

# San Lorenzo Valley Water District Annual Financial Report June 30, 2007 and 2006



#### **Mission Statement**

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

#### Board of Directors as of June 30, 2007

Name	Title	Elected/ Appointed	Current Term
Larry Prather	President	Elected	11/2006-12/2010
Fred McPherson	Vice President	Appointed	11/2006-12/2008
James Nelson	Director	Elected	11/2004-12/2008
Terry Vierra	Director	Elected	11/2006-12/2010
James Rapoza	Director	Elected	11/2006-12/2010

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

# San Lorenzo Valley Water District Annual Financial Report For the Years Ended June 30, 2007 and 2006

#### San Lorenzo Valley Water District Annual Financial Report For the Years Ended June 30, 2007 and 2006

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# Introductory Section



October 29, 2007

Board of Directors San Lorenzo Valley Water District

#### Introduction

It is our pleasure to submit the Annual Financial Report for the San Lorenzo Valley Water District for the fiscal year ended June 30, 2007, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. The report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying Notes.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

#### **District Structure and Leadership**

The San Lorenzo Valley Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The San Lorenzo Valley Water District has been providing services to the residents within the district's boundaries since 1941. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The District Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The San Lorenzo Valley Water District employs a full-time staff of 21 employees with 3 long-term temporary employees. The District's Board of Directors meets on the first and third Thursday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water, sewer or a combination of both services to residents and businesses within its service area. The service area lies within the unincorporated towns of Boulder Creek, Brookdale, Ben Lomond, Felton, and the City of Scotts Valley. The District's boundaries comprise approximately 58 square miles. The District currently provides service to 5,951 residential, commercial, and agricultural connections.

#### **Economic Condition and Outlook**

The District's administrative offices are located in the City of Boulder Creek in Santa Cruz County. The economic outlook for the area is one of moderate growth, which is projected to continue through 2008.

California's water supply continues to be a concern due to projected population increases and a decrease in water-in-storage levels. This concern has increased interest in conservation and in irrigation methods and systems.

#### **Major Initiatives**

The activities of the Board and staff of the District are driven by its Mission Statement: "Our mission is to provide our customers and all future generations with reliable, safe and high quality water at an equitable price; to create and maintain outstanding customer service; to manage and protect the environmental health of the aquifers and watersheds; and, to ensure the fiscal vitality of the San Lorenzo Valley Water District."

- 1. To supply clean, wholesome water to the community and provide water for the future.
- 2. To plan, construct, operate, maintain and upgrade the water system facilities to adequately serve customer needs.
- 3. To utilize the District's financial resources in an effective, responsible, and prudent manner.
- 4. To provide quality customer service for District customers.
- 5. To inform, educate, and communicate with the community on District and water issues.
- 6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

#### **Internal Control Structure**

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

#### **Budgetary Control**

The District Board of Directors adopts an operating and capital budget every year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

#### **Investment Policy**

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield.

#### **Water and Sewer Rates and District Revenues**

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water and sewer rates are reviewed periodically. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed (readiness-to-serve) charge. Sewer rates are composed of a fixed charge of \$140.

#### **Water Conservation Programs**

The District has implemented conservation management practices. District staff participates in community events and distributes materials to encourage water conservation. The District offers the following conservation programs:

- Voluntary Water Conservation Program
- Low-Flow Retrofit Program
- Hi-Efficiency Washers Program

#### **Audit and Financial Reporting**

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

#### Risk Management

The District is a member of the Special District Risk Management Authority (Authority). The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

#### **Other References**

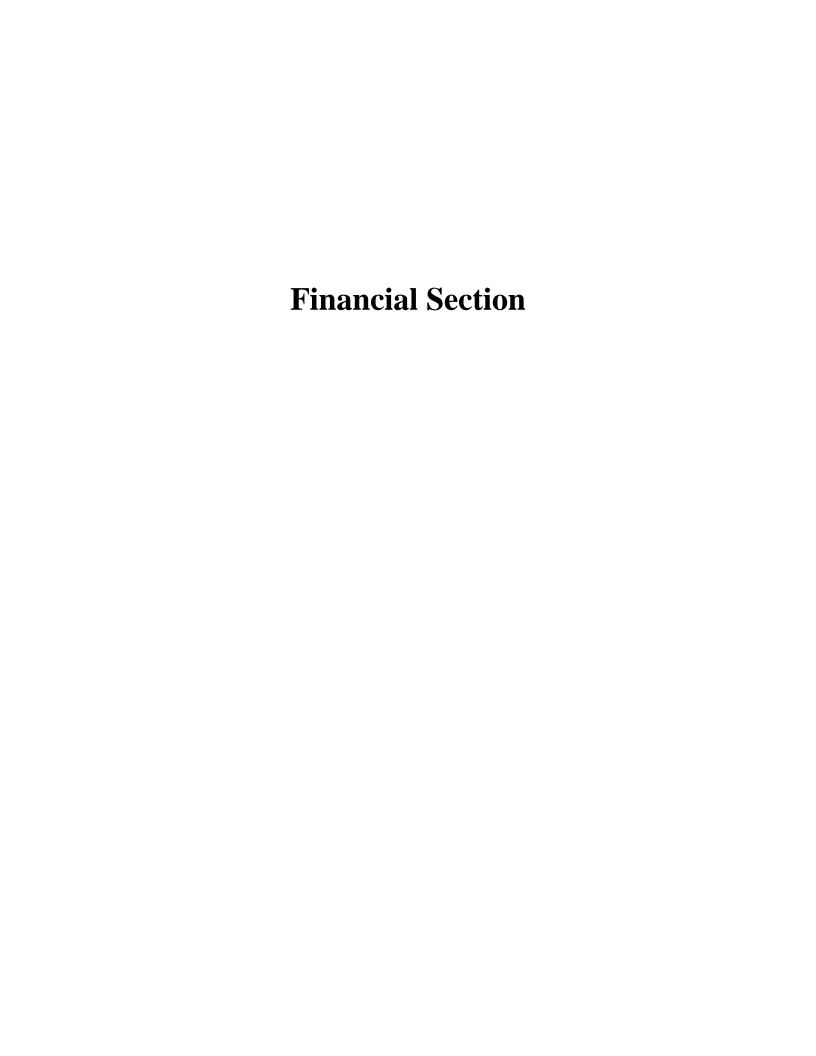
More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

#### Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance Committee members for their continued support in planning and implementation of the San Lorenzo Valley Water District's fiscal policies.

Respectfully submitted,

James Mueller District Manager Men Alvarez
Finance Manager





#### Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue Cypress, California 90630 (714) 527-1818 (562) 598-6565 FAX (714) 527-9154 EMAIL czfco@czfcpa.com

#### **Independent Auditor's Report**

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

We have audited the accompanying financial statements of the San Lorenzo Valley Water District (District) as of and for the year ended June 30, 2007 and, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the San Lorenzo Valley Water District as of June 30, 2007 and 2006, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 29, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 36.

Management's discussion and analysis on pages 7 through 10 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 primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

#### Independent Auditor's Report (Continued)

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplemental information section on pages 32 through 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section on pages 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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October 29, 2007 Cypress, California

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the San Lorenzo Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

#### **Financial Highlights**

- The District's net assets decreased 1.4% or (\$352,947) to \$25,113,158 in fiscal year 2007. In 2006, the District's net assets decreased 3.4% or (\$886,415) to \$25,466,105.
- The District's operating revenues increased 12.2% or \$385,350 in fiscal year 2007. In 2006, the District's operating revenues decreased 2.3% or (\$74,674).
- The District's operating expenses increased 23.1% or \$742,074 in 2007. In 2006, the District's operating expenses increased 17.5% or \$480,047 in 2006.

#### **Required Financial Statements**

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

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

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

#### **Financial Analysis of the District**

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

#### **Financial Analysis of the District (Continued)**

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

#### **Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 31.

#### **Statement of Net Assets**

#### **Condensed Statements of Net Assets**

	_	2007	2006	Change
Assets:				
Current assets	\$	13,164,831	13,011,333	153,498
Restricted assets		908,487	1,373,473	(464,986)
Non-current assets		299,352	324,603	(25,251)
Capital assets, net	_	20,786,862	21,289,629	(502,767)
Total assets	_	35,159,532	35,999,038	(839,506)
Liabilities:				
Liabilities payable from unrestricted current assets		975,474	949,443	26,031
Liabilities payable from restricted assets		657,175	587,886	69,289
Non-current liabilities	_	8,413,725	8,995,604	(581,879)
Total liabilities	_	10,046,374	10,532,933	(486,559)
Net assets:				
Net investment in capital assets		11,791,105	11,781,321	9,784
Restricted for debt service		908,487	1,373,473	(464,986)
Unrestricted	_	12,413,566	12,311,311	102,255
Total net assets	_	25,113,158	25,466,105	(352,947)
Total liabilities and net assets	\$ _	35,159,532	35,999,038	(839,506)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$25,113,158 and \$25,466,105 as of June 30, 2007 and 2006, respectively.

By far the largest portion of the District's net assets (47% and 48% as of June 30, 2007 and 2006, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2007 and 2006, the District showed a positive balance in its unrestricted net assets of \$12,413,566 and \$12,311,311, respectively, which may be utilized in future years.

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

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

	_	2007	2006	Change
Revenues:				
Operating revenues	\$	3,527,557	3,142,207	385,350
Non-operating revenues	_	1,197,637	523,865	673,772
Total revenues	_	4,725,194	3,666,072	1,059,122
Expenses:				
Operating expenses		3,959,644	3,217,570	742,074
Depreciation and amortization		1,045,232	916,807	128,425
Non-operating expenses	_	363,005	486,859	(123,854)
Total expenses	_	5,367,881	4,621,236	746,645
Net income before capital contributions		(642,687)	(955,164)	312,477
Capital contributions	_	289,740	68,749	220,991
Change in net assets		(352,947)	(886,415)	533,468
Net assets, beginning of year	_	25,466,105	26,352,520	(886,415)
Net assets, end of year	\$ _	25,113,158	25,466,105	(352,947)

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets decreased by \$352,947 and \$886,415 for the fiscal years ended June 30, 2007 and 2006, respectively.

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

In 2007, the District's total revenues increased by \$1,059,122, primarily due to an increase in operating revenues of \$385,350 from increased water consumption sales of \$149,918 and other services of \$206,710. Additionally, non-operating revenues increased by \$673,772 due to an increase in property tax revenues of \$342,062 and interest and investment earnings of \$202,650. In addition, total expenses increased by \$746,645, due to increases in departmental and operational expenses.

In 2006, the District's total revenues decreased by (\$129,316), primarily due to a decrease in operating revenues of (\$74,674) due to a reduction in water consumption sales of (\$28,072) and meter sales of (\$34,595). Additionally, non-operating revenues decreased by (\$54,642) primarily due to a decrease in interest and investment earning earnings of (\$130,502) which was partially offset by increases in property tax revenues of \$45,563. In addition, total expenses increased by \$625,508, due to increases in departmental and operational expenses.

#### **Capital Asset Administration**

At the end of fiscal year 2007 and 2006, the District's investment in capital assets amounted to \$20,786,862 and \$21,289,629, respectively, (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year included upgrades to the District's pumping plant and the transmission and distribution system.

#### **Capital Asset Administration, continued**

Changes in capital asset amounts for the year were as follows:

	_	Balance 2006	Additions	Transfers/ Deletions	Balance 2007
Capital assets:					
Non-depreciable assets	\$	3,716,999	14,595	(180,538)	3,551,056
Depreciable assets		29,352,359	683,696	(49,655)	29,986,400
Accumulated depreciation and amortization	_	(11,779,729)	(1,019,981)	49,116	(12,750,594)
Total capital assets, net	\$ =	21,289,629	(321,690)	(181,077)	20,786,862
	_	Balance 2005	Additions	Transfers/ Deletions	Balance 2006
Capital assets:	<del>-</del>		Additions		
Capital assets: Non-depreciable assets	<u>-</u> \$		<b>Additions</b> 2,940,016		
•	<u>-</u> \$	2005		Deletions	2006
Non-depreciable assets	\$	<b>2005</b> 2,536,332	2,940,016	<b>Deletions</b> (1,759,349)	<b>2006</b> 3,716,999

#### **Debt Administration**

Changes in long-term debt amounts for the year ended June 30, 2007 were as follows:

		Balance		Principal	Balance
	_	2006	Additions	Payments	2007
Long-term debt:					
Lease payable	\$	150,000	-	(15,000)	135,000
Notes payable		6,411,104	-	(304,735)	6,106,369
Bonds payable		865,000	-	(70,000)	795,000
Certificates of participation	_	2,082,204		(122,816)	1,959,388
Total long-term debt	\$ _	9,508,308		(512,551)	8,995,757

Changes in long-term debt amounts for the year ended June 30, 2006 were as follows:

		Balance		Principal	Balance
	_	2005	Additions	Payments	2006
Long-term debt:					
Lease payable		165,000	-	(15,000)	150,000
Notes payable	\$	3,380,616	3,250,000	(219,512)	6,411,104
Bonds payable		930,000	-	(65,000)	865,000
Certificates of participation		2,200,000		(117,796)	2,082,204
Total long-term debt	\$ _	6,675,616	3,250,000	(417,308)	9,508,308

#### **Conditions Affecting Current Financial Position**

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

#### **Requests for Information**

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

### **Basic Financial Statements**

#### San Lorenzo Valley Water District Statements of Net Assets June 30, 2007 and 2006

Current assets:         \$ 840,771         \$ 1,156,20           Cash and cash equivalents (note 2)         \$ 11,521,727         9,549,750           Accrued interest receivable         \$ 78,071         83,042           Accounts receivable - water sales and services, net         251,931         252,082           Accounts receivable - property taxes         29,678         29,471           Accounts receivable - property taxes         210,827         16,481           Materials and supplies inventory         210,825         16,481           Prepaid expenses and other deposits         21,530         21,427           Total corrent assets         31,64,831         13,373,473           Restricted assets         908,487         1,373,473           Total restricted assets         908,487         1,373,473           Non-current assets         20,786,862         21,289,629           Deferred charges, net (note 3)         299,352         324,602           Deferred charges, net (note 4)         20,786,862         21,289,629           Total assets         35,159,532         35,990,088           Total assets and Net Assets           Liabilities and Net Assets           Accorate charges, net (note 4)         20,786,862         14,812	Assets		2007	2006
Investments (note 2)	Current assets:			
Accued interest receivable — Accued interest receivable — properly taxes         25.1931         25.0262           Accounts receivable — properly taxes         29.678         29.471           Accounts receivable — other         210.271         1,754,945           Materials and supplies inventory         21.682         164,315           Prepaid expenses and other deposits         21,530         21,427           Total current assets         31,164,831         3,011,333           Restricted assets:         998,487         1,373,473           Total restricted assets         998,487         1,373,473           Non-current assets.         20,786,862         21,289,629           Deferred charges, net (note 4)         20,786,862         21,289,629           Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         21,086,214         21,614,232           Total assets         \$35,159,532         35,999,038           Current liabilities and Net Assets           Current liabilities and Net Assets           Current liabilities and Net Assets           Accured assets and Net Assets           Accured salaries and wages         40,455         41,379           Accured salaries and wages         5	Cash and cash equivalents (note 2)	\$	840,771	1,156,301
Accounts receivable – water sales and services, net         25,1931         252,082           Accounts receivable – property taxes         29,678         29,471           Accounts receivable – other         210,271         1,754,945           Materials and supplies inventory         21,030         21,432           Prepaid expenses and other deposits         31,164,831         13,011,333           Total current assets         908,487         1,373,473           Restricted assets         908,487         1,373,473           Total restricted assets         908,487         1,373,473           Non-current assets         20,786,862         21,289,629           Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         31,086,214         21,614,232           Total non-current assets         \$3,5159,532         35,999,038           Current liabilities – payable from unrestricted current assets         \$3,5159,532         35,999,038           Current liabilities – payable from unrestricted current assets         \$3,282,06         148,216           Accrued salaries and wages         \$3,282,06         148,216           Accrued salaries and wages         \$3,282,06         148,216           Accrued compensated absences (note 5)         28,813         <	, ,			9,549,750
Accounts receivable – property taxes         29,678         29,471           Accounts receivable – other         210,271         1754,945           Materials and supplies inventory         210,852         164,315           Prepaid expenses and other deposits         21,530         21,427           Total current assets         31,164,831         13,011,333           Restricted assets         908,487         1,373,473           Total restricted assets         908,487         1,373,473           Non-current assets         20,786,862         21,289,629           Deferred charges, net (note 4)         20,786,862         21,289,629           Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         21,086,214         21,614,232           Total assets         35,159,532         35,999,038           Total assets         328,206         148,216           Accruel tabilities – payable from unrestricted current assets         328,206         148,216           Accrued salaries and wages         30,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         158,082         153,591           Liabilities payable from unrestricted current	Accrued interest receivable			
Accounts receivable – other         210,271         1,754,945           Materials and supplies inventory         210,852         164,315           Prepaid expenses and other deposits         21,530         21,427           Total current assets         13,164,831         13,011,333           Restricted assets:         908,487         1,373,473           Investments (note 2)         908,487         1,373,473           Total restricted assets         20,786,862         21,289,629           Capital assets, net (note 4)         20,786,862         21,289,629           Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         21,086,214         21,614,232           Total assets         21,086,214         21,614,232           Total assets         35,159,532         35,999,038           Liabilities and Net Assets           Current liabilities payable from unrestricted current assets           Accrued salaries and wages         40,455         41,379           Accrued salaries and wages         328,206         148,216           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         150,600         318,919           Liabilities payable fr				
Materials and supplies inventory         210,852 (15.30)         164,315 (21.50)           Prepaid expenses and other deposits         21,530 (21.427)           Total current assets         31,64.831 (3.01.333)           Restricted assets         908,487 (1.373.473)           Total restricted assets         908,487 (1.373.473)           Non-current assets         20,786.862 (21,289.629)           Capital assets, net (note 4)         20,786.862 (21,289.629)           Deferred charges, net (note 3)         299,352 (324.603)           Total non-current assets         21,086.214 (21,614.232)           Total assets         35,159,532 (35,990.08)           Liabilities and Net Assets           Current liabilities – payable from unrestricted current assets:         328,206 (21.289.629)           Accrued salaries and wages         40,455 (21.289.629)         41.379           Accrued compensated absences (note 5)         288,131 (28.289.629)         287,338           Customer deposits         158,082 (21.58.91)         153,591           Connection and construction deposits         158,082 (21.58.91)         153,591           Liabilities – payable from unrestricted current assets         475,143 (27.58.82)         75,143 (27.58.82)           Liapilities – payable from restricted assets         657,175 (28.28.83.83.83)         587,886				
Prepaid expenses and other deposits         21,504         21,72           Total current assets         13,164,831         13,011,333           Restricted assets:         908,487         1,373,473           Total restricted assets         908,487         1,373,473           Non-current assets:         20,786,662         21,289,629           Capital assets, net (note 4)         20,786,662         21,289,629           Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         21,086,214         21,614,232           Total assets         \$3,159,532         35,999,038           Liabilities and Net Assets           Liabilities and Net Assets           Accrued salaries and wages         \$3,159,532         35,999,038           Accrued salaries and wages         \$3,28,206         148,216           Accrued compensated absences (note 5)         288,131         28,738           Customer deposits         156,060         318,919           Consection and construction deposits         75,143         75,142           Liabilities payable from restricted assets         75,143         75,182           Long-term debt - current portion (note 6)         582,032         512,704           L				
Total current assets         13,164.831         13,011,333           Restricted assets:         908,487         1,373,473           Total restricted assets         908,487         1,373,473           Non-current assets:         20,786,862         21,289,629           Capital assets, net (note 4)         20,786,862         21,289,629           Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         21,086,214         21,614,232           Total assets         \$ 35,159,532         35,999,038           Eurit liabilities and Net Assets           Current liabilities payable from unrestricted current assets           Accounts payable and accrued expenses         \$ 328,206         148,216           Accrued salaries and wages         40,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         158,082         153,591           Connection and construction deposits         5 58,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,43           Liabilities payable from restricted assets         5 582,032         512,704           Accrued interest payable         5 5				
Restricted assets:         908,487         1,373,473           Total restricted assets         908,487         1,373,473           Non-current assets:         20,786,862         21,289,629           Capital assets net (note 4)         29,352         324,603           Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         21,086,214         21,614,232           Total assets         35,159,532         35,999,038           Eabilities and Net Assets           Liabilities – payable from unrestricted current assets           Accounts payable and accrued expenses         \$328,206         148,216           Accrued sladries and wages         40,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         158,082         155,991           Connection and construction deposits         158,082         155,991           Liabilities payable from unrestricted assets         975,474         949,443           Liabilities payable from restricted assets         657,175         587,862           Accrued interest payable         75,143         75,182           Long-term debt current portion (note 6)         8,413,725 <td< td=""><td>Prepaid expenses and other deposits</td><td>-</td><td>21,530</td><td>21,427</td></td<>	Prepaid expenses and other deposits	-	21,530	21,427
Investments (note 2)	Total current assets	•	13,164,831	13,011,333
Total restricted assets         908,487         1,373,473           Non-current assets:         20,786,862         21,289,629           Deferred charges, net (note 3)         299,352         324,603           Total nor-current assets         21,086,214         21,614,232           Total assets         35,159,532         35,999,038           Liabilities and Net Assets           Current liabilities – payable from unrestricted current assets:           Accounts payable and accrued expenses         \$328,206         148,216           Accrued salaries and wages         40,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         160,600         318,919           Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,443           Liabilities payable from restricted assets         75,143         75,182           Accrued interest payable         75,142         58,2032         512,704           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total non-current liabilitie	Restricted assets:			
Non-current assets:         20,786,862         21,289,629           Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         21,086,214         21,614,232           Total assets         \$ 35,159,532         35,999,038           Elabilities and Net Assets           Current liabilities – payable from unrestricted current assets:           Accounts payable and accrued expenses         \$ 328,206         148,216           Accrued salaries and wages         40,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         150,600         318,919           Connection and construction deposits         155,060         318,919           Liabilities payable from restricted assets:         975,474         949,443           Liabilities payable from restricted assets:         75,143         75,182           Accrued interest payable         75,143         75,182           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         8,413,725         8,995,604           Total non-current l	Investments (note 2)		908,487	1,373,473
Capital assets, net (note 3)         20,786,862         21,289,629           Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         21,086,214         21,614,232           Total assets         \$35,159,532         35,999,038           Current liabilities and Net Assets           Current liabilities – payable from unrestricted current assets:           Accrued salaries and wages         \$328,206         148,216           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         160,600         318,919           Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,443           Liabilities payable from restricted assets:         75,143         75,182           Accrued interest payable         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         1,632,649         1,537,329           Non-current liabilities         8,413,725         8,995,604           Total non-current liabilities         8,413,725         8,995,604           Total liabilities <td>Total restricted assets</td> <td></td> <td>908,487</td> <td>1,373,473</td>	Total restricted assets		908,487	1,373,473
Deferred charges, net (note 3)         299,352         324,603           Total non-current assets         21,086,214         21,614,232           Total assets         35,159,532         35,999,038           Liabilities and Net Assets           Current liabilities – payable from unrestricted current assets:           Accounts payable and accrued expenses         \$ 328,206         148,216           Accrued salaries and wages         40,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         160,600         318,919           Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted assets         975,474         949,443           Liabilities payable from restricted assets         552,032         512,704           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         8,413,725         8,995,604           Total current liabilities         8,413,725         8,995,604           Total liabilities         8,91,004         11,791,105         11,781,321	Non-current assets:			
Total non-current assets         21,086,214         21,614,232           Total assets         35,159,532         35,999,038           Liabilities and Net Assets           Current liabilities – payable from unrestricted current assets:           Accounts payable and accrued expenses         \$ 328,206         148,216           Accrued salaries and wages         40,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         160,600         318,919           Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,443           Liabilities payable from restricted assets:         75,143         75,182           Accrued interest payable         75,142         75,182           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         8,413,725         8,995,604           Total current liabilities         8,413,725         8,995,604           Total liabilities         9,04,437         10,532,933           Net assets:			20,786,862	21,289,629
Current liabilities - payable from unrestricted current assets:   Accounts payable and accrued expenses   \$328,206   148,216   Accrued salaries and wages   40,455   41,379   Accrued compensated absences (note 5)   288,131   287,338   Customer deposits   160,600   318,919   Connection and construction deposits   158,082   153,591   Liabilities payable from unrestricted current assets   975,474   949,443	Deferred charges, net (note 3)		299,352	324,603
Liabilities and Net Assets           Current liabilities – payable from unrestricted current assets:         328,206         148,216           Accounts payable and accrued expenses         \$ 328,206         148,216           Accrued salaries and wages         40,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         160,600         318,919           Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,443           Liabilities – payable from restricted assets:         75,143         75,182           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         1,632,649         1,537,329           Non-current liabilities         8,413,725         8,995,604           Total non-current liabilities         8,413,725         8,995,604           Total liabilities         10,046,374         10,532,933           Net assets:         908,487         1,373,473           Unrestricted (note 8)         12,413,566         12,311,311           Total net	Total non-current assets		21,086,214	21,614,232
Current liabilities – payable from unrestricted current assets:         328,206         148,216           Accounts payable and accrued expenses         \$ 328,206         148,216           Accrued salaries and wages         40,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         160,600         318,919           Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,443           Liabilities – payable from restricted assets:         75,143         75,182           Accrued interest payable         75,143         75,182           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         1,632,649         1,537,329           Non-current liabilities         8,413,725         8,995,604           Total non-current liabilities         8,413,725         8,995,604           Total liabilities         10,046,374         10,532,933           Net assets:         908,487         1,373,473           Unrestricted (note 8)         12,413,566         12,311,311 <td>Total assets</td> <td>\$</td> <td>35,159,532</td> <td>35,999,038</td>	Total assets	\$	35,159,532	35,999,038
Accounts payable and accrued expenses         \$ 328,206         148,216           Accrued salaries and wages         40,455         41,379           Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         160,600         318,919           Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,443           Liabilities – payable from restricted assets:         75,143         75,182           Accrued interest payable         75,143         75,182           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         1,632,649         1,537,329           Non-current liabilities:         8,413,725         8,995,604           Total non-current liabilities         8,413,725         8,995,604           Total liabilities         10,046,374         10,532,933           Net assets:         11,791,105         11,781,321           Restricted for debt service         908,487         1,373,473           Unrestricted (note 8)         12,413,566         12,311,311           Total	Liabilities and Net Assets			
Accrued salaries and wages       40,455       41,379         Accrued compensated absences (note 5)       288,131       287,338         Customer deposits       160,600       318,919         Connection and construction deposits       158,082       153,591         Liabilities payable from unrestricted current assets       975,474       949,443         Liabilities – payable from restricted assets:       75,143       75,182         Accrued interest payable       75,143       75,182         Long-term debt - current portion (note 6)       582,032       512,704         Liabilities payable from restricted assets       657,175       587,886         Total current liabilities       1,632,649       1,537,329         Non-current liabilities:       8,413,725       8,995,604         Total non-current liabilities       8,413,725       8,995,604         Total liabilities       10,046,374       10,532,933         Net assets:       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Current liabilities – payable from unrestricted current assets:			
Accrued compensated absences (note 5)         288,131         287,338           Customer deposits         160,600         318,919           Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,443           Liabilities – payable from restricted assets:         75,143         75,182           Accrued interest payable         75,143         75,182           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         1,632,649         1,537,329           Non-current liabilities:         8,413,725         8,995,604           Total non-current liabilities         8,413,725         8,995,604           Total liabilities         10,046,374         10,532,933           Net assets:         11,791,105         11,781,321           Restricted for debt service         908,487         1,373,473           Unrestricted (note 8)         12,413,566         12,311,311           Total net assets         25,113,158         25,466,105	Accounts payable and accrued expenses	\$	328,206	148,216
Customer deposits         160,600         318,919           Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,443           Liabilities – payable from restricted assets:         75,143         75,182           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         1,632,649         1,537,329           Non-current liabilities:         8,413,725         8,995,604           Total non-current liabilities         8,413,725         8,995,604           Total liabilities         10,046,374         10,532,933           Net assets:         11,791,105         11,781,321           Restricted for debt service         908,487         1,373,473           Unrestricted (note 8)         12,413,566         12,311,311           Total net assets         25,113,158         25,466,105	<u> </u>		40,455	41,379
Connection and construction deposits         158,082         153,591           Liabilities payable from unrestricted current assets         975,474         949,443           Liabilities – payable from restricted assets:         75,143         75,182           Accrued interest payable         75,143         75,182           Long-term debt - current portion (note 6)         582,032         512,704           Liabilities payable from restricted assets         657,175         587,886           Total current liabilities         1,632,649         1,537,329           Non-current liabilities:         8,413,725         8,995,604           Total non-current liabilities         8,413,725         8,995,604           Total liabilities         10,046,374         10,532,933           Net assets:         11,791,105         11,781,321           Restricted for debt service         908,487         1,373,473           Unrestricted (note 8)         12,413,566         12,311,311           Total net assets         25,113,158         25,466,105				
Liabilities payable from unrestricted current assets       975,474       949,443         Liabilities – payable from restricted assets:       75,143       75,182         Accrued interest payable       75,143       75,182         Long-term debt - current portion (note 6)       582,032       512,704         Liabilities payable from restricted assets       657,175       587,886         Total current liabilities       1,632,649       1,537,329         Non-current liabilities:       8,413,725       8,995,604         Total non-current liabilities       8,413,725       8,995,604         Total liabilities       10,046,374       10,532,933         Net assets:       908,487       1,373,473         Unrestricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105				
Liabilities – payable from restricted assets:         Accrued interest payable       75,143       75,182         Long-term debt - current portion (note 6)       582,032       512,704         Liabilities payable from restricted assets       657,175       587,886         Total current liabilities       1,632,649       1,537,329         Non-current liabilities:       8,413,725       8,995,604         Total non-current liabilities       8,413,725       8,995,604         Total liabilities       10,046,374       10,532,933         Net assets:       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Connection and construction deposits		158,082	153,591
Accrued interest payable       75,143       75,182         Long-term debt - current portion (note 6)       582,032       512,704         Liabilities payable from restricted assets       657,175       587,886         Total current liabilities       1,632,649       1,537,329         Non-current liabilities:       8,413,725       8,995,604         Total non-current liabilities       8,413,725       8,995,604         Total liabilities       10,046,374       10,532,933         Net assets:       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Liabilities payable from unrestricted current assets		975,474	949,443
Long-term debt - current portion (note 6)       582,032       512,704         Liabilities payable from restricted assets       657,175       587,886         Total current liabilities       1,632,649       1,537,329         Non-current liabilities:       8,413,725       8,995,604         Total non-current liabilities       8,413,725       8,995,604         Total liabilities       10,046,374       10,532,933         Net assets:       Net investment in capital assets (note 7)       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Liabilities – payable from restricted assets:			
Liabilities payable from restricted assets       657,175       587,886         Total current liabilities       1,632,649       1,537,329         Non-current liabilities:       28,413,725       8,995,604         Total non-current liabilities       8,413,725       8,995,604         Total liabilities       10,046,374       10,532,933         Net assets:       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Accrued interest payable		75,143	75,182
Total current liabilities       1,632,649       1,537,329         Non-current liabilities:       25,113,158       1,537,329         Long-term debt (note 6)       8,413,725       8,995,604         Total non-current liabilities       8,413,725       8,995,604         Total liabilities       10,046,374       10,532,933         Net assets:       Net investment in capital assets (note 7)       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311	Long-term debt - current portion (note 6)		582,032	512,704
Non-current liabilities:       8,413,725       8,995,604         Total non-current liabilities       8,413,725       8,995,604         Total liabilities       10,046,374       10,532,933         Net assets:       Net investment in capital assets (note 7)       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Liabilities payable from restricted assets		657,175	587,886
Long-term debt (note 6)       8,413,725       8,995,604         Total non-current liabilities       8,413,725       8,995,604         Total liabilities       10,046,374       10,532,933         Net assets:       Net investment in capital assets (note 7)       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Total current liabilities		1,632,649	1,537,329
Total non-current liabilities         8,413,725         8,995,604           Total liabilities         10,046,374         10,532,933           Net assets:         Net investment in capital assets (note 7)         11,791,105         11,781,321           Restricted for debt service         908,487         1,373,473           Unrestricted (note 8)         12,413,566         12,311,311           Total net assets         25,113,158         25,466,105	Non-current liabilities:			
Total liabilities         10,046,374         10,532,933           Net assets:         Net investment in capital assets (note 7)         11,791,105         11,781,321           Restricted for debt service         908,487         1,373,473           Unrestricted (note 8)         12,413,566         12,311,311           Total net assets         25,113,158         25,466,105	Long-term debt (note 6)		8,413,725	8,995,604
Net assets:       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Total non-current liabilities		8,413,725	8,995,604
Net investment in capital assets (note 7)       11,791,105       11,781,321         Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Total liabilities		10,046,374	10,532,933
Restricted for debt service       908,487       1,373,473         Unrestricted (note 8)       12,413,566       12,311,311         Total net assets       25,113,158       25,466,105	Net assets:			
Unrestricted (note 8)         12,413,566         12,311,311           Total net assets         25,113,158         25,466,105	Net investment in capital assets (note 7)		11,791,105	11,781,321
Total net assets 25,113,158 25,466,105	Restricted for debt service		908,487	1,373,473
<del></del>	Unrestricted (note 8)		12,413,566	12,311,311
<b>Total liabilities and net assets</b> \$ 35,159,532 35,999,038	Total net assets		25,113,158	25,466,105
	Total liabilities and net assets	\$	35,159,532	35,999,038

#### San Lorenzo Valley Water District Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended June 30, 2007 and 2006

	-	2007	2006
Operating revenues:			
Water consumption sales	\$	2,999,615	2,849,697
Wastewater service		46,200	45,906
Assessments		127,281	136,916
Meter sales		70,542	52,359
Charges and penalties		36,780	34,695
Other charges and services	-	247,139	22,634
Total operating revenues	-	3,527,557	3,142,207
Operating expenses:			
Salaries and benfits		2,426,188	2,076,452
Professional services		518,695	252,750
Materials and supplies		202,489	155,972
Utilities and telephone		333,664	258,978
Insurance		53,347	50,075
Election fees		20,500	-
LAFCO fees		9,072	5,193
Vehicle and equipment maintenance		82,209	76,362
Building maintenance		17,805	24,771
Repairs		171,298	184,694
Collections fees and charges		3,210	1,492
Travel, meals and conferences		8,314	9,404
Auto allowance		4,200	4,200
Office expenses		44,481	43,886
Rental and permits		16,983	16,272
Miscellaneous	-	47,189	57,069
Total operating expenses	-	3,959,644	3,217,570
Operating income before depreciation and amortization		(432,087)	(75,363)
Depreciation and amortization	-	(1,045,232)	(916,807)
Operating loss	\$ _	(1,477,319)	(992,170)
Non-operating revenue(expense)			
Property taxes	\$	474,231	132,169
Interest and investment earnings		564,049	361,399
Rental revenue		21,502	30,297
Interest expense – long-term debt		(362,406)	(305,088)
Gain (loss) on disposition of capital assets Gain (loss) on investments		(599) 137,855	- (181,771)
Total non-operating revenues, net		834,632	37,006
Net loss before capital contributions		(642,687)	(955,164)
Capital contributions:	_		
Developers and others	-	289,740	68,749
Capital contributions	-	289,740	68,749
Change in net assets		(352,947)	(886,415)
Net assets, beginning of year	-	25,466,105	26,352,520
Net assets, end of year	\$ _	25,113,158	25,466,105

#### San Lorenzo Valley Water District Statements of Cash Flows For the Years Ended June 30, 2007 and 2006

	_	2007	2006
Cash flows from operating activities:			
Cash receipts from customers for water and wastewater sales and services	\$	3,322,175	3,119,066
Cash paid to vendors and suppliers for materials and services		(2,148,506)	(1,609,402)
Cash paid to employees for salaries and wages	_	(1,610,378)	(1,532,035)
Net cash used by operating activities	_	(436,709)	(22,371)
Cash flows from non-capital financing activities:			
Proceeds from property taxes	_	474,024	102,698
Net cash provided by non-capital financing activities	_	474,024	102,698
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(517,752)	(3,895,251)
Proceeds from capital contributions		289,740	68,749
Principal paid on long-term debt		(512,551)	(417,308)
Interest paid on long-term debt	_	(362,367)	(283,629)
Net cash used in capital and related financing activities	_	(1,102,930)	(4,527,439)
Cash flows from investing activities:			
Proceeds from sale of investments		2,865,250	4,750,845
Purchases of investments		(2,684,185)	(3,015,798)
Interest and investment earnings	_	569,020	373,759
Net cash provided by investing activities	_	750,085	2,108,806
Net decrease in cash and cash equivalents		(315,530)	(2,338,306)
Cash and cash equivalents (unrestricted and restricted), beginning of year	_	1,156,301	3,494,607
Cash and cash equivalents (unrestricted and restricted), end of year	\$ _	840,771	1,156,301
Reconciliation of cash and cash equivalents to statement of financial position:			
Cash and cash equivalents	\$	840,771	1,156,301
Total cash and cash equivalents	\$	840,771	1,156,301
	=		

Continued on next page

#### San Lorenzo Valley Water District Statements of Cash Flows (Continued) For the Year Ended June 30, 2007 and 2006

		2007	2006
Reconciliation of operating loss to net cash used by operating activities:	_		
Operating loss	\$_	(1,477,319)	(992,170)
Adjustments to reconcile operating loss to net cash used by			
operating activities:			
Deprecation and amortization		1,045,232	916,807
Other non-operating expenses, net		-	27,820
Changes in assets and liabilities:			
(Increase)Decrease in assets:			
Accounts receivable		(205,382)	(23,141)
Materials and supplies inventory		(46,537)	(23,732)
Prepaid expenses and other deposits		(103)	1,663
Increase(Decrease) in liabilities:			
Accounts payable and accrued expenses		179,990	3,167
Accrued salaries and wages		40,455	41,379
Accrued compensated absences		793	12,526
Other liabilities	_	26,162	13,310
Total adjustments	_	1,040,610	969,799
Net cash used by operating activities	\$ _	(436,709)	(22,371)

#### (1) Reporting Entity and Summary of Significant Accounting Policies

#### A. Organization and Operations of the Reporting Entity

The San Lorenzo Valley Water District is an independent special district established in 1941, pursuant to Section 30,000 et seq. of the California Water Code for the purpose of developing and providing water for domestic use, fire protection, and recreation in the San Lorenzo Valley. Additionally, the District provides sewer service to the Bear Creek Estates area within the District. The District utilizes separate Water and a Sewer funds to account for District operations. The District is governed by a five member Board of Directors elected by the voters in the area to four-year terms. The District provides water and sewer service to approximately 5,951 customers within its service area.

#### **B.** Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water and sewer services to its customers on a continuing basis be financed or recovered primarily through user charges (water and sewer service fees). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues, such as water and sewer fees, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

The District recognizes revenue from water and sewer service charges based on cycle billings preformed every month. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period.

#### C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

#### (1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

#### **C.** Financial Reporting (Continued)

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

#### D. Assets, Liabilities and Net Assets

#### 1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period.

#### 2. Cash and Cash Equivalents

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

#### 3. Investments and Investment Policy

The District has adopted an investment policy directing the District Manager to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

#### 4. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable and if it is determined that they are uncollectible they are written off as a bad debt expense. A charge of \$2,702 and \$1,214 was made to bad debt expense for the fiscal years ended June 30, 2007 and 2006, respectively.

#### 5. Property Taxes and Assessments

The Santa Cruz County Assessor's Office assesses all real and personal property within the County each year. The Santa Cruz Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The Santa Cruz County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

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

Lien date January 1 Levy date March 1

Due dates

November 1 and February 1
Collection dates

December 10 and April 10

#### (1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Net Assets (Continued)

#### 6. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

#### 7. Inventory

Inventory consists primarily of materials used in construction and maintenance of the water and sewer system and is stated at cost using the average-cost method.

#### 8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$500. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

#### 9. Deferred Charges

Bond issuance costs are deferred and amortized using the straight-line method based on the term of the related debt service. Bond issuance costs were \$299,352 and \$324,603, net of accumulated amortization of \$128,252 and \$103,730 at June 30, 2007 and 2006, respectively.

#### 10. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation and sick leave. The liability for vested vacation and sick leave is recorded as an expense when earned.

Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave except for those employees that have not completed the probationary period.

#### 11. Construction Advances and Deposits

Construction deposits are collected by the District to cover the cost of construction projects within the District. Funds in excess of project costs are refunded to the customer.

#### 12. Prepaid Connection Fees

Connection fees are collected by the District to cover the cost of service connections within the District. Funds in excess of connection costs are refunded to the customer.

#### 13. Water and Sewer Sales

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

#### (1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Net Assets (Continued)

#### 14. Capital Contributions

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

#### 15. Budgetary Policies

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

#### 16. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- Restricted Net Assets This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets This component of net assets consists of net assets that do not meet the definition of restricted or net investment in capital assets.

#### (2) Cash and Investments

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

	_	2007	2006
Cash and cash equivalents	\$	840,771	1,156,301
Investments		11,521,727	9,549,750
Restricted investments	_	908,487	1,373,473
Total Cash and Investments	\$_	13,270,985	12,079,524

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

	_	2007	2006
Cash on hand	\$	200	200
Deposits with financial institutions		300,743	65,703
Investments	_	12,970,042	12,013,621
Total cash and investments	\$ _	13,270,985	12,079,524

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

		Maximum	Maximum
Authorized	Maximum	Percentage	Investment
Investment Type	Maturity	Of Portfolio *	in One Issuer
U.S. Treasury Obligations	7 years	None	None
U.S. Agency Securities	7 years	50%	None
Certificates of Deposit	7 years	50%	\$100,000
Local Agency Investment Fund (LAIF)	N/A	None	\$100,000
Savings Accounts	N/A	50%	\$100,000

<sup>\*</sup> Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

#### (2) Cash and Investments, continued

#### Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District had deposits with bank balances of \$324,284 and \$121,555 as of June 30, 2007 and 2006, respectively. Of the bank balances, up to \$100,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

#### Investment in State Investment Pool

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

#### (2) Cash and Investments, continued

#### Interest Rate Risk

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

Maturities of investments at June 30, 2007 are as follows:

Investment Type	_	Total	12 Months Or Less	13 to 24 Months	25-60 Months	61-120 Months
U.S. Treasury bills	\$	4,446,453	695,079	2,504,866	1,246,508	-
Federal Home Loan Bank		494,530	-	-	494,530	-
Federal Farm Credit Bank		98,969	-	-	98,969	-
Federal Home Loan Mortgage Corporation		1,348,060	1,278,381	-	69,679	-
Federal National Mortgage Association		3,422,951	927,026	434,111	2,061,814	-
Certificates of Deposit		3,013,675	173,776	651,315	2,094,061	94,523
Local Agency Investment Fund (LAIF)		46,944	46,944	-	-	-
County of Santa Cruz Pool		31,903	31,903	-	-	-
Money market funds		41,057	41,057	-	-	-
Held by bond trustee:						
Money market funds	_	25,500	25,500			
Total	\$	12,970,042	3,219,666	3,590,292	6,065,561	94,523

Maturities of investments at June 30, 2006 are as follows:

,				Remaining Matur	rity (in Months)	(in Months)		
Investment Type	_	Total	12 Months Or Less	13 to 24 Months	25-60 Months	61-120 Months		
U.S. Treasury bills	\$	3,386,810	736,088	679,630	1,971,092	-		
Federal Home Loan Bank		1,193,256	-	-	1,193,256	-		
Federal Farm Credit Bank		97,844	-	-	97,844	-		
Federal Home Loan Mortgage Corporation		1,247,428	-	1,247,428	-	-		
Federal National Mortgage Association		3,375,874	-	928,469	2,447,405	-		
Certificates of Deposit		2,037,628	74,731	270,317	1,692,580	-		
Local Agency Investment Fund (LAIF)		610,271	610,271	-	-	-		
County of Santa Cruz Pool		31,903	31,903	-	-	-		
Money market funds		7,107	7,107	-	-	-		
Held by bond trustee:								
Money market funds	_	25,500	25,500					
Total	\$_	12,013,621	1,485,600	3,125,844	7,402,177			

#### (2) Cash and Investments, continued

#### Credit Risk

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

Credit ratings of investments as of June 30, 2007, were as follows:

			Minimum		Exempt	Rating as of	Year End
Investment Types		Total	Legal Rating		From Disclosure	AAA	Not Rated
U.S. Treasury bills	\$	4,446,453	N/A	\$	4,446,453	-	-
Federal Home Loan Bank		494,530	AAA		-	494,530	-
Federal Farm Credit Bank		98,969	AAA		-	98,969	-
Federal Home Loan Mortgage Corporation		1,348,060	AAA		-	1,348,060	-
Federal National Mortgage Association		3,422,951	AAA		-	3,422,951	-
Certificates of Deposit		3,013,675	AAA		-	3,013,675	-
Local Agency Investment Fund (LAIF)		46,944	N/A		-	-	46,944
County of Santa Cruz Pool		31,903	AAA		-	31,903	-
Money market funds		41,057	N/A		41,057	-	-
Held by bond trustee:							
Money market funds	_	25,500	N/A	_	25,500		
Total	\$	12,970,042		\$	4,513,010	8,410,088	46,944

Credit ratings of investments as of June 30, 2006, were as follows:

		Minimum		Exempt		Rating as of Year End	
Investment Types		Total	Legal Rating		From Disclosure	AAA	Not Rated
U.S. Treasury bills	\$	3,386,810	N/A	\$	3,386,810	-	-
Federal Home Loan Bank		1,193,256	AAA		-	1,193,256	-
Federal Farm Credit Bank		97,844	AAA		-	97,844	-
Federal Home Loan Mortgage Corporation		1,247,428	AAA		-	1,247,428	-
Federal National Mortgage Association		3,375,874	AAA		-	3,375,874	-
Certificates of Deposit		2,037,628	AAA		-	2,037,628	-
Local Agency Investment Fund (LAIF)		610,271	N/A		-	-	610,271
County of Santa Cruz Pool		31,903	AAA		-	31,903	-
Money market funds		7,107	N/A		7,107	-	-
Held by bond trustee:							
Money market funds	_	25,500	N/A	_	25,500		-
Total	\$	12,013,621		\$	3,419,417	7,983,933	610,271

#### Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

#### (3) Deferred Charges

Changes in Deferred Charges were as follows:

		Balance			Balance
	_	2006	Additions	Amortization	2007
1999 Limited Obligation Improvement					
Refunding Bonds	\$	77,414	-	(7,740)	69,674
California Safe Drinking Water Loan		110,072	-	(7,000)	103,072
California Safe Drinking Water Loan		25,117	-	(2,511)	22,606
1998 Certificates of Participation	_	112,000		(8,000)	104,000
	\$	324,603		(25,251)	299,352

#### (4) Capital Assets

Changes in capital assets for the year were as follows:

	_	Balance 2006	Additions/ Transfers	Deletions/ Transfers	Balance 2007
Non-depreciable assets:					
Land	\$	3,493,835	14,595	-	3,508,430
Construction-in-process	_	223,164		(180,538)	42,626
Total non-depreciable assets	_	3,716,999	14,595	(180,538)	3,551,056
Depreciable assets:					
Water transmission and distribution system		23,548,816	567,477	-	24,116,293
Wastewater system		1,477,608	-	-	1,477,608
Buildings		2,620,813	-	-	2,620,813
Transportation equipment		560,947	88,881	(48,612)	601,216
Field and shop equipment		505,339	18,957	-	524,296
Office equipment	_	638,836	8,381	(1,043)	646,174
Total depreciable assets	-	29,352,359	683,696	(49,655)	29,986,400
Accumulated depreciation and amortization:					
Water transmission and distribution system		(9,524,492)	(723,543)	-	(10,248,035)
Wastewater system		(574,904)	(41,773)	-	(616,677)
Buildings		(490,330)	(134,493)	-	(624,823)
Transportation equipment		(440,119)	(51,425)	48,612	(442,932)
Field and shop equipment		(342,615)	(30,701)	-	(373,316)
Office equipment	_	(407,269)	(38,046)	504	(444,811)
Total accum depr. and amort.	_	(11,779,729)	(1,019,981)	49,116	(12,750,594)
Total depreciable assets, net	_	17,572,630	(336,285)	(539)	17,235,806
Total capital assets, net	\$ _	21,289,629	(321,690)	(181,077)	20,786,862

Changes to capital assets in 2007 consisted primarily of upgrades to the water transmission and distribution system of \$567,447 and additions to equipment of \$107,838.

#### (4) Capital Assets, continued

Changes in capital assets for the year were as follows:

	_	Balance 2005	Additions/ Transfers	Deletions/ Transfers	Balance 2006
Non-depreciable assets:					
Land	\$	1,086,984	2,406,851	-	3,493,835
Construction-in-process	=	1,449,348	533,165	(1,759,349)	223,164
Total non-depreciable assets	_	2,536,332	2,940,016	(1,759,349)	3,716,999
Depreciable assets:					
Water transmission and distribution system		22,215,022	1,333,794	-	23,548,816
Wastewater system		1,252,032	225,576	-	1,477,608
Buildings		1,732,997	887,816	-	2,620,813
Transportation equipment		533,446	39,496	(11,995)	560,947
Field and shop equipment		496,412	8,927	-	505,339
Office equipment	=	631,205	7,631		638,836
Total depreciable assets	_	26,861,114	2,503,240	(11,995)	29,352,359
Accumulated depreciation and amortization:					
Water transmission and distribution system		(8,839,947)	(684,545)	-	(9,524,492)
Wastewater system		(540,651)	(34,253)	-	(574,904)
Buildings		(438,073)	(52,257)	-	(490,330)
Transportation equipment		(407,779)	(44,335)	11,995	(440,119)
Field and shop equipment		(313,748)	(28,867)	-	(342,615)
Office equipment	_	(362,630)	(44,639)		(407,269)
Total accum depr. and amort.	_	(10,902,828)	(888,896)	11,995	(11,779,729)
Total depreciable assets, net	_	15,958,286	1,614,344		17,572,630
Total capital assets, net	\$ _	18,494,618	4,554,360	(1,759,349)	21,289,629

Changes to capital assets in 2006 consisted primarily of the purchase of land for \$1,750,000 and land to be utilized for District offices for \$1,500,000, and upgrades to the water transmission and distribution system for \$1,333,794.

#### Construction-In-Process

The District has been involved in various construction projects throughout the year. The balance of construction-in-process at June 30, 2007 and 2006 are \$42,626 and \$223,164, respectively.

#### (5) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30, were as follows:

_	Balance 2006	Earned	Taken	Balance 2007	Due Within One Year
\$_	287,338	196,689	(195,896)	288,131	288,131
_	Balance 2005	<b>Earned</b>	Taken	Balance 2006	Due Within One Year
\$_	274,812	187,474	(174,948)	287,338	287,338

#### (6) Long-Term Debt

Changes in long-term debt amounts for the year ended June 30, 2007 were as follows:

Long-term debt:		Balance 2006	Additions	Principal Payments	Balance 2007	Current Portion	Long-term Portion
1999 Refunding bonds	\$	865,000		(70,000)	795.000	75.000	720,000
1997 Certificates of participation, series EE	φ	150,000	-	(15,000)	135,000	20,000	115,000
California safe drinking water loan		2,519,857	-	(135,832)	2,384,025	140,493	2,243,532
California safe drinking water refunding loan		676,377	-	(55,514)	620,863	57,949	562,914
1998 Certificates of participation		2,082,204	-	(122,816)	1,959,388	128,198	1,831,190
Malosky creek loan		1,750,000	-	(40,660)	1,709,340	84,242	1,625,098
Johnson building loan	_	1,464,870		(72,729)	1,392,141	76,150	1,315,991
Total long-term debt	\$	9,508,308		(512,551)	8,995,757	582,032	8,413,725

#### 1999 Limited Obligation Improvement Refunding Bonds

Original issuance of North Boulder Creek Assessment District Bonds within the District's water system. Bonds were originally issued under the State of California's 1915 Bond Act/Refunding Act of 1984, which are payable through special assessments on property tax bills that cover the assessment area. In 1999, the District issued Limited Obligation Improvement Refunding Bonds for the purpose of refunding and redeeming the North Boulder Creek Assessment District Bonds. The bonds bear inertest ranging from 3.75% to 5.20%, with principal and interest payments payable semi-annually on September 2<sup>nd</sup> and March 2<sup>nd</sup>, with final maturity on September 2, 2015.

Fiscal Year		Principal	Interest	Total
2008	\$	75,000	38,410	113,410
2009		75,000	34,773	109,773
2010		80,000	30,936	110,936
2011		85,000	26,811	111,811
2012		90,000	22,413	112,413
2013-2016	_	390,000	41,220	431,220
Total	\$	795,000	194,563	989,563
Less current portion	_	(75,000)		
Total non-current	\$_	720,000		

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

In 1997, the District issued Certificates of Participation for the purpose of purchasing and renovating the District's operations building. The Certificates of Participation bear interest ranging from 4.10% to 6.00%, per annum, with interest only payments due June 1<sup>st</sup> and principal and interest payments due December 1<sup>st</sup>, and a final maturity date of March 1, 2012 with a final principal payment of \$25,000 on that date.

Fiscal Year		Principal	Interest	Total
2008	\$	20,000	7,336	27,336
2009		20,000	6,206	26,206
2010		20,000	5,056	25,056
2011		25,000	3,738	28,738
2012		25,000	2,250	27,250
2013	_	25,000	750	25,750
Total	\$	135,000	25,336	160,336
Less current portion	_	(20,000)		
Total non-current	\$ _	115,000		

#### (6) Long-Term Debt, continued

#### California Safe Drinking Water Loan

California Safe Drinking Water Loan bearing interest at 3.524% per annum with a maturity at October 1, 2020. The District makes semi-annual payments of \$111,725 including principal and interest on April 1<sup>st</sup> and October 1<sup>st</sup> each year.

Fiscal Year		Principal	Interest	Total
2008	\$	140,493	82,958	223,451
2009		145,818	77,632	223,450
2010		150,839	72,612	223,451
2011		156,201	67,249	223,450
2012		161,630	61,820	223,450
2013-2017		899,327	217,384	1,116,711
2018-2021	_	729,718	52,362	782,080
Total	\$	2,384,026	632,017	3,016,043
Less current portion	_	(140,493)		
Total non-current	\$ _	2,243,533		

#### California Safe Drinking Water Refunding Loan

In 2003, the District refinanced this loan through a refunding payment agreement bearing interest at 4.25% per annum with a maturity on June 1, 2016. The District makes semi-annual payments of \$41,860 including principal and interest on June 1<sup>st</sup> and December 1<sup>st</sup> each year.

			•	
Fiscal Year		Principal	Interest	Total
2008	\$	57,949	25,772	83,721
2009		60,439	23,283	83,722
2010		63,035	20,687	83,722
2011		65,741	17,979	83,720
2012		68,565	15,156	83,721
2012-2016	_	305,134	29,882	335,016
Total	\$	620,863	132,759	753,622
Less current portion	_	(57,949)		
Total non-current	\$ =	562,914		

#### (6) Long-Term Debt, continued

#### 1998 Certificates of Participation

In 1998, the District issued Certificates of Participation Bonds for the Water System Improvement Project. The obligation of the District is payable from tax revenues and if and to the extent necessary net revenues. In 2005, the District refinanced the Certificates of Participation through a refunding agreement bearing interest at 4.25% per annum with maturity date of June 1, 2019. The District makes semi-annual payments of \$105,059 including principal and interest on June 1<sup>st</sup> and December 1<sup>st</sup> each year.

Fiscal Year		Principal	Interest	Total
2008	\$	128,198	81,920	210,118
2009		133,705	76,413	210,118
2010		139,448	70,670	210,118
2011		145,437	64,681	210,118
2012		151,684	58,434	210,118
2013-2017		861,926	188,664	1,050,590
2018-2021	_	398,990	21,411	420,401
Total	\$	1,959,388	562,193	2,521,581
Less current portion	_	(128,198)		
Total non-current	\$ _	1,831,190		

#### Malosky Creek Loan

In 2006, the District entered into an agreement to purchase land at a fixed rate of 4.75%, maturing on July 18, 2021. The District will make semi-annual payments of \$82,224 including principal and interest on January 18<sup>th</sup> and July 18<sup>th</sup> each year.

Fiscal Year		Principal	Interest	Total
2008	\$	84,242	80,205	164,447
2009		88,291	76,156	164,447
2010		92,535	71,912	164,447
2011		96,982	67,465	164,447
2012		101,644	62,803	164,447
2013-2017		586,369	235,866	822,236
2018-2022	_	659,275	80,737	740,012
Total	\$	1,709,339	675,145	2,384,484
Less current portion	_	(84,242)		
Total non-current	\$ _	1,625,097		

#### (6) Long-Term Debt, continued

#### Johnson Building Loan

In 2006, the District entered into an agreement to purchase a building and land to be utilized as the future main office of the District with a fixed rate of 4.65%, maturing on December 15, 2020. The District will make semi-annual payments of \$70,005 including principal and interest on June 15<sup>th</sup> and December 15<sup>th</sup> each year.

Fiscal Year		Principal	Interest	Total
2008	\$	76,150	63,859	140,009
2009		79,732	60,278	140,010
2010		83,483	56,527	140,010
2011		87,410	52,600	140,010
2012		91,522	48,488	140,010
2013-2017		526,385	173,666	700,051
2018-2021		447,460	42,571	490,031
Total	\$	1,392,142	497,989	1,890,131
Less current portion	-	(76,150)		
Total non-current	\$	1,315,992		

## (7) Net Investment in Capital Assets

	_	2007	2006
The balance at June 30, consists of the following:			
Capital assets, net	\$	20,786,862	21,289,629
Long-term debt - current portion		(441,629)	(512,704)
Long-term debt	_	(8,554,128)	(8,995,604)
Net investment in capital assets	\$	11,791,105	11,781,321

#### (8) Unrestricted Net Assets

Unrestricted net assets are designeted as follows:	_	2007	2006
Prepaid and inventory related balances	\$	232,382	185,742
Wastewater unrestricted net assets		(205,972)	(202,056)
Capital improvement project reserve		2,500,000	2,500,000
Capital project reserve		435,497	815,200
Equipment replacement reserve		208,621	135,000
Emergency reserve		937,940	880,000
Undesignated	_	8,305,098	7,997,425
Total	\$	12,413,566	12,311,311

#### (9) Defined Benefit Pension Plan

#### Plan Description

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA, 95814.

#### **Funding Policy**

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan 8% of their annual covered salary. The Agency makes these contributions required of Agency employees on their behalf and for their account. Also, the Agency is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for fiscal years 2007, 2006 and 2005 were 6.733%, 6.154% and 0%, respectively. 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. For fiscal years 2007, 2006 and 2005, the Agencies annual contribution was \$98,186, \$86,671 and \$0, respectively, for CalPERS and was equal to the Agencies required and actual contribution for each year. The following table illustrates the Agencies funding obligation for the following years.

#### (10) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District, as a member of the Special District Risk Management Authority (SDRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. SDRMA's purpose is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2007, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions and employment practices liability: Total risk financing limits of \$5 million, combined single limit at \$5 million per occurrence, subject to the following deductibles \$500/\$1,000 per occurrence for third party general liability property damage 50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000, per occurrence, for employment related claims. However, 100% of the obligation will be waived if certain criteria are met.
- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, deductible of \$500 per claim.

#### (10) Risk Management, continued

The District maintains workers' compensation coverage and employer's liability coverage in accordance with the statutory requirements of the State of California.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2007, 2006 and 2005. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2007, 2006 and 2005.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2007, that has effective dates that may impact future financial presentations.

#### Governmental Accounting Standards Board Statement No. 45

In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is expected to have a significant impact on the presentation of the District's financial statements in future years.

#### Governmental Accounting Standards Board Statement No. 48

In September 2006, the GASB issued Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings. This statement also includes disclosure requirements for future revenues that are pledged or sold. This statement is not effective for this District until the fiscal year ended June 30, 2008. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

#### Governmental Accounting Standards Board Statement No. 49

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

#### Governmental Accounting Standards Board Statement No. 50

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25 and 27, to conform with requirements of GASB Statements No. 43 and 45. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

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

#### Governmental Accounting Standards Board Statement No. 51

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

#### (12) Commitments and Contingencies

#### Litigation

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

# **Supplemental Information**

# San Lorenzo Valley Water District Combining Schedule of Net Assets For the Year Ended June 30, 2007

		<b>Enterprise Funds</b>		
Assets		Water Fund	Sewer Fund	Total
Current assets:				
Cash and cash equivalents	\$	836,810	3,961	840,771
Investments		11,521,727	-	11,521,727
Accrued interest receivable		78,071	-	78,071
Accounts receivable – water sales and services, net		251,931	-	251,931
Accounts receivable – property taxes		29,678	-	29,678
Accounts receivable – other		210,271	-	210,271
Due from/to other fund		206,205	(206,205)	-
Materials and supplies inventory		210,852	-	210,852
Prepaid expense and other deposits		21,530		21,530
Total current assets	i	13,367,075	(202,244)	13,164,831
Restricted assets:		009 497		000 407
Investments	•	908,487		908,487
Total restricted assets		908,487		908,487
Non-current assets:		40.005.000	0.50.022	20.505.052
Capital assets, net		19,925,930	860,932	20,786,862
Deferred charges, net		299,352		299,352
Total non-current assets		20,225,282	860,932	21,086,214
Total assets	\$	34,500,844	658,688	35,159,532
Liabilities and Net Assets				
Current liabilities – payable from unrestricted current assets:				
Accounts payable and accrued expenses	\$	327,755	451	328,206
Accrued salaries and wages		40,455	-	40,455
Accrued compensated absences		284,854	3,277	288,131
Customer deposits		160,600	-	160,600
Connection and construction deposits		158,082		158,082
Liabilities payable from unrestricted current assets	·	971,746	3,728	975,474
Liabilities – payable from restricted assets:				
Accrued interest payable		75,143	-	75,143
Long-term debt - current portion	•	582,032		582,032
Liabilities payable from restricted assets	•	657,175		657,175
Total current liabilities	,	1,628,921	3,728	1,632,649
Non-current liabilities:				
Long-term debt	,	8,413,725		8,413,725
Total non-current liabilities	•	8,413,725		8,413,725
Total liabilities		10,042,646	3,728	10,046,374
Net assets:				
Net investment in capital assets		10,930,173	860,932	11,791,105
Restricted for debt service		908,487	-	908,487
Unrestricted	•	12,619,538	(205,972)	12,413,566
Total net assets	,	24,458,198	654,960	25,113,158
Total liabilities and net assets	\$	34,500,844	658,688	35,159,532

## San Lorenzo Valley Water District Combining Schedule of Net Assets For the Year Ended June 30, 2006

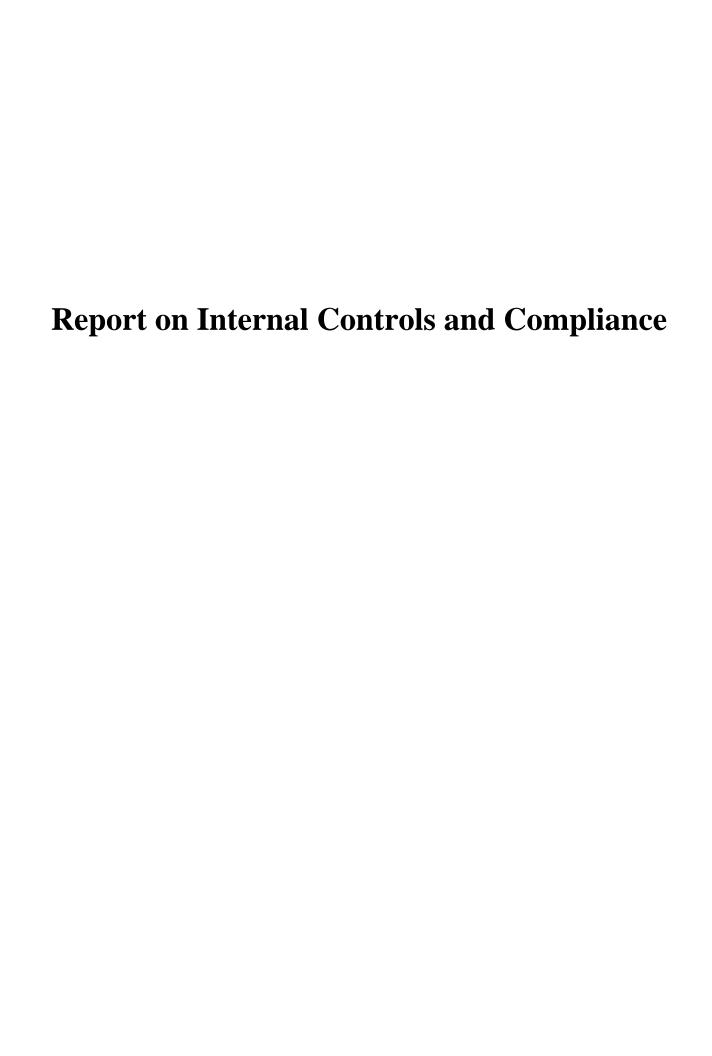
		Enterprise Funds		
Assets		Water Fund	Sewer Fund	Total
Current assets:				
Cash and cash equivalents	\$	1,152,362	3,939	1,156,301
Investments		9,549,750	-	9,549,750
Accrued interest receivable		83,042	-	83,042
Accounts receivable - water sales and services, net		252,082	-	252,082
Accounts receivable - property taxes		29,471	-	29,471
Accounts receivable - other		1,754,945	-	1,754,945
Due from/to other fund		203,206	(203,206)	-
Materials and supplies inventory		164,315		164,315
Total current assets		13,189,173	(199,267)	12,989,906
Restricted assets:				
Investments		1,373,473		1,373,473
Total restricted assets		1,373,473		1,373,473
Non-current assets:				
Capital assets, net		20,386,925	902,704	21,289,629
Deferred charges, net		346,030		346,030
Total non-current assets		20,732,955	902,704	21,635,659
Total assets	\$	35,295,601	703,437	35,999,038
Liabilities and Net Assets	_			
Current liabilities – payable from unrestricted current assets:				
Accounts payable and accrued expenses	\$	148,216	-	148,216
Accrued salaries and wages		41,379	-	41,379
Compensated absences		284,549	2,789	287,338
Customer deposits		318,919	-	318,919
Connection and construction deposits		153,591		153,591
Liabilities payable from unrestricted current assets		946,654	2,789	949,443
Liabilities – payable from restricted assets:				
Accrued interest payable		75,182	-	75,182
Long-term debt - current portion		512,704		512,704
Liabilities payable from restricted assets		587,886		587,886
Total current liabilities		1,534,540	2,789	1,537,329
Non-current liabilities:				
Long-term debt		8,995,604		8,995,604
Total non-current liabilities		8,995,604		8,995,604
Total liabilities		10,530,144	2,789	10,532,933
Net assets:				
Net investment in capital assets		10,878,617	902,704	11,781,321
Restricted for debt service		1,373,473	-	1,373,473
Unrestricted		12,513,367	(202,056)	12,311,311
Total net assets		24,765,457	700,648	25,466,105
Total liabilities and net assets	\$	35,295,601	703,437	35,999,038

# San Lorenzo Valley Water District Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets For the Year Ended June 30, 2007

		Enterpri		
		Water Fund	Sewer Fund	Total
Operating revenues:				
Water consumption sales	\$	2,999,615	_	2,999,615
Wastewater service	_	-	46,200	46,200
Assessments		127,281	-	127,281
Meter sales		70,542	-	70,542
Charges and penalties		36,780	-	36,780
Other charges and services		247,118	21_	247,139
Total operating revenues		3,481,336	46,221	3,527,557
Operating expenses:				
Salaries and benfits		2,408,760	17,428	2,426,188
Professional services		506,195	12,500	518,695
Materials and supplies		200,677	1,812	202,489
Utilities and telephone		325,504	8,160	333,664
Insurance		52,863	484	53,347
Election Fees		20,500	-	20,500
LAFCO fees		9,072	-	9,072
Vehicle and equipment maintenance		81,521	688	82,209
Building maintenance		17,272	533	17,805
Repairs		171,298	-	171,298
Collections fees and charges		3,210	-	3,210
Travel, meals and conferences		8,314	-	8,314
Auto allowance		4,200	-	4,200
Office expenses		44,146	335	44,481
Rental and permits		12,985	3,998	16,983
Miscellaneous		42,989	4,200	47,189
Total operating expenses		3,909,506	50,138	3,959,644
Operating income before depreciation and amortization		(428,170)	(3,917)	(432,087)
Depreciation and amortization		(1,003,460)	(41,772)	(1,045,232)
Operating loss	\$	(1,431,630)	(45,689)	(1,477,319)
Non-operating revenue(expense)				
Property taxes	\$	474,231	-	474,231
Interest and investment earnings		564,049	-	564,049
Rental revenue		21,502	-	21,502
Interest expense – long-term debt		(362,406)	-	(362,406)
Gain (loss) on disposition of capital assets		(599)	-	(599)
Gain (loss) on investments		137,855		137,855
Total non-operating revenues, net		834,632		834,632
Net loss before capital contributions		(596,998)	(45,689)	(642,687)
Capital contributions:				
Developers and others		289,740		289,740
Capital contributions		289,740		289,740
Change in net assets		(307,258)	(45,689)	(352,947)
Net assets, beginning of year		24,765,456	700,649	25,466,105
Net assets, end of year	\$	24,458,198	654,960	25,113,158

# San Lorenzo Valley Water District Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets For the Year Ended June 30, 2007

Operating revenues:         Water consumption sales         \$ 2,849,697         \$ 2,849,697         \$ 2,849,697         \$ 2,849,697         \$ 2,849,697         \$ 2,849,697         \$ 2,849,697         \$ 2,849,697         \$ 2,849,697         \$ 345,906         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,322         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 22,527,520         \$ 2		<b>Enterprise Funds</b>			
Water consumption sales         \$ 2,849,697         - 2,849,697           Wastewater service         45,006         45,006           Assessments         136,916         - 3         136,916           Meter sales         52,359         - 3         23,539           Charges and penalties         34,695         - 34,695         - 34,695           Other charges and services         19,902         2,732         22,634           Total operating expenses:         - 30,093,569         48,638         3,142,207           Operating expenses:         - 20,16,24         14,828         2,076,452           Professional services         241,938         10,812         252,750           Materials and supplies         153,421         2,551         25,750           Materials and supplies         153,421         2,551         25,878           Insurance         49,611         464         50,075         25,893           Insurance         75,670         692         76,362         28,978           Insurance         75,670         692         76,362         28,076         42,007         42,007         42,00         42,00         42,00         42,00         42,00         42,00         42,00         42,00		-	Water Fund	Sewer Fund	Total
Water consumption sales         \$ 2,849,697         - 2,849,697           Wastewater service         45,006         45,006           Assessments         136,916         - 3         136,916           Meter sales         52,359         - 3         23,539           Charges and penalties         34,695         - 34,695         - 34,695           Other charges and services         19,902         2,732         22,634           Total operating expenses:         - 30,093,569         48,638         3,142,207           Operating expenses:         - 20,16,24         14,828         2,076,452           Professional services         241,938         10,812         252,750           Materials and supplies         153,421         2,551         25,750           Materials and supplies         153,421         2,551         25,878           Insurance         49,611         464         50,075         25,893           Insurance         75,670         692         76,362         28,978           Insurance         75,670         692         76,362         28,076         42,007         42,007         42,00         42,00         42,00         42,00         42,00         42,00         42,00         42,00	Operating revenues:	_	<u>.                                      </u>		
Wastewater service         -         45,906         45,906           Assessments         136,916         -         136,916           Meter sales         52,359         -         52,359           Charges and penalties         34,695         -         34,695           Other charges and services         19,902         2732         22,634           Total operating revenues         2,061,624         14,828         2,076,452           Professional services         241,938         10,812         252,750           Materials and supplies         153,421         2,551         155,972           Utilities and telephone         253,113         5,865         258,978           Insurance         49,611         444         50,075           LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Tavel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Collections fees and		\$	2.849.697	_	2 849 697
Assessments         136,916         -         136,916           Meter sales         52,359         -         52,359           Charges and penalties         34,695         -         32,595           Other charges and services         19,902         2,732         22,634           Total operating revenues         3,093,569         48,638         3,142,207           Operating expenses:         2         1,148,28         2,076,452           Professional services         241,938         10,812         252,750           Materials and benefits         2,061,624         14,828         2,076,452           Professional services         241,938         10,812         252,750           Materials and supplies         153,421         2,551         155,972           Utilities and telephone         253,113         5,865         258,978           Insurance         49,611         464         50,075           LAFCO fees         5,193         -         5,193           Utilities and telephone         245,911         180         24,771           Repairs         184         4         180,075           LAFCO fees         5,193         -         1,912           Utilities and equipme	-	Ψ	-	45.906	
Meter sales         52,359         -         \$34,695           Charges and penalties         34,695         -         \$34,695           Other charges and services         119,902         2,732         22,634           Total operating revenues         3,093,569         48,638         3,142,207           Operating expenses:         8         3,045,207         3,045,207           Salaries and benefits         2,061,624         14,828         2,076,452           Professional services         241,938         10,812         252,750           Materials and supplies         153,421         2,551         155,972           Utilities and telephone         253,113         5,865         25,879           Insurance         49,611         464         50,075           LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         24,591         180         24,711           Repairs         184,694         -         1,492         -         1,492           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -			136.916	-	
Charges and penalties         34,695         -         34,695           Other charges and services         19,902         2,732         22,634           Total operating revenues         3,093,569         48,638         3,142,207           Operating expenses:         3,093,569         48,638         3,142,207           Operating expenses:         2         2,061,624         14,828         2,076,452           Professional services         241,938         10,812         252,759           Materials and supplies         153,421         2,551         155,972           Utilities and telephone         253,113         5,865         258,978           Insurance         49,611         464         50,075           LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         75,670         692         76,362           Building maintenance         184,691         1         24,771           Repairs         184,694         -         1,492           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         4,004         -         4,200           Office expenses         4,0465         3,421 <t< td=""><td></td><td></td><td></td><td>_</td><td></td></t<>				_	
Other charges and services         19,902         2,732         22,634           Total operating revenues         3,093,569         48,638         3,142,207           Operating expenses:         8         3,043,569         48,638         3,142,207           Salaries and benefits         2,061,624         14,828         2,076,452           Professional services         241,938         10,812         252,750           Materials and supplies         153,421         2,551         155,972           Utilities and telephone         253,113         5,865         258,978           Insurance         49,611         464         50,075           LAPCO fees         5,193         -         5,193           Vehicle and equipment maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         4,200         4,200           Office expenses         3,171,786         45,784         3,217,570           Operating los         3,171,786         45,784				_	
Salaries and benefits	- ·			2,732	
Salaries and benefits         2,061,624         14,828         2,076,452           Professional services         241,938         10,812         252,750           Materials and supplies         153,421         2,551         155,972           Utilities and telephone         253,113         5,865         258,978           Insurance         49,611         464         50,075           LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating los         \$ (960,771)         (31,399)         (992,170)	Total operating revenues	-	3,093,569	48,638	3,142,207
Salaries and benefits         2,061,624         14,828         2,076,452           Professional services         241,938         10,812         252,750           Materials and supplies         153,421         2,551         155,972           Utilities and telephone         253,113         5,865         258,978           Insurance         49,611         464         50,075           LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating los         \$ (960,771)         (31,399)         (992,170)	Operating expenses:	-	_		
Professional services         241,938         10,812         252,750           Materials and supplies         153,421         2,551         155,972           Utilities and telephone         253,113         5,865         258,978           Insurance         49,611         464         50,075           LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         75,670         692         76,362           Building maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (882,554)         (34,253)         (916,807) </td <td></td> <td></td> <td>2.061.624</td> <td>14.828</td> <td>2.076.452</td>			2.061.624	14.828	2.076.452
Materials and supplies         153,421         2,551         155,972           Utilities and telephone         253,113         5,865         288,978           Insurance         49,611         464         50,075           LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         75,670         692         76,362           Building maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         45,784         3,217,570           Operating expenses         3,171,786         45,784         3,217,570           Operating loss         \$ (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         \$ (360,087)         (30,087)         (30,087)					
Utilities and telephone         253,113         5,865         258,978           Insurance         49,611         464         50,075           LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         75,670         692         76,362           Building maintenance         24,591         180         24,771           Repairs         184,694         -         1,492           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating revenue(expense)         \$ 132,169         -         132,169           Interest and investment earnings         361,399         -         361	Materials and supplies				
Insurance         49,611         464         50,075           LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         75,670         692         76,362           Building maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating fevenue(expense)         \$ (960,771)         3(3,399)         (992,170)           Non-operating revenue(expense)         \$ (32,39)         -         361,399           Rental revenue         30,297         -         30,2					
LAFCO fees         5,193         -         5,193           Vehicle and equipment maintenance         75,670         692         76,362           Building maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         42,000         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (96,807)           Operating loss         \$ (960,771)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (99,2170)           Non-operating revenue(expense)         \$ (32,200) <td>-</td> <td></td> <td></td> <td></td> <td></td>	-				
Vehicle and equipment maintenance         75,670         692         76,362           Building maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating revenue(expense)         *         960,771)         31,399         992,170           Non-operating revenue(expense)         *         132,169         -         132,169           Interest and investment earnings         361,399         -         361,399 <t< td=""><td></td><td></td><td></td><td></td><td></td></t<>					
Building maintenance         24,591         180         24,771           Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Operating process         \$ (960,771)         3(1,399)         (992,170)           Non-operating revenue(expense)         \$ (32,169)         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense - long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         <				692	
Repairs         184,694         -         184,694           Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         132,169         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets <td>• •</td> <td></td> <td></td> <td>180</td> <td></td>	• •			180	
Collections fees and charges         1,492         -         1,492           Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         \$ (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         \$ (360,784)         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense - long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -         -           <	•			-	,
Travel, meals and conferences         9,404         -         9,404           Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         \$ (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         \$ (32,169)         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006				-	
Auto allowance         4,200         -         4,200           Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         \$ (960,771)         313,999         (992,170)           Non-operating revenue(expense)         \$ 132,169         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)				_	
Office expenses         40,465         3,421         43,886           Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         ***	· · · · · · · · · · · · · · · · · · ·			-	
Rental and permits         13,801         2,471         16,272           Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         \$ (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         Property taxes         \$ 132,169         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions         68,749	Office expenses			3,421	
Miscellaneous         52,569         4,500         57,069           Total operating expenses         3,171,786         45,784         3,217,570           Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         ***         132,169         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions         68,749         -         68,749           Capital contributions         68,749         -	-				
Operating income before depreciation and amortization         (78,217)         2,854         (75,363)           Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         3132,169         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions         68,749         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,04	•				
Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         \$ (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         \$ 132,169         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions:         (85,749)         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520	Total operating expenses	-	3,171,786	45,784	3,217,570
Depreciation and amortization         (882,554)         (34,253)         (916,807)           Operating loss         \$ (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         \$ 132,169         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions:         (85,749)         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520	Operating income before depreciation and amortization		(78.217)	2.854	(75,363)
Operating loss         \$ (960,771)         (31,399)         (992,170)           Non-operating revenue(expense)         \$ 132,169         - 132,169           Property taxes         \$ 132,169         - 361,399           Interest and investment earnings         361,399         - 30,297           Rental revenue         30,297         - 30,297           Interest expense – long-term debt         (305,088)         - (305,088)           Gain (loss) on disposition of capital assets             Gain (loss) on investments         (181,771)         - (181,771)           Total non-operating revenues, net         37,006         - 37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions:         68,749         - 68,749         - 68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520	· · ·				
Non-operating revenue(expense)         \$ 132,169         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions:         68,749         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520		\$			
Property taxes         \$ 132,169         -         132,169           Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions:         68,749         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520	Non-operating revenue(expense)	-			
Interest and investment earnings         361,399         -         361,399           Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions:         -         68,749         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520		\$	132.169	_	132,169
Rental revenue         30,297         -         30,297           Interest expense – long-term debt         (305,088)         -         (305,088)           Gain (loss) on disposition of capital assets         -         -         -           Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions:         68,749         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520		Ψ		_	
Interest expense – long-term debt       (305,088)       -       (305,088)         Gain (loss) on disposition of capital assets       -       -       -         Gain (loss) on investments       (181,771)       -       (181,771)         Total non-operating revenues, net       37,006       -       37,006         Net loss before capital contributions       (923,765)       (31,399)       (955,164)         Capital contributions:       68,749       -       68,749         Capital contributions       68,749       -       68,749         Change in net assets       (855,016)       (31,399)       (886,415)         Net assets, beginning of year       25,620,472       732,048       26,352,520				_	
Gain (loss) on disposition of capital assets       -       37,006       -       37,006       -       37,006       -       -       37,006       -       <	Interest expense – long-term debt			_	
Gain (loss) on investments         (181,771)         -         (181,771)           Total non-operating revenues, net         37,006         -         37,006           Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions:         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520	· -		-	-	-
Net loss before capital contributions         (923,765)         (31,399)         (955,164)           Capital contributions:         5         5         68,749         -         68,749           Capital contributions         68,749         -         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520		_	(181,771)		(181,771)
Capital contributions:       68,749       -       68,749         Capital contributions       68,749       -       68,749         Change in net assets       (855,016)       (31,399)       (886,415)         Net assets, beginning of year       25,620,472       732,048       26,352,520	Total non-operating revenues, net	_	37,006		37,006
Developers and others         68,749         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520	Net loss before capital contributions	_	(923,765)	(31,399)	(955,164)
Developers and others         68,749         -         68,749           Capital contributions         68,749         -         68,749           Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520	Capital contributions:	-	<u>-</u>	<del></del>	
Change in net assets         (855,016)         (31,399)         (886,415)           Net assets, beginning of year         25,620,472         732,048         26,352,520	-		68,749	-	68,749
Net assets, beginning of year 25,620,472 732,048 26,352,520	Capital contributions	-			
	Change in net assets	-	(855,016)	(31,399)	(886,415)
Net assets, end of year \$ 24,765,456 700,649 25,466,105	Net assets, beginning of year		25,620,472	732,048	26,352,520
	Net assets, end of year	\$	24,765,456	700,649	25,466,105



# Charles Z. Fedak, CPA, MBA Paul J. Kaymark, CPA

# Charles Z. Fedak & Company

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An Accountancy Corporation

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

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

We have audited the basic financial statements of the San Lorenzo Valley Water District (District) as of and for the year ended June 30, 2007 and 2006, and have issued our report thereon dated October 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

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

October 29, 2007 Cypress, California Ch TtoU: Committee