

San Lorenzo Valley Water District
Annual Financial Report
June 30, 2008 and 2007



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, 2008

Name	Title	Elected/ Appointed	Current Term
Terry Vierra	President	Elected	12/2006 - 12/2010
Fred McPherson	Vice President	Appointed	12/2006 - 12/2008
James Nelson	Director	Elected	12/2004 - 12/2008
Larry Prather	Director	Elected	12/2006 - 12/2010
James Rapoza	Director	Elected	12/2006 - 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, 2008 and 2007

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Introductory Section



October 20, 2008

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, 2008, 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 24 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 approximately 5,950 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 cautious growth due to the prolonged decline in the real estate market, which is projected to continue through 2009.

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 to the community on District and water issues.
6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

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

Internal Control Structure

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

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 are 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 \$240 bi-monthly fixed charge effective June 1, 2008.

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 Toilet 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

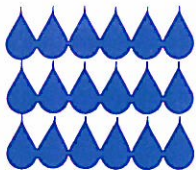
Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance Committee members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

Respectfully submitted,

James Mueller
District Manager

Karen Alvarez
Finance Manager

Financial Section



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

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 years ended June 30, 2008 and 2007, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide 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, 2008 and 2007, and the respective changes in net assets and cash flows for the years 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 20, 2008, 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 audits. 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 audits of the basic financial statements and, accordingly, we express no opinion on it.

October 20, 2008
Cypress, California

Ch. T. Fedak, CPA
An Accountancy Corporation

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

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, 2008 and 2007. 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 increased 1.1% or \$281,043 to \$25,394,201 in 2008. In 2007, the District's net assets decreased 1.4% or (\$352,947) to \$25,113,158.
- The District's operating revenues increased 4.2% or \$138,751 in fiscal year 2008. In 2007, the District's operating revenues increased 12.2% or \$385,350.
- The District's operating expenses increased 12.5% or \$496,386 in 2008. In 2007, the District's operating expenses increased 23.1% or \$742,074.

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, non-capital 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.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

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			
	2008	2007	Change
Assets:			
Current assets	\$ 14,225,434	14,073,318	152,116
Non-current assets	274,100	299,352	(25,252)
Capital assets, net	20,315,311	20,786,862	(471,551)
Total assets	34,814,845	35,159,532	(344,687)
Liabilities:			
Current liabilities	1,393,912	1,416,551	(22,639)
Non-current liabilities	8,026,732	8,629,823	(603,091)
Total liabilities	9,420,644	10,046,374	(625,730)
Net assets:			
Net investment in capital assets	11,901,216	11,791,105	110,111
Restricted for debt service	1,171,630	908,487	263,143
Unrestricted	12,321,355	12,413,566	(92,211)
Total net assets	25,394,201	25,113,158	281,043
Total liabilities and net assets	\$ 34,814,845	35,159,532	(344,687)

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 \$25,394,201 and \$25,113,158 as of June 30, 2008 and 2007, respectively.

By far the largest portion of the District's net assets (47% as of June 30, 2008 and 2007, 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 2008 and 2007, the District showed a positive balance in its unrestricted net assets of \$12,321,355 and \$12,413,566, respectively, which may be utilized in future years.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets			
	2008	2007	Change
Revenues:			
Operating revenues	\$ 3,459,598	3,320,847	138,751
Non-operating revenues	2,311,232	1,404,347	906,885
Total revenues	5,770,830	4,725,194	1,045,636
Expenses:			
Operating expenses	4,456,030	3,959,644	496,386
Depreciation and amortization	947,839	1,045,232	(97,393)
Non-operating expenses	563,488	363,005	200,483
Total expenses	5,967,357	5,367,881	599,476
Net loss before capital contributions	(196,527)	(642,687)	446,160
Capital contributions	477,570	289,740	187,830
Change in net assets	281,043	(352,947)	633,990
Net assets, beginning of year	25,113,158	25,466,105	(352,947)
Net assets, end of year	\$ 25,394,201	25,113,158	281,043

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 increased by \$281,043 and decreased by \$352,947 for the fiscal years ended June 30, 2008 and 2007, respectively.

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

In 2008, the District's total revenues increased by \$1,045,636 due to a \$138,751 increase in operating revenues from increased water service fees and a \$906,885 increase in non-operating revenues related primarily to a legal settlement of \$1,073,977. The settlement provides for upgrades of the District's system and other costs associated with providing service to properties within the Manana Woods subdivision. Additionally, total expenses increased by \$599,476 of which \$456,618 were related to professional services provided to the District.

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.

Capital Asset Administration

At the end of fiscal year 2008 and 2007, the District's investment in capital assets amounted to \$20,315,311 and \$20,786,862, 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.

San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

Capital Asset Administration, continued

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

	Balance 2007	Additions	Transfers/ Deletions	Balance 2008
Capital assets:				
Non-depreciable assets	\$ 3,551,056	-	(42,511)	3,508,545
Depreciable assets	29,986,400	648,219	(636,203)	29,998,416
Accumulated depreciation and amortization	<u>(12,750,594)</u>	<u>(922,587)</u>	<u>481,531</u>	<u>(13,191,650)</u>
Total capital assets, net	<u>\$ 20,786,862</u>	<u>(274,368)</u>	<u>(197,183)</u>	<u>20,315,311</u>
	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	<u>(11,779,729)</u>	<u>(1,019,981)</u>	<u>49,116</u>	<u>(12,750,594)</u>
Total capital assets, net	<u>\$ 21,289,629</u>	<u>(321,690)</u>	<u>(181,077)</u>	<u>20,786,862</u>

Debt Administration

Changes in long-term debt amounts for the year ended June 30, 2008 were as follows:

	Balance 2007	Additions	Principal Payments	Balance 2008
Long-term debt:				
Lease payable	\$ 135,000	-	(20,000)	115,000
Notes payable	6,106,369	-	(358,717)	5,747,652
Bonds payable	795,000	-	(75,000)	720,000
Certificates of participation	<u>1,959,388</u>	<u>-</u>	<u>(127,945)</u>	<u>1,831,443</u>
Total long-term debt	<u>\$ 8,995,757</u>	<u>-</u>	<u>(581,662)</u>	<u>8,414,095</u>

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

	Balance 2006	Additions	Principal Payments	Balance 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	<u>2,082,204</u>	<u>-</u>	<u>(122,816)</u>	<u>1,959,388</u>
Total long-term debt	<u>\$ 9,508,308</u>	<u>-</u>	<u>(512,551)</u>	<u>8,995,757</u>

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, 2008 and 2007

<i>Assets</i>	2008	2007
Current assets:		
Cash and cash equivalents (note 2)	\$ 2,838,022	840,771
Investments (note 2)	9,562,216	11,521,727
Restricted – investments (note 2)	1,171,630	908,487
Accrued interest receivable	100,948	78,071
Accounts receivable – water sales and services, net	269,804	251,931
Accounts receivable – property taxes	25,514	29,678
Accounts receivable – other	5,096	210,271
Materials and supplies inventory	252,204	210,852
Prepaid expenses and other deposits	-	21,530
Total current assets	<u>14,225,434</u>	<u>14,073,318</u>
Non-current assets:		
Deferred charges, net	274,100	299,352
Capital assets, net (note 4)	<u>20,315,311</u>	<u>20,786,862</u>
Total non-current assets	<u>20,589,411</u>	<u>21,086,214</u>
Total assets	<u><u>\$ 34,814,845</u></u>	<u><u>35,159,532</u></u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 359,324	328,206
Accrued wages and related payables	72,213	40,455
Customer deposits	25,047	160,600
Connection and construction deposits	183,528	158,082
Accrued interest payable on long-term debt	78,941	75,143
Long-term liabilities – due within one year:		
Compensated absences (note 5)	71,874	72,033
Long-term debt (note 6)	<u>602,985</u>	<u>582,032</u>
Total current liabilities	<u>1,393,912</u>	<u>1,416,551</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	215,622	216,098
Long-term debt (note 6)	<u>7,811,110</u>	<u>8,413,725</u>
Total non-current liabilities	<u>8,026,732</u>	<u>8,629,823</u>
Total liabilities	<u>9,420,644</u>	<u>10,046,374</u>
Net assets:		
Net investment in capital assets (note 7)	11,901,216	11,791,105
Restricted for debt service	1,171,630	908,487
Unrestricted	<u>12,321,355</u>	<u>12,413,566</u>
Total net assets	<u>25,394,201</u>	<u>25,113,158</u>
Total liabilities and net assets	<u><u>\$ 34,814,845</u></u>	<u><u>35,159,532</u></u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Water consumption sales	\$ 3,188,266	2,999,615
Wastewater service	47,036	46,200
Assessments	125,322	127,281
Meter sales	52,332	70,542
Charges and penalties	37,649	36,780
Other charges and services	8,993	40,429
Total operating revenues	<u>3,459,598</u>	<u>3,320,847</u>
Operating expenses:		
Salaries and benefits	2,519,190	2,426,188
Professional services	975,313	518,695
Materials and supplies	169,372	202,489
Utilities and telephone	382,046	333,664
Insurance	52,296	53,347
Election fees	-	20,500
LAFCO fees	4,938	9,072
Vehicle and equipment maintenance	97,802	82,209
Building maintenance	26,647	17,805
Repairs	76,776	171,298
Collections fees and charges	1,572	3,210
Travel, meals and conferences	8,074	8,314
Auto allowance	4,200	4,200
Office expenses	44,294	44,481
Rental and permits	36,841	16,983
Miscellaneous	56,669	47,189
Total operating expenses	<u>4,456,030</u>	<u>3,959,644</u>
Operating loss before depreciation and amortization	(996,432)	(638,797)
Depreciation and amortization	(947,839)	(1,045,232)
Operating loss	<u>(1,944,271)</u>	<u>(1,684,029)</u>
Non-operating revenue(expense)		
Property taxes	505,233	474,231
Interest and investment earnings	542,345	564,049
Rental revenue	23,186	21,502
Interest expense – long-term debt	(406,676)	(362,406)
Legal settlement	1,073,977	206,710
Gain (loss) on disposition of capital assets	(156,812)	(599)
Gain (loss) on investments	166,491	137,855
Total non-operating revenues, net	<u>1,747,744</u>	<u>1,041,342</u>
Net loss before capital contributions	<u>(196,527)</u>	<u>(642,687)</u>
Capital contributions:		
Developers and others	477,570	289,740
Capital contributions	<u>477,570</u>	<u>289,740</u>
Change in net assets	281,043	(352,947)
Net assets, beginning of year	<u>25,113,158</u>	<u>25,466,105</u>
Net assets, end of year	<u>\$ 25,394,201</u>	<u>25,113,158</u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash receipts from customers for water and wastewater sales and services	\$ 3,651,064	3,322,175
Cash paid to vendors and suppliers for materials and services	(2,888,734)	(2,355,216)
Cash paid to employees for salaries and wages	(1,634,984)	(1,610,378)
Net cash used by operating activities	<u>(872,654)</u>	<u>(643,419)</u>
Cash flows from non-capital financing activities:		
Proceeds from legal settlement	1,280,687	-
Proceeds from property taxes	509,397	474,024
Net cash provided by non-capital financing activities	<u>1,790,084</u>	<u>474,024</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(648,219)	(517,752)
Proceeds from capital contributions	477,570	289,740
Principal paid on long-term debt	(581,662)	(512,551)
Interest paid on long-term debt	(402,877)	(362,367)
Net cash used in capital and related financing activities	<u>(1,155,188)</u>	<u>(1,102,930)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	2,495,000	2,865,250
Purchases of investments	(779,459)	(2,477,475)
Interest and investment earnings	519,468	569,020
Net cash provided by investing activities	<u>2,235,009</u>	<u>956,795</u>
Net increase in cash and cash equivalents	<u>1,997,251</u>	<u>(315,530)</u>
Cash and cash equivalents, beginning of year	<u>840,771</u>	<u>1,156,301</u>
Cash and cash equivalents, end of year	<u>\$ 2,838,022</u>	<u>840,771</u>
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 2,838,022	840,771
Total cash and cash equivalents	<u>\$ 2,838,022</u>	<u>840,771</u>

Continued on next page

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Cash Flows (Continued)
For the Year Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ <u>(1,944,271)</u>	<u>(1,684,029)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:		
Deprecation and amortization	947,839	1,045,232
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable	191,466	(205,382)
Materials and supplies inventory	(41,352)	(46,537)
Prepaid expenses and other deposits	21,530	(103)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	31,118	179,990
Accrued salaries and wages	31,758	40,455
Accrued compensated absences	(635)	793
Other liabilities	<u>(110,107)</u>	<u>26,162</u>
Total adjustments	<u>1,071,617</u>	<u>1,040,610</u>
Net cash used by operating activities	\$ <u><u>(872,654)</u></u>	<u><u>(643,419)</u></u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(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 5,950 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.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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 \$773 and \$2,702 was made to bad debt expense for the fiscal years ended June 30, 2008 and 2007, 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

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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 \$274,100 and \$299,352, net of accumulated amortization of \$153,504 and \$128,252 at June 30, 2008 and 2007, 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.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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*.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(2) Cash and Investments

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

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 2,838,022	840,771
Investments	9,562,216	11,521,727
Restricted – investments	<u>1,171,630</u>	<u>908,487</u>
Total cash and investments	<u>\$ 13,571,868</u>	<u>13,270,985</u>

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

	<u>2008</u>	<u>2007</u>
Cash on hand	\$ 200	200
Deposits with financial institutions	112,002	300,743
Investments	<u>13,459,666</u>	<u>12,970,042</u>
Total cash and investments	<u>\$ 13,571,868</u>	<u>13,270,985</u>

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	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

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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 \$135,723 and \$324,284 as of June 30, 2008 and 2007, 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.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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, 2008 are as follows:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25-60 Months	61-120 Months
U.S. Treasury bills	\$ 3,024,986	1,720,556	776,775	527,655	-
Federal Home Loan Bank	499,220	-	-	499,220	-
Federal Home Loan Mortgage Corporation	1,071,807	-	-	-	1,071,807
Federal National Mortgage Association	1,276,028	-	-	-	1,276,028
Certificates of Deposit	3,900,232	570,727	467,343	2,862,162	-
Local Agency Investment Fund (LAIF)	2,228,816	2,228,816	-	-	-
County of Santa Cruz Pool	31,903	31,903	-	-	-
Money market funds	1,401,174	1,401,174	-	-	-
Held by bond trustee:					
Money market funds	25,500	25,500	-	-	-
Total	\$ 13,459,666	5,978,676	1,244,118	3,889,037	2,347,835

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

Investment Type	Total	Remaining Maturity (in Months)			
		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

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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, 2008, were as follows:

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				AAA	Not Rated
U.S. Treasury bills	\$ 3,024,986	N/A	\$ 3,024,986	-	-
Federal Home Loan Bank	499,220	AAA	-	499,220	-
Federal Home Loan Mortgage Corporation	1,071,807	AAA	-	1,071,807	-
Federal National Mortgage Association	1,276,028	AAA	-	1,276,028	-
Certificates of Deposit	3,900,232	AAA	-	3,900,232	-
Local Agency Investment Fund (LAIF)	2,228,816	N/A	-	-	2,228,816
County of Santa Cruz Pool	31,903	AAA	-	31,903	-
Money market funds	1,401,174	N/A	1,401,174	-	-
Held by bond trustee:					
Money market funds	25,500	N/A	25,500	-	-
Total	\$ 13,459,666		\$ 4,451,660	6,779,190	2,228,816

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

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				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

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.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(3) Deferred Charges

Changes in Deferred Charges were as follows:

	<u>Balance</u> <u>2007</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>2008</u>
1999 Limited Obligation Improvement				
Refunding Bonds	\$ 69,674	-	(7,740)	61,934
California Safe Drinking Water Loan	103,072	-	(7,000)	96,072
California Safe Drinking Water Loan	22,606	-	(2,512)	20,094
1998 Certificates of Participation	104,000	-	(8,000)	96,000
	<u>\$ 299,352</u>	<u>-</u>	<u>(25,252)</u>	<u>274,100</u>

(4) Capital Assets

Changes in capital assets for the year were as follows:

	<u>Balance</u> <u>2007</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>2008</u>
Non-depreciable assets:				
Land	\$ 3,508,430	-	(2,140)	3,506,290
Construction-in-process	42,626	-	(40,371)	2,255
Total non-depreciable assets	<u>3,551,056</u>	<u>-</u>	<u>(42,511)</u>	<u>3,508,545</u>
Depreciable assets:				
Water transmission and distribution system	24,116,293	536,165	(577,549)	24,074,909
Wastewater system	1,477,608	-	-	1,477,608
Buildings	2,620,813	13,965	(4,551)	2,630,227
Transportation equipment	601,216	29,997	-	631,213
Field and shop equipment	524,296	61,669	(1,816)	584,149
Office equipment	646,174	6,423	(52,287)	600,310
Total depreciable assets	<u>29,986,400</u>	<u>648,219</u>	<u>(636,203)</u>	<u>29,998,416</u>
Accumulated depreciation and amortization:				
Water transmission and distribution system	(10,248,035)	(674,745)	426,465	(10,496,315)
Wastewater system	(616,677)	(41,773)	-	(658,450)
Buildings	(624,823)	(84,437)	1,879	(707,381)
Transportation equipment	(442,932)	(53,432)	(768)	(497,132)
Field and shop equipment	(373,316)	(34,104)	1,816	(405,604)
Office equipment	(444,811)	(34,096)	52,139	(426,768)
Total accum depr. and amort.	<u>(12,750,594)</u>	<u>(922,587)</u>	<u>481,531</u>	<u>(13,191,650)</u>
Total depreciable assets, net	<u>17,235,806</u>	<u>(274,368)</u>	<u>(154,672)</u>	<u>16,806,766</u>
Total capital assets, net	<u>\$ 20,786,862</u>	<u>(274,368)</u>	<u>(197,183)</u>	<u>20,315,311</u>

Changes to capital assets in 2008 consisted primarily of upgrades to the water transmission and distribution system of \$536,165 and additions of various other capital assets amounting to \$112,054.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(4) Capital Assets, continued

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.

Construction-In-Process

The District has been involved in various construction projects throughout the year. The balance of construction-in-process at June 30, 2008 and 2007 are \$2,255 and \$42,626, 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 2007	Earned	Taken	Balance 2008	Current Portion	Long-Term Portion
\$ 288,131	215,398	(216,033)	287,496	71,874	215,622
Balance 2006	Earned	Taken	Balance 2007	Current Portion	Long-Term Portion
\$ 287,338	196,689	(195,896)	288,131	72,033	216,098

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(6) Long-Term Debt

Changes in long-term debt amounts for the year ended June 30, 2008 were as follows:

Long-term debt:	Balance 2007	Additions	Principal Payments	Balance 2008	Current Portion	Long-term Portion
1999 Refunding bonds	\$ 795,000	-	(75,000)	720,000	75,000	645,000
1997 Certificates of participation, series EE	135,000	-	(20,000)	115,000	20,000	95,000
California safe drinking water loan	2,384,025	-	(140,492)	2,243,533	145,818	2,097,715
California safe drinking water refunding loan	620,863	-	(57,832)	563,031	60,439	502,592
1998 Certificates of participation	1,959,388	-	(127,945)	1,831,443	133,705	1,697,738
Malosky creek loan	1,709,340	-	(84,243)	1,625,097	88,291	1,536,806
Johnson building loan	1,392,141	-	(76,150)	1,315,991	79,732	1,236,259
Total long-term debt	\$ 8,995,757	-	(581,662)	8,414,095	602,985	7,811,110

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 interest ranging from 3.75% to 5.20%, with principal and interest payments payable semi-annually on September 2nd and March 2nd, with final maturity on September 2, 2015.

Fiscal Year	Principal	Interest	Total
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	90,000	17,845	107,845
2014-2016	300,000	23,375	323,375
Total	\$ 720,000	156,153	876,153
Less current portion	(75,000)		
Total non-current	\$ 645,000		

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 1st and principal and interest payments due December 1st, 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
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	\$ 115,000	18,000	133,000
Less current portion	(20,000)		
Total non-current	\$ 95,000		

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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 1st and October 1st each year.

Fiscal Year	Principal	Interest	Total
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	167,617	55,833	223,450
2014-2018	931,181	185,530	1,116,711
2019-2021	530,247	28,383	558,630
Total	\$ 2,243,533	549,059	2,792,592
Less current portion	(145,818)		
Total non-current	\$ 2,097,715		

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 1st and December 1st each year.

Fiscal Year	Principal	Interest	Total
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
2013	71,510	12,211	83,721
2014-2016	233,741	17,671	251,412
Total	\$ 563,031	106,987	670,018
Less current portion	(60,439)		
Total non-current	\$ 502,592		

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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 1st and December 1st each year.

Fiscal Year	Principal	Interest	Total
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	158,199	51,919	210,118
2014-2018	898,947	151,643	1,050,590
2019-2021	204,023	6,513	210,536
Total	\$ 1,831,443	480,273	2,311,716
Less current portion	(133,705)		
Total non-current	\$ 1,697,738		

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 18th and July 18th each year.

Fiscal Year	Principal	Interest	Total
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	106,529	57,918	164,447
2014-2018	614,553	207,683	822,236
2019-2022	524,562	51,003	575,565
Total	\$ 1,625,097	594,940	2,220,037
Less current portion	(88,291)		
Total non-current	\$ 1,536,805		

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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 15th and December 15th each year.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	95,827	44,183	140,010
2014-2018	551,146	148,905	700,051
2019-2021	326,872	23,149	350,021
Total	\$ 1,315,992	434,130	1,750,122
Less current portion	(79,732)		
Total non-current	\$ 1,236,260		

(7) Net Investment in Capital Assets

Net investment in capital assets:

	<u>2008</u>	<u>2007</u>
The balance at June 30, consists of the following:		
Capital assets, net	\$ 20,315,311	20,786,862
Long-term debt - current portion	(602,985)	(582,032)
Long-term debt	(7,811,110)	(8,413,725)
Net investment in capital assets	\$ 11,901,216	11,791,105

(8) Unrestricted Net Assets

Unrestricted net assets are designated as follows:

	<u>2008</u>	<u>2007</u>
Prepaid and inventory related balances	\$ 252,204	232,382
Wastewater unrestricted net assets	(236,157)	(205,972)
Capital improvement project reserve	2,500,000	2,500,000
Capital project reserve	435,497	435,497
Equipment replacement reserve	208,621	208,621
Emergency reserve	937,940	937,940
Undesignated	8,223,250	8,305,098
Total	\$ 12,321,355	12,413,566

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(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 from 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 is 7% of their annual covered salary and is paid by the District. 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 are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2008, 2007 and 2006 as noted below. 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 2008, 2007 and 2006, the Agency's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

<u>Fiscal Year</u>		<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2005-2006	\$	86,671	100%	-	6.154%
2006-2007		98,186	100%	-	6.733%
2007-2008		105,864	100%	-	7.055%

(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, 2008, 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.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

(10) Risk Management, continued

- 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.

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, 2008, 2007 and 2006. 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, 2008, 2007 and 2006.

(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. 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.

San Lorenzo Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2008 and 2007

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

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.

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.

Governmental Accounting Standards Board Statement No. 53

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is not effective for this Authority until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the Authority'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.

(13) Subsequent Events

On February 21, 2007 the District filed a Complaint in Eminent Domain in the Superior Court of Santa Cruz County, California to condemn the California-American Water Company Felton Water System.

On September 5, 2008, the District entered into a Settlement and Asset Purchase Agreement with the California-American Water Company (CAWC). The agreement provides for the District's acquisition of all of the operating and non-operating assets of the CAWC's Felton Water System. Effective September 5, 2008 the District will provide water service to approximately 1,326 service connections in the community of Felton, California. Terms of the agreement call for the District to purchase all of the CAWC's Felton Water System operating assets for the total sum of \$13,400,000, of which \$2,832,215 shall be in the form of the District's assumption of the outstanding balance owing on the CAWC's Safe Drinking Water Bond Loan and \$10,567,785 in the form of a cash payment. The Community Facilities District No. 1 (Felton) of the County of Santa Cruz, otherwise known as Measure W, provided cash in the sum of \$9,151,281, and the District provided cash in the sum of \$1,416,504. The agreement also provided for the CAWA's dedication and conveyance to the District of approximately 252 acres of watershed property.

Supplemental Information

San Lorenzo Valley Water District
Combining Schedule of Net Assets
For the Year Ended June 30, 2008

<i>Assets</i>	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 2,834,060	3,962	2,838,022
Investments	9,562,216	-	9,562,216
Restricted - investments	1,171,630	-	1,171,630
Accrued interest receivable	100,948	-	100,948
Accounts receivable – water sales and services, net	269,804	-	269,804
Accounts receivable – property taxes	25,514	-	25,514
Accounts receivable – other	5,096	-	5,096
Due from/to other fund	234,012	(234,012)	-
Materials and supplies inventory	252,204	-	252,204
Total current assets	<u>14,455,484</u>	<u>(230,050)</u>	<u>14,225,434</u>
Non-current assets:			
Deferred charges, net	274,100	-	274,100
Capital assets, net	19,496,152	819,159	20,315,311
Total non-current assets	<u>19,770,252</u>	<u>819,159</u>	<u>20,589,411</u>
Total assets	<u><u>\$ 34,225,736</u></u>	<u><u>589,109</u></u>	<u><u>34,814,845</u></u>
<i>Liabilities and Net Assets</i>			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	\$ 358,919	405	359,324
Accrued wages and related payables	72,213	-	72,213
Customer deposits	25,047	-	25,047
Connection and construction deposits	183,528	-	183,528
Accred interest payable on long-term debt	78,941	-	78,941
Long-term liabilities – due within one year:			
Compensated absences	69,023	2,851	71,874
Long-term debt - restricted	602,985	-	602,985
Total current liabilities	<u>1,390,656</u>	<u>3,256</u>	<u>1,393,912</u>
Non-current liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences	215,622	-	215,622
Long-term debt	7,811,110	-	7,811,110
Total non-current liabilities	<u>8,026,732</u>	<u>-</u>	<u>8,026,732</u>
Total liabilities	<u>9,417,388</u>	<u>3,256</u>	<u>9,420,644</u>
Net assets:			
Net investment in capital assets	11,082,057	819,159	11,901,216
Restricted for debt service	1,171,630	-	1,171,630
Unrestricted	12,554,661	(233,306)	12,321,355
Total net assets	<u>24,808,348</u>	<u>585,853</u>	<u>25,394,201</u>
Total liabilities and net assets	<u><u>\$ 34,225,736</u></u>	<u><u>589,109</u></u>	<u><u>34,814,845</u></u>

See accompanying notes to the basic financial statements

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

<i>Assets</i>	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 836,810	3,961	840,771
Investments	11,521,727	-	11,521,727
Restricted - investments	908,487	-	908,487
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	14,275,562	(202,244)	14,073,318
Non-current assets:			
Deferred charges, net	299,352	-	299,352
Capital assets, net	19,925,930	860,932	20,786,862
Total non-current assets	20,225,282	860,932	21,086,214
Total assets	\$ 34,500,844	658,688	35,159,532
<i>Liabilities and Net Assets</i>			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	\$ 327,755	451	328,206
Accrued wages and related payables	40,455	-	40,455
Customer deposits	160,600	-	160,600
Connection and construction deposits	158,082	-	158,082
Accred interest payable on long-term debt	75,143	-	75,143
Long-term liabilities – due within one year:			
Compensated absences (note 5)	68,756	3,277	72,033
Long-term debt - restricted (note 6)	582,032	-	582,032
Total current liabilities	1,412,823	3,728	1,416,551
Non-current liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (note 5)	216,098	-	216,098
Long-term debt (note 6)	8,413,725	-	8,413,725
Total non-current liabilities	8,629,823	-	8,629,823
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

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2008

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Water consumption sales	\$ 3,188,266	-	3,188,266
Wastewater service	-	47,036	47,036
Assessments	125,322	-	125,322
Meter sales	52,332	-	52,332
Charges and penalties	37,649	-	37,649
Other charges and services	8,991	2	8,993
Total operating revenues	<u>3,412,560</u>	<u>47,038</u>	<u>3,459,598</u>
Operating expenses:			
Salaries and benefits	2,491,553	27,637	2,519,190
Professional services	947,656	27,657	975,313
Materials and supplies	168,010	1,362	169,372
Utilities and telephone	374,183	7,863	382,046
Insurance	51,816	480	52,296
LAFCO fees	4,938	-	4,938
Vehicle and equipment maintenance	96,939	863	97,802
Building maintenance	26,647	-	26,647
Repairs	76,776	-	76,776
Collections fees and charges	1,572	-	1,572
Travel, meals and conferences	8,074	-	8,074
Auto allowance	4,200	-	4,200
Office expenses	43,946	348	44,294
Rental and permits	32,482	4,359	36,841
Miscellaneous	52,866	3,803	56,669
Total operating expenses	<u>4,381,658</u>	<u>74,372</u>	<u>4,456,030</u>
Operating income before depreciation and amortization	(969,098)	(27,334)	(996,432)
Depreciation and amortization	(906,066)	(41,773)	(947,839)
Operating loss	<u>\$ (1,875,164)</u>	<u>(69,107)</u>	<u>(1,944,271)</u>
Non-operating revenue(expense)			
Property taxes	\$ 505,233	-	505,233
Interest and investment earnings	542,345	-	542,345
Rental revenue	23,186	-	23,186
Interest expense – long-term debt	(406,676)	-	(406,676)
Legal settlement	1,073,977	-	1,073,977
Gain (loss) on disposition of capital assets	(156,812)	-	(156,812)
Gain (loss) on investments	166,491	-	166,491
Total non-operating revenues, net	<u>1,747,744</u>	<u>-</u>	<u>1,747,744</u>
Net loss before capital contributions	<u>(127,420)</u>	<u>(69,107)</u>	<u>(196,527)</u>
Capital contributions:			
Developers and others	477,570	-	477,570
Capital contributions	<u>477,570</u>	<u>-</u>	<u>477,570</u>
Change in net assets	<u>350,150</u>	<u>(69,107)</u>	<u>281,043</u>
Net assets, beginning of year	24,458,198	654,960	25,113,158
Net assets, end of year	<u>\$ 24,808,348</u>	<u>585,853</u>	<u>25,394,201</u>

See accompanying notes to the basic financial statements

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

	Enterprise Funds		
	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	40,408	21	40,429
Total operating revenues	<u>3,274,626</u>	<u>46,221</u>	<u>3,320,847</u>
Operating expenses:			
Salaries and benefits	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	<u>3,909,506</u>	<u>50,138</u>	<u>3,959,644</u>
Operating income before depreciation and amortization	(634,880)	(3,917)	(638,797)
Depreciation and amortization	<u>(1,003,460)</u>	<u>(41,772)</u>	<u>(1,045,232)</u>
Operating loss	<u>\$ (1,638,340)</u>	<u>(45,689)</u>	<u>(1,684,029)</u>
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)
Legal settlement	206,710	-	206,710
Gain (loss) on disposition of capital assets	(599)	-	(599)
Gain (loss) on investments	137,855	-	137,855
Total non-operating revenues, net	<u>1,041,342</u>	<u>-</u>	<u>1,041,342</u>
Net loss before capital contributions	<u>(596,998)</u>	<u>(45,689)</u>	<u>(642,687)</u>
Capital contributions:			
Developers and others	289,740	-	289,740
Capital contributions	<u>289,740</u>	<u>-</u>	<u>289,740</u>
Change in net assets	<u>(307,258)</u>	<u>(45,689)</u>	<u>(352,947)</u>
Net assets, beginning of year	24,765,456	700,649	25,466,105
Net assets, end of year	<u>\$ 24,458,198</u>	<u>654,960</u>	<u>25,113,158</u>

See accompanying notes to the basic financial statements

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Report on Internal Controls and Compliance



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

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 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, 2008 and 2007, and have issued our report thereon dated October 20, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 20, 2008
Cypress, California

Charles Z. Fedak & Company, CPA's
An Accountancy Corporation