76,029
Inventory (Note 2)	186,380	143,633
Deposits	9,452	9,452
Total Current Assets	<u>14,649,078</u>	<u>12,379,311</u>
RESTRICTED CASH AND INVESTMENTS (Note 3):		
Proceeds Certificates of Participation	831,039	919,283
Cash and Investments with Fiscal Agent	57,403	57,403
Connection and Construction Deposits Investment (Note 9)	173,622	177,884
Customer Deposits (Note 8)	296,054	283,252
Reserve Fund - Certificates of Participation	239,125	239,125
North Boulder Creek Assessments	231,568	218,632
Reserve Fund - Improvement Refunding Bonds	145,706	145,706
Total Restricted Cash and Investments	<u>1,974,517</u>	<u>2,041,285</u>
PROPERTY, PLANT AND EQUIPMENT (Note 4):		
Land	1,113,057	1,113,057
Utility Plant	23,287,110	22,185,535
Buildings, Equipment and Other Assets	2,582,225	2,470,195
Total Property, Plant and Equipment	<u>26,982,392</u>	<u>25,768,787</u>
Less - Accumulated Depreciation	<u>(10,109,252)</u>	<u>(9,308,431)</u>
	16,873,140	16,460,356
Construction in Progress	868,746	1,623,131
Total Property, Plant and Equipment	<u>17,741,886</u>	<u>18,083,487</u>
OTHER ASSETS:		
Deferred Charges	325,473	348,264
Note Receivable - Net of Current Portion (Note 13)	0	2,105,000
Total Other Assets	<u>325,473</u>	<u>2,453,264</u>
TOTAL ASSETS	<u>\$ 34,690,954</u>	<u>\$ 34,957,347</u>

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

SAN LORENZO VALLEY WATER DISTRICT

STATEMENT OF NET ASSETS
(Continued)

June 30, 2004 and 2003

LIABILITIES AND NET ASSETS

	2004	2003
CURRENT LIABILITIES:		
Accounts Payable	\$ 190,406	\$ 287,456
Due to Other Funds (Note 7)	37,831	12,784
Accrued Expenses	1,743	1,363
Accrued Interest	53,822	59,437
Refunds Payable	2,777	2,777
Current Portion of Long-Term Debt (Note 5)	367,756	347,664
Connection and Construction Deposits (Note 9)	173,622	177,884
Customer Deposits (Note 8)	296,054	283,252
Accrued Vacation and Sick Leave	273,346	280,984
Total Current Liabilities	<u>1,397,357</u>	<u>1,453,601</u>
LONG-TERM LIABILITIES - NET OF CURRENT PORTION (Note 5):		
Special Assessment Bonds	995,000	1,055,000
California Special District Lease Financing	180,000	190,000
Notes Payable	3,558,493	3,725,905
Certificates of Participation	2,375,000	2,480,000
Less Current Portion	(367,756)	(347,664)
Total Long-Term Liabilities	<u>6,740,737</u>	<u>7,103,241</u>
Total Liabilities	<u>8,138,094</u>	<u>8,556,842</u>
NET ASSETS:		
Invested in capital assets, net of related debt	10,633,393	10,632,582
Restricted for capital activity and debt service	1,974,517	2,041,285
Unrestricted	13,944,950	13,726,638
Total Net Assets	<u>26,552,860</u>	<u>26,400,505</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,690,954</u>	<u>\$ 34,957,347</u>

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

SAN LORENZO VALLEY WATER DISTRICT
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
ALL PROPRIETARY FUNDS

For the Years Ended June 30, 2004 and 2003

	2004	2003
OPERATING INCOME:		
Water Fees	\$ 3,059,000	\$ 2,931,680
Sewer Charges	46,139	44,515
Assessments	134,994	148,450
Property Taxes	363,868	337,659
Meter Sales	141,182	93,944
Charges and Penalties	35,200	34,580
Miscellaneous	19,912	35,621
Total Operating Income	<u>3,800,295</u>	<u>3,626,449</u>
OPERATING EXPENSES:		
Salaries and Benefits (Net of Capitalized)	1,851,365	1,756,138
Contractual and Professional Services	203,288	199,707
Amortization and Depreciation	828,436	740,401
Materials and Supplies	140,039	124,042
Utilities and Telephone	309,744	326,556
Insurance	43,982	38,152
Vehicle and Equipment Maintenance	62,318	50,627
Building Maintenance	23,656	23,358
Collection Fees and Charges	21,059	2,935
Miscellaneous	43,630	49,268
Travel, Meals and Conferences	7,885	11,442
Auto Allowance	4,900	8,400
Office Expenses	39,063	44,366
Rental and Permits	19,966	17,175
Repairs	154,391	102,468
Total Operating Expenses	<u>3,753,722</u>	<u>3,495,035</u>
NET OPERATING INCOME	<u>46,573</u>	<u>131,414</u>
NON-OPERATING INCOME (EXPENSES):		
Interest and Dividends Earned	557,271	683,674
Unrealized Gains (Losses) on Investments	(518,424)	345,010
Gain (Loss) on Disposition of Assets	(2,313)	(71,142)
Interest Expense	(337,809)	(390,883)
Government Storm Funds and Other Income	407,057	263,402
Total Non-Operating Income (Expenses)	<u>105,782</u>	<u>830,061</u>
CHANGE IN NET ASSETS	152,355	961,475
NET ASSETS, at Beginning of Year	<u>26,400,505</u>	<u>25,439,030</u>
NET ASSETS, at End of Year	<u>\$ 26,552,860</u>	<u>\$ 26,400,505</u>

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

SAN LORENZO VALLEY WATER DISTRICT

COMBINED STATEMENTS OF CASH FLOWS - ALL PROPRIETARY FUNDS

For the Years Ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income	\$ 46,573	\$ 131,414
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Provision for Depreciation and Amortization	828,436	740,401
(Increase) Decrease in Receivables	26,886	(19,560)
(Increase) Decrease in Inventory	(42,747)	(949)
(Increase) Decrease in Deposits	0	(4,480)
Increase (Decrease) in Accounts Payable	(97,050)	116,740
Increase (Decrease) in Other Liabilities	1,282	27,966
Total Adjustments	716,807	860,118
NET CASH PROVIDED BY OPERATING ACTIVITIES	763,380	991,532
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(466,357)	(1,264,496)
Payment of Deferred Charges		(32,652)
Payment of Principal	(342,412)	(323,196)
Payment of Interest	(343,424)	(394,077)
NET CASH FLOWS USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(1,152,193)	(2,014,421)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for Investments	(1,541,685)	(9,524,861)
NET CASH FLOWS USED FOR INVESTING ACTIVITIES	(1,541,685)	(9,524,861)
CASH FLOWS FROM NON-OPERATING ACTIVITIES:		
Interest and Dividends on Investments	674,325	845,580
Receipt of Other Income	407,057	263,402
Payment of Principal on Notes Receivable	2,105,000	3,185,000
NET CASH FLOWS PROVIDED BY NON-OPERATING ACTIVITIES	3,186,382	4,293,982
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,255,884	(6,253,768)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,886,181	10,139,949
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,142,065	\$ 3,886,181

See Note 3, page 14, for Reconciliation of Cash and Investments to Cash and Cash Equivalents.

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

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

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, 2004, the District owned approximately 2,030 acres of land and was servicing approximately 5,750 customers.

Board of Directors - 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, 2004, are as follows:

David Ross, President	December, 2004
Terry Vierra, Vice-President	December, 2006
James Nelson, Director	December, 2004
Larry Prather, Director	December, 2006
James Rapoza, Director	December, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Change in Accounting Principles - During the year ended June 30, 2004, the District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Statement No. 34 establishes certain reporting requirements that are designed to make governmental annual reports more comprehensive. For enterprise funds, while presentation has changed, the underlying financial information has not. Statement No. 34 also requires that Management's Discussion and Analysis, an overview to the Group's financial activities, be presented before the financial statements as required supplementary information.

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.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2004 and 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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. All proprietary funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

Investments - Investments are accounted for under GASB 31, which requires that investments be reported at fair market value, except for certain investments, which include certificates of deposit, money market investments, and U.S. Treasury and agency obligations with an initial maturity of one year or less, which are reported at amortized cost.

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

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2004 and 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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.

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. CASH AND INVESTMENTS:

As a public agency, the District's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. The District's statement of investment policy is approved by the Board and describes the investment authority, practices and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity and return on investment.

Restricted Cash and Investments - The District holds cash and investments to provide for specific activities in accordance with special regulations, bond covenants or trust arrangements. The accounts are classified as "restricted." Most restricted accounts have minimum cash and investment balance requirements and all are nondiscretionary in terms of the use of assets. Among other things, the restricted accounts provide for reserves for principal and interest on outstanding debt; payments for construction of capital assets; and refunding of customer deposits.

Deposits - The District's demand and time deposits are fully insured or collateralized by pooled securities held by the District's agent in the District's name. State law requires public agency deposits, including time deposits, in excess of insured levels to be collateralized by the depository institutions with pooled government securities having market values of at least 100 percent of the deposits. To ensure compliance with the 110 percent requirement, the collateral must be marked to market at least monthly by the bank.

Investments - The District is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury, federal agencies, and other securities (including negotiable certificates of deposit, bankers' acceptances and prime commercial paper.) All instruments are subject to various limitations and restrictions. In the case of money market instruments issued by private entities, risk is controlled by strict eligibility requirements and duration limitations.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2004 and 2003

3. CASH AND INVESTMENTS (Continued):

Investments (Continued) - The District's asset backed securities are secured by triple A rated securities, primarily mortgages from FHLB, FNMA, and other federal agencies. At June 30, 2004, all investments, except deposits in the State Treasury Local Agency Investment Fund (LAIF), consist of investments that are insured or registered, or for which the securities are held, in the District's name. It is the District's intent to hold investments until maturity, unless earlier liquidation would result in an investment gain.

Investment in State Investment Fund (LAIF) - The LAIF, created by California statute, is a part of a pooled money investment account. The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairman is the State Treasurer, or his designated representative. The District's fair value of its position in the pool is the same as the value of the pool shares.

Cash on deposit as of June 30, 2004 and 2003 was reconciled to the balances reflected on the books.

These funds were on deposit in the following depositories:

	Fair Value 2004	Cost Basis 2004	Fair Value 2003
Petty Cash	\$ 200	\$ 200	\$ 200
Wells Fargo Bank - Checking	45,507	45,507	39,415
Liberty Bank - Checking	2,933	1,905	1,905
Liberty Bank - Savings	123,825	70,612	70,612
Cash in County Treasury	31,903	31,903	31,903
Cash with Fiscal Agent	25,500	25,500	25,500
Certificates of Deposit	1,620,000	1,620,000	1,050,000
U.S. Treasury Notes	5,176,321	5,222,648	4,449,913
U.S. Guarantees - FHLMC, FHLB, FNMA	5,716,812	5,788,741	5,419,959
State Investment Fund (LAIF)	3,292,197	3,292,197	2,666,646
Total	16,035,198	\$ 16,099,213	\$ 13,756,053
Less: Restricted Cash and Investments	1,974,517		2,041,285
Unrestricted Cash and Investments	\$ 14,060,681		\$ 11,714,768

For purposes of the statement of cash flows, the District defines cash and cash equivalents as demand account balances, cash on hand, certificates of deposit and LAIF funds.

Reconciliation of Cash and Investments to Cash and Cash Equivalents:

	2004	2003
Cash and Investments	\$ 14,060,681	\$ 11,714,768
Restricted Cash and Investments	1,974,517	2,041,285
Total Cash and Investments	16,035,198	13,756,053
Less Investments:		
U.S. Treasury Notes	(5,176,321)	(4,449,913)
U.S. Guarantees	(5,716,812)	(5,419,959)
Cash and Cash Equivalents	\$ 5,142,065	\$ 3,886,181

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2004 and 2003

4. 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:

	2004			
	Water Fund	Sewer Fund	Construction in Progress	Total
Balance, June 30, 2003	\$ 24,516,755	\$ 1,252,032	\$ 1,623,131	\$ 27,391,918
Additions and Transfers-In	1,220,742			1,220,742
Deletions and Transfers-Out	(7,137)		(754,385)	(761,522)
Balance, June 30, 2004	25,730,360	1,252,032	868,746	27,851,138
Accumulated Depreciation	(9,599,095)	(510,157)		(10,109,252)
Net Property, Plant and Equipment	<u>\$ 16,131,265</u>	<u>\$ 741,875</u>	<u>\$ 868,746</u>	<u>\$ 17,741,886</u>
	2003			
	Water Fund	Sewer Fund	Construction in Progress	Total
Balance, June 30, 2002	\$ 23,768,185	\$ 1,252,032	\$ 1,178,347	\$ 26,198,564
Additions and Transfers-In	819,712		444,784	1,264,496
Deletions and Transfers-Out	(71,142)			(71,142)
Balance, June 30, 2003	24,516,755	1,252,032	1,623,131	27,391,918
Accumulated Depreciation	(8,828,768)	(479,663)		(9,308,431)
Net Property, Plant and Equipment	<u>\$ 15,687,987</u>	<u>\$ 772,369</u>	<u>\$ 1,623,131</u>	<u>\$ 18,083,487</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2004 and 2003

5. LONG-TERM DEBT:

At June 30 long-term debt consisted of:

	<u>2004</u>	<u>2003</u>
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	\$ <u>995,000</u>	<u>\$1,055,000</u>
Total Special Assessment Bonds	<u>995,000</u>	<u>1,055,000</u>

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.

	<u>180,000</u>	<u>190,000</u>
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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.

	2,777,824	2,899,905
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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. During the year ended June 30, 2003 the District refinanced through a refunding payment agreement bearing interest at 4.25 percent per annum. Semi-annual payments of \$41,860 including principal and interest; with a maturity date of June 1, 2016.

	<u>780,669</u>	<u>826,000</u>
Total Notes Payable	<u>3,558,493</u>	<u>3,725,905</u>

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	<u>2,375,000</u>	<u>2,480,000</u>
Total Debt	<u>2,375,000</u>	<u>2,480,000</u>
Less: Current Portion	7,108,493	7,450,905
Total Long-Term Debt	<u>367,756</u>	<u>347,664</u>
	<u>\$6,740,737</u>	<u>\$7,103,241</u>

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2004 and 2003

5. LONG-TERM DEBT (Continued):

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

	<u>Principal</u>	<u>Interest</u>
June 30, 2005	\$ 367,756	\$ 316,282
June 30, 2006	379,442	300,324
June 30, 2007	396,394	283,609
June 30, 2008	418,609	265,855
June 30, 2009	431,098	247,162
June 30, 2010 - 2014	2,463,191	919,472
June 30, 2015 - 2019	2,328,218	348,476
June 30, 2020 - 2024	<u>323,785</u>	<u>11,474</u>
	<u>\$7,108,493</u>	<u>\$2,692,654</u>

6. 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.

Funding Policy - 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 2003/2004 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.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2004 and 2003

6. EMPLOYEE BENEFITS (Continued):

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

Annual Pension Cost - For fiscal year 2003/2004, 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 2003/2004 was determined as part of the June 30, 2001 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:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
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.

<u>Valuation Date</u>	<u>Funded Status of the Plan</u>					
	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
6/30/99	\$2,784,545	\$4,466,431	\$(1,681,886)	160.4%	\$ 984,309	(170.9%)
6/30/00	3,239,018	4,971,623	(1,732,605)	153.5%	935,465	(185.2%)
6/30/01	3,574,513	5,186,445	(1,611,932)	145.1%	1,078,394	(149.5%)

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2004 and 2003

7. INTERFUND RECEIVABLES AND PAYABLES:

At June 30, 2004 the Sewer Fund was indebted to the Water Fund in the amount of \$37,831.

At June 30, 2003 the Sewer Fund was indebted to the Water Fund in the amount of \$12,784.

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. Pursuant to District Ordinance No. 88, adopted April 7, 1994, each applicant for water service is required to furnish a refundable account deposit of \$75. After one (1) year in continuous service in good standing with the District, upon request of the customer, the District will return an account deposit.

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:

	<u>2003</u>	<u>Additions</u>	<u>2004</u>
Designated for:			
Emergency Reserve	\$ 733,898		\$ 733,898
Vacation and Sick Leave	125,000		125,000
Capital Project Reserve	2,100,000		2,100,000
Equipment Replacement Reserve	90,000		90,000
Wastewater Reserve	850,000		850,000
Vehicle Reserve	100,000		100,000
Capital Improvement Project	<u>1,000,000</u>		<u>1,000,000</u>
Total	<u>\$4,998,898</u>		<u>\$4,998,898</u>

Pursuant to District Resolution No. 20 (04-05) adopted January 20, 2005, the Board of Directors approved an amendment in the schedule of Designated Retained Earnings. This amendment, which occurred after the end of fiscal year 2003-2004 (June 30, 2004), will not alter the previously adopted Designated Retained Earnings for said fiscal year.

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2004 and 2003

11. SIGNIFICANT NONCASH ACTIVITIES:

During the year ended June 30, 2003 refunding bond proceeds were received in trust and debt decreased through escrow trust fund using refunding bond proceeds. The debt refunded was the California Safe Drinking refunding loan that had a balance of \$789,898 at June 30, 2002.

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.,

SAN LORENZO VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

June 30, 2004 and 2003

13. WATERMAN GAP TRANSACTION (Continued):

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>2004</u>	<u>2003</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:	<u>\$ -0-</u>	<u>\$2,105,000</u>

14. NET ASSETS:

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net assets not included in the above categories.

15. SUBSEQUENT EVENT:

On August 13, 2004, the District completed the purchase of APNs 81-204-04 and 06, generally located at 12804 Highway 9, Boulder Creek, CA. The purchase price for said property was \$722,000. This property, commonly known as the "Prosser Property" contains approximately 28,800 square feet and is improved with two (2) wood frame single story office/storage buildings. One building is approximately 1,900 square feet and the other building is approximately 1,500 square feet.

The District purchased the property for the expressed purpose of relocating a portion or all of the District's existing administration and/or operations facilities. Estimated date for relocation has not yet been established.

SUPPLEMENTARY INFORMATION

SAN LORENZO VALLEY WATER DISTRICT

COMBINING STATEMENT OF NET ASSETS - WATER AND SEWER FUNDS

June 30, 2004

ASSETS

CURRENT ASSETS:	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Cash and Investments	\$ 14,058,101	\$ 2,580	\$ 14,060,681
Receivables:			
Customer Accounts (Net of Allowance for Uncollectibles of \$3,252)	267,963		267,963
Interest Receivable	83,910		83,910
Other Receivables	2,861		2,861
Due From Other Funds	37,831		37,831
Inventory	186,380		186,380
Deposits	9,452		9,452
Note Receivable - Current Portion	0		
Total Current Assets	<u>14,646,498</u>	<u>2,580</u>	<u>14,649,078</u>
RESTRICTED CASH:			
Proceeds Certificates of Participation	831,039		831,039
Cash and Investments with Fiscal Agent	57,403		57,403
Connection and Construction Deposits	173,622		173,622
Customer Deposits	296,054		296,054
Reserve Fund - Certificates of Participation	239,125		239,125
North Boulder Creek Assessments	231,568		231,568
Reserve Fund - Improvement Refunding Bonds	145,706		145,706
Total Restricted Cash	<u>1,974,517</u>		<u>1,974,517</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	1,084,844	28,213	1,113,057
Utility Plant	22,074,972	1,212,138	23,287,110
Building, Equipment, and Other Assets	<u>2,570,544</u>	<u>11,681</u>	<u>2,582,225</u>
Total Property, Plant and Equipment	25,730,360	1,252,032	26,982,392
Less: Accumulated Depreciation	<u>(9,599,095)</u>	<u>(510,157)</u>	<u>(10,109,252)</u>
	16,131,265	741,875	16,873,140
Construction in Progress	811,311	57,435	868,746
Total Property, Plant and Equipment (Net)	<u>16,942,576</u>	<u>799,310</u>	<u>17,741,886</u>
OTHER ASSETS:			
Deferred Charges	325,473		325,473
Note Receivable - Net of Current Portion	0		0
Total Other Assets	<u>325,473</u>		<u>325,473</u>
TOTAL ASSETS	<u>\$ 33,889,064</u>	<u>\$ 801,890</u>	<u>\$ 34,690,954</u>

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

SAN LORENZO VALLEY WATER DISTRICT

COMBINING STATEMENT OF NET ASSETS - WATER AND SEWER FUNDS
(Continued)

June 30, 2004

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Accounts Payable	\$ 190,406		\$ 190,406
Due to Other Funds		\$ 37,831	37,831
Accrued Expenses	1,743		1,743
Accrued Interest	53,822		53,822
Refunds Payable		2,777	2,777
Current Portion of Long-Term Debt	367,756		367,756
Connection and Construction Deposits	173,622		173,622
Customer Deposits	296,053		296,053
Accrued Vacation and Sick Leave	270,421	2,926	273,347
Total Current Liabilities	1,353,823	43,534	1,397,357
LONG-TERM LIABILITIES (NET OF CURRENT PORTION):			
Special Assessment Bonds	995,000		995,000
California Special District Lease Financing	180,000		180,000
Notes Payable	3,558,493		3,558,493
Certificates of Participation	2,375,000		2,375,000
Less Current Portion	(367,756)		(367,756)
Total Long-Term Liabilities	6,740,737		6,740,737
Total Liabilities	8,094,560	43,534	8,138,094
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	9,834,083	799,310	10,633,393
Restricted for Capital Activity and Debt Service	1,974,517		1,974,517
Unrestricted	13,985,904	(40,954)	13,944,950
Total Net Assets	25,794,504	758,356	26,552,860
Total Liabilities and Net Assets	\$ 33,889,064	\$ 801,890	\$ 34,690,954

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

SAN LORENZO VALLEY WATER DISTRICT

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
WATER AND SEWER FUNDS

For the Year Ended June 30, 2004

	Water Fund	Sewer Fund	Total
OPERATING INCOME:			
Water Fees	\$ 3,059,000		\$ 3,059,000
Sewer Charges		\$ 46,139	46,139
Assessments	134,994		134,994
Property Taxes	363,868		363,868
Meter Sales	141,182		141,182
Charges and Penalties	35,200		35,200
Miscellaneous	19,912		19,912
Total Operating Income	<u>3,754,156</u>	<u>46,139</u>	<u>3,800,295</u>
OPERATING EXPENSES:			
Salaries and Benefits (Net of Capitalized)	1,844,836	6,529	1,851,365
Contractual and Professional Services	196,057	7,231	203,288
Amortization and Depreciation	797,942	30,494	828,436
Material and Supplies	139,280	759	140,039
Utilities and Telephone	304,399	5,345	309,744
Insurance	43,576	406	43,982
Vehicle and Equipment Maintenance	61,785	533	62,318
Building Maintenance	22,839	817	23,656
Collection Fees and Charges	21,059		21,059
Miscellaneous	39,130	4,500	43,630
Travel, Meals and Conferences	7,885		7,885
Auto Allowance	4,900		4,900
Office Expenses	38,841	222	39,063
Rentals and Permits	15,194	4,772	19,966
Repairs	154,391		154,391
Total Operating Expenses	<u>3,692,114</u>	<u>61,608</u>	<u>3,753,722</u>
OPERATING INCOME (LOSS)	<u>62,042</u>	<u>(15,469)</u>	<u>46,573</u>
NON-OPERATING INCOME (EXPENSES):			
Interest and Dividends Earned	557,271		557,271
Unrealized Gains (Losses) on Investments	(518,424)		(518,424)
Gain on Disposition of Assets	(2,313)		(2,313)
Interest Expense	(337,809)		(337,809)
Government Storm Funds and Other Income	407,057		407,057
Total Non-Operating Income (Expenses)	<u>105,782</u>		<u>105,782</u>
CHANGE IN NET ASSETS	167,824	(15,469)	152,355
NET ASSETS AT BEGINNING OF YEAR	<u>25,626,680</u>	<u>773,825</u>	<u>26,400,505</u>
NET ASSETS AT END OF YEAR	<u>\$ 25,794,504</u>	<u>\$ 758,356</u>	<u>\$ 26,552,860</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

SAN LORENZO VALLEY WATER DISTRICT

BUDGETARY COMPARISON SCHEDULE
REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
WATER FUND

For the Year Ended June 30, 2004

	2004		
	Final Budget	Amended Final Budget	Actual
OPERATING INCOME:			
Water Fees	\$ 2,965,000	\$ 2,965,000	\$ 3,059,000
Sewer Charges			
Assessments	117,850	117,850	134,994
Property Taxes	340,000	340,000	363,868
Meter Sales	60,000	60,000	141,182
Charges and Penalties	35,000	35,000	35,200
Miscellaneous	23,400	23,400	19,912
Total Operating Income	<u>3,541,250</u>	<u>3,541,250</u>	<u>3,754,156</u>
OPERATING EXPENSES:			
Salaries and Benefits (Net of Capitalized)	1,832,914	1,832,914	1,844,836
Contractual and Professional Services	162,100	162,100	196,057
Amortization and Depreciation			797,942
Material and Supplies	95,400	95,400	139,280
Utilities and Telephone	338,950	338,950	304,399
Insurance	43,100	43,100	43,576
Vehicle and Equipment Maintenance	41,500	41,500	61,785
Building Maintenance	24,000	24,000	22,839
Collection Fees and Charges	2,500	2,500	21,059
Miscellaneous	91,950	96,950	39,130
Travel, Meals and Conferences	16,200	16,200	7,885
Auto Allowance	8,400	8,400	4,900
Office Expenses	47,100	47,100	38,841
Rentals and Permits	15,250	15,250	15,194
Repairs	15,000	15,000	154,391
Total Operating Expenses	<u>2,734,364</u>	<u>2,739,364</u>	<u>3,692,114</u>
OPERATING INCOME (LOSS)	<u>806,886</u>	<u>801,886</u>	<u>62,042</u>
NON-OPERATING INCOME (EXPENSES):			
Interest and Dividends Earned	480,800	480,800	557,271
Unrealized Gains (Losses) on Investments			(518,424)
Gain on Disposition of Assets	1,138,400	1,138,400	(2,313)
Interest Expense	(319,500)	(319,500)	(337,809)
Government Storm Funds and Other Income			407,057
Total Non-Operating Income (Expenses)	<u>1,299,700</u>	<u>1,299,700</u>	<u>105,782</u>
NET INCOME (LOSS)	<u>\$ 2,106,586</u>	<u>\$ 2,101,586</u>	<u>\$ 167,824</u>

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

SAN LORENZO VALLEY WATER DISTRICT

BUDGETARY COMPARISON SCHEDULE
REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
SEWER FUND

For the Year Ended June 30, 2004

	2004		
	Final Budget	Amended Final Budget	Actual
OPERATING INCOME:			
Water Fees			
Sewer Charges	\$ 44,500	\$ 44,500	\$ 46,139
Assessments			
Property Taxes			
Meter Sales			
Charges and Penalties			
Miscellaneous			
Total Operating Income	<u>44,500</u>	<u>44,500</u>	<u>46,139</u>
OPERATING EXPENSES:			
Salaries and Benefits (Net of Capitalized)	10,780	10,780	6,529
Contractual and Professional Services	11,000	11,000	7,231
Amortization and Depreciation			30,494
Material and Supplies	1,000	1,000	759
Utilities and Telephone	7,000	7,000	5,345
Insurance			406
Vehicle and Equipment Maintenance	500	500	533
Building Maintenance	750	750	817
Collection Fees and Charges			
Miscellaneous	5,200	5,200	4,500
Travel, Meals and Conferences			
Auto Allowance			
Office Expenses	410	410	222
Rentals and Permits	1,500	1,500	4,772
Repairs			
Total Operating Expenses	<u>38,140</u>	<u>38,140</u>	<u>61,608</u>
OPERATING INCOME (LOSS)	<u>6,360</u>	<u>6,360</u>	<u>(15,469)</u>
NON-OPERATING INCOME (EXPENSES):			
Interest and Dividends Earned			
Unrealized Gains (Losses) on Investments			
Gain on Disposition of Assets			
Interest Expense			
Government Storm Funds and Other Income			
Total Non-Operating Income (Expenses)			
NET INCOME (LOSS)	<u>\$ 6,360</u>	<u>\$ 6,360</u>	<u>\$ (15,469)</u>

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