SAN LORENZO VALLEY WATER DISTRICT

* * *

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

* * *

June 30, 2011 and 2010

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 services; 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, 2011

Name	Title	Elected/ Appointed	Current Term
Terry Vierra	President	Appointed	12/2010-12/2014
James Rapoza	Vice President	Appointed	12/2010-12/2014
Fred McPherson	Director	Appointed	12/2008-12/2012
Larry Prather	Director	Appointed	12/2010-12/2014
James Nelson	Director	Appointed	12/2008-12/2012

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

SAN LORENZO VALLEY WATER DISTRICT

June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of San Lorenzo Valley Water District as of and for the years ended June 30, 2011 and 2010, as listed in the table of content. These financial statements are the responsibility of San Lorenzo Valley Water District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Lorenzo Valley Water District as of June 30, 2011 and 2010, and the results of its operations 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 our report dated January 27, 2012, on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on pages 33 through 36 is presented for purposes of supplementary information, and is not a required part of the basic financial statements. That information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Berger/Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
Santa Cruz, California
January 27, 2012

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, 2011 and 2010. 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 2.4% or $637,158 to $25,978,528 in 2011. In 2010, the District's net assets increased 0.9% or $226,225 to $26,615,686.

The District's operating income increased 7.5% or $338,225 in fiscal year 2011. In 2010, the District's operating income increased 11.9% or $476,955.

The District's operating expenses before depreciation decreased 0.7% or $29,582 in 2011. In 2010, the District's operating expenses increased 0.1% or $40,986.

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 provides 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 obligation 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 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 the 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.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) are 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 governmental 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 following the financial statements.

Statement of Net Assets

Condensed Statements of Net Assets

	2011	2010	Change
Assets:			
Current Assets	$ 10,324,981	$ 11,463,724	$ (1,138,743)
Non-Current Assets	198,345	223,597	(25,252)
Capital Assets, Net	25,563,631	25,825,976	(262,345)
Total Assets	$ 36,086,957	$ 37,513,297	$ (1,426,340)
Liabilities:			
Current Liabilities	$ 1,513,094	$ 1,538,132	$ (25,038)
Non-Current Liabilities	8,595,335	9,359,479	(764,144)
Total Liabilities	$ 10,108,429	$ 10,897,611	$ (789,182)
Net Assets:			
Net Investment in Capital Assets	$ 16,564,381	$ 15,991,991	$ 572,390
Restricted for Debt Service	865,923	935,665	(69,742)
Unrestricted	8,548,224	9,688,030	(1,139,806)
Total Net Assets	25,978,528	26,615,686	(637,158)
Total Liabilities and Net Assets	$ 36,086,957	$ 37,513,297	$ (1,426,340)

Statement of Net Assets (Continued)

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 $25,978,528 and $26,615,686 as of June 30, 2011 and 2010, respectively.

Pursuant to California Government Code Section 53601 (i) certificates of deposit invested outside of an authorized pool shall not exceed thirty percent (30%) of the District's total investment portfolio. Current certificates of deposits exceed this limitation. It is the intent of the District to move toward compliance with this limitation. At June 30, 2011, the District had invested 60% or $5,713,466 of its portfolio in certificates of deposits. The District is moving towards compliance as the present certificates of deposits mature.

By far the largest portion of the District's net assets (64% as of June 30, 2011 and 60% as of June 30, 2010) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that are 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 2011 and 2010, the District showed a positive balance in its unrestricted net assets of $8,548,224 and $9,688,030, 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

	2011	2010	Change
Revenues:			
Operating Revenues	$ 4,819,542	$ 4,481,317	$ 338,225
Non-Operating Revenues	742,804	1,775,049	(1,032,245)
Total Revenues	5,562,346	6,256,366	(694,020)
Expenses:			
Operating Expenses	4,245,987	4,275,569	(29,582)
Depreciation and Amortization	1,334,021	1,379,615	(45,594)
Non-Operating Expenses	619,496	374,957	244,539
Total Expenses	6,199,504	6,030,141	169,363
Changes in Net Assets	(637,158)	226,225	(863,383)
Net Assets, Beginning of Year	26,615,686	26,389,461	226,225
Net Assets, End of Year	$ 25,978,528	$ 26,615,686	$ (637,158)

The statement of revenues, expenses and changes in net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets decreased by $637,158 and increased by $226,225 for the fiscal years ended June 30, 2011 and 2010, respectively.

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

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

In 2011, the District's total revenues (operating and non-operating) decreased by $694,020, due to a combination of an increase in operating revenues of $338,225, resulting from an increase in revenue from water sales, and a decrease in non-operating revenue of $1,032,245, due to a decrease in investment earnings, write off of surplus of capital assets, and reduction in settlements and purchase agreements. Prior year settlements and purchase agreements included reimbursements from July 1, 2006 through June 30, 2010. Total expenses increased by $169,363, including an decrease in depreciation expense of $45,594 and an increase in non-operating expenses for a write off for surplus equipment of $236,970.

In 2010, the District's total revenues (operating and non-operating) increased by $1,095,962, due to an increase in operating revenues of $476,955, resulting from having a full fiscal year addition of the Felton system customers which were added to the system in early fiscal year 2008-2009, and an increase in non-operating revenue of $619,007, due primarily from settlements and purchase agreements of $711,712, the largest part which is the reimbursements from the Bank of the West/Manana Woods Annexation Agreement, which includes reimbursements from July 1, 2006 through June 30, 2010. Total expenses increased by $31,004, including an increase in depreciation expense of $134,394 and a decrease in interest expense of $144,376. In addition capital contributions decreased by $1,833,993 due to the 2008-2009 contribution of the Felton water system.

Capital Asset Administration

At the end of fiscal year 2011 and 2010, the District's investment in capital assets amounted to $25,563,361 and $25,825,976, 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-progress, etc. Major capital assets additions during the year included upgrades to the District's pumping plant, transmission and distribution system, and for the meter upgrade project. See Note 5 for further capital asset information.

Changes in Capital Asset amounts for the year as follows:

	Balance 2010	Additions	Transfers/Deletions	Balance 2011
Capital Assets:				
Non-Depreciable Assets	$ 5,545,279	$ 854,556		$ 6,399,835
Depreciable Assets	39,883,210	454,089	$ (1,041,174)	39,296,125
Accumulated Depreciation and Amortization	(19,602,513)	(1,334,021)	804,205	(20,132,329)
Total Capital Assets, Net	$ 25,825,976	$ (25,376)	$ (236,969)	$ 25,563,631

	Balance 2009	Additions	Transfers/Deletions	Balance 2010
Capital Assets:				
Non-Depreciable Assets	$ 5,392,246	$ 153,033		$ 5,545,279
Depreciable Assets	39,501,480	517,963	$ (136,233)	39,883,210
Accumulated Depreciation and Amortization	(18,356,745)	(1,378,846)	133,078	(19,602,513)
Total Capital Assets, Net	$ 26,536,981	$ (707,850)	$ (3,155)	$ 25,825,976

Debt Administration

Changes in Long-Term Debt amounts for the year ended June 30, 2011 were as follow:

	Balance 2010	Additions	Principal Payments	Balance 2011
Long-Term Debt				
Lease Payable	$ 75,000		$ (25,000)	$ 50,000
Notes Payable	7,635,422		(579,539)	7,055,883
Bonds Payable	565,000		(85,000)	480,000
Certification of Participation	1,558,563		(145,196)	1,413,367
Total Long-Term Debt	$ 9,833,985	$ -	$ (834,735)	$ 8,999,250

Changes in Long-Term Debt amounts for the year ended June 30, 2010 were as follow:

	Balance 2009	Additions	Principal Payments	Balance 2010
Long-Term Debt				
Lease Payable	$ 95,000		$ (20,000)	$ 75,000
Notes Payable	8,100,012		(464,590)	7,635,422
Bonds Payable	645,000		(80,000)	565,000
Certification of Participation	1,697,873		(139,310)	1,558,563
Total Long-Term Debt	$ 10,537,885	$ -	$ (703,900)	$ 9,833,985

See Note 6 for further long-term debt service information.

Conditions Affecting Current Financial Position

The District continues to incur net operating losses, those losses for the years ended June 30, 2011 and 2010 were offset by non-operating and capital contributions. Continued operating losses may require the District to consider rate increases in order to provide long term funding for needed capital repair, replacement projects or expansion projects.

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.

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

ASSETS

	2011	2010
CURRENT ASSETS:		
Cash and Cash Equivalents (Note 3)	$ 386,017	$ 829,861
Investments (Note 3)	8,292,853	8,472,558
Restricted - Investments (Note 3)	865,923	935,665
Accrued Interest Receivable	45,309	54,850
Accounts Receivable - Water Sales and Services, Net (Note 4)	351,339	334,424
Accounts Receivable - Property Taxes	69,583	70,397
Accounts Receivable - Settlement Agreement (Note 13)	88,421	557,712
Accounts Receivable - Other	30,294	11,501
Materials and Supplies Inventory	195,242	196,756
Total Current Assets	10,324,981	11,463,724
NON-CURRENT ASSETS:		
Deferred Charges, Net	198,345	223,597
Capital Assets - Not Being Depreciated (Note 5)	6,399,835	5,545,279
Capital Assets - Being Depreciated, Net (Note 5)	19,163,796	20,280,697
Total Non-Current Assets	25,761,976	26,049,573
TOTAL ASSETS	$ 36,086,957	$ 37,513,297

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

STATEMENTS OF NET ASSETS
(Continued)

June 30, 2011 and 2010

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES:		
Accounts Payable and Accrued Expenses	$ 385,417	$ 204,866
Accrued Wages and Related Payables	10,449	91,820
Customer Deposits	33,655	35,630
Connection and Construction Deposits	166,356	232,880
Accrued Interest Payable on Long-Term Debt	59,835	99,768
Long-Term Liabilities Due Within One Year:		
Compensated Absences (Note 6)	91,143	87,978
Long-Term Debt (Note 6)	766,239	785,190
Total Current Liabilities	1,513,094	1,538,132
NON-CURRENT LIABILITIES:		
Long-Term Liabilities Due In More Than One Year:		
Compensated Absences (Note 6)	273,429	266,509
Long-Term Debt (Note 6)	8,233,011	9,048,795
Net Other Postemployment Benefits Obligation (Note 9)	88,895	44,175
Total Non-Current Liabilities	8,595,335	9,359,479
Total Liabilities	10,108,429	10,897,611
NET ASSETS (Note 7):		
Net Investment in Capital Assets	16,564,381	15,991,991
Restricted for Debt Service	865,923	935,665
Unrestricted	8,548,224	9,688,030
Total Net Assets	25,978,528	26,615,686
TOTAL LIABILITIES AND NET ASSETS	$ 36,086,957	$ 37,513,297

SAN LORENZO VALLEY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2011 and 2010

	2011	2010
OPERATING REVENUES:		
Water Consumption Sales	$ 4,369,713	$ 4,093,942
Wastewater Service	99,764	89,519
Assessments	119,025	121,763
Meter Sales	92,119	41,298
Charges and Penalties	57,350	57,114
Miscellaneous	81,571	77,681
Total Operating Income	4,819,542	4,481,317
OPERATING EXPENSES:		
Salaries and Benefits	2,810,215	2,711,784
Professional Services	402,315	491,701
Materials and Supplies	154,519	173,537
Utilities and Telephone	376,150	409,703
Insurance	51,580	46,972
LAFCO Fees	8,262	6,238
Vehicle and Equipment Maintenance	97,090	87,464
Building Maintenance	26,282	30,647
Repairs	150,558	131,713
Collection Fees and Charges	5,404	3,188
Travel, Meals and Conferences	8,091	7,223
Auto Allowance	4,200	4,200
Office Expenses	57,306	57,254
Rental and Permits	29,375	34,469
Miscellaneous	64,640	79,476
Total Operating Expenses	4,245,987	4,275,569
Operating Income (Loss) Before Depreciation	573,555	205,748
Depreciation	(1,334,021)	(1,379,615)
NET OPERATING INCOME (LOSS)	(760,466)	(1,173,867)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(Continued)

For the Years Ended June 30, 2011 and 2010

	2011	2010
NON-OPERATING REVENUES (EXPENSES):		
Property Taxes	$ 492,443	$ 504,342
Interest and Investment Earnings	217,145	532,957
Rental Revenue	24,468	26,038
Interest Expense - Long-Term Debt	(357,274)	(349,705)
Amortization of Deferred Charges	(25,252)	(25,252)
Gain (Loss) on Disposition of Capital Assets	(236,970)	-
Settlement and Purchase Agreements	8,748	711,712
Total Non-Operating Revenues, Net	123,308	1,400,092
CHANGE IN NET ASSETS	(637,158)	226,225
NET ASSETS, at Beginning of Year	26,615,686	26,389,461
NET ASSETS, at End of Year	$ 25,978,528	$ 26,615,686

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Receipts From Customers for Water and Wastewater Sales & Services	$ 4,715,334	$ 4,460,529
Cash Paid to Vendors and Suppliers for Materials and Services	(1,253,706)	(1,672,545)
Cash Paid to Employees for Salaries and Wages	(2,836,781)	(2,613,827)
NET CASH PROVIDED BY OPERATING ACTIVITIES	624,847	174,157
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Proceeds from Property Taxes	493,257	463,155
Proceeds from Rental Revenue	24,468	26,038
Proceeds from Purchase Agreement	478,039	154,000
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	995,764	643,193
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(1,308,646)	(668,611)
Principal Paid on Long-Term Debt	(834,735)	(703,900)
Interest Paid on Long-Term Debt	(397,207)	(358,738)
NET CASH FLOWS USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(2,540,588)	(1,731,249)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	3,104,344	4,456,203
Purchases of Investments	(2,854,897)	(4,023,301)
Proceeds from Investment Earnings	226,686	535,260
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	476,133	968,162
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(443,844)	54,263
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	829,861	775,598
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 386,017	$ 829,861

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

STATEMENTS OF CASH FLOWS
(Continued)

For the Years Ended June 30, 2011 and 2010

	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	$ (760,466)	$ (1,173,867)
Adjustments to Reconcile Loss to Net Cash Provided by Operating Activities:		
Depreciation	1,334,021	1,379,615
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Accounts Receivable	(35,708)	(50,366)
Materials and Supplies Inventory	1,514	62,104
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	180,551	(185,864)
Accrued Wages and Related Payables	(81,371)	29,734
Accrued Compensated Absences	10,085	24,048
Net Other Postemployment Benefits Obligation	44,720	44,175
Other Liabilities	(68,499)	44,578
Total Adjustments	1,385,313	1,348,024
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	$ 624,847	$ 174,157

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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 sewer funds to account for District operations. The District is governed by a five member Board of Directors elected by the voters in the area to four-year terms. The District provides water and sewer service to approximately 7,300 customers within its service area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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 performed every month. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period.

Financial Reporting - The District's basic financial statements are presented in conformance with the provisions of Government Accounting Standards Board (GASB) Statements 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Financial Reporting (Continued) – 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. 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.

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.

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.

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.

Accounts Receivable – The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

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 County Tax Collector's Office 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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 contributions. 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

Deferred Charges – Bond issuance costs are deferred and amortized using the straight-line method based on the term of the related debt service.

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 rate for all unused vacation leave hours and half of all unused sick leave hours, except for those employees that have not completed the probationary period.

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.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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.

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.

3. CASH AND INVESTMENTS:

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

	2011	2010
Cash and Cash Equivalents	$ 386,017	$ 829,861
Investments	8,292,853	8,472,558
Restricted - Investments	865,923	935,665
Total Cash and Investments	$ 9,544,793	$ 10,238,084

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

	2011	2010
Cash On Hand	$ 200	$ 200
Deposits With Financial Institution	24,500	464,546
Investments (Including Cash Equivalents)	9,520,093	9,773,338
Total Cash and Investments	$ 9,544,793	$ 10,238,084

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years **	None	None
U.S. Agency Securities	5 years **	50%	None
Certificates of Deposit	5 years **	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.
** Unless policy states longer period.

Portfolio Diversification

Pursuant to California Government Code Section 53601(i) certificates of deposit invested outside of an authorized pool shall not exceed thirty percent (30%) of the District's total investment portfolio. Current certificates of deposits exceed this limitation. It is the intent of the District to move toward compliance with this limitation. At June 30, 2011, the District had invested 60% or $5,713,466 of its portfolio in certificates of deposits.

3. 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 $24,500 and $464,546, as of June 30, 2011 and 2010, respectively. Of the bank balances, up to $250,000 and $250,000, at June 30, 2011 and 2010, respectively, 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.

3. 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 investment 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, 2011 are as follows:

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	61 to 120 Months
U.S. Treasury Bills	-				
Tennessee Valley Authority	-				
Federal Farm Credit Bank	-				
Federal Home Loan Mortgage Corp.	$ 2,605,724				$ 2,605,724
Federal National Mortgage Assn.	795,692				795,692
Certificates of Deposits	5,713,476	$ 1,774,426	$ 1,294,424	$ 2,151,973	492,653
Local Agency Investment Fund (LAIF)	42,977	42,977			
County of Santa Cruz Pool	31,903	31,903			
Money Market Funds	43,884	43,884			
Held by Bond/Loan Trustee:					
Money Market Funds	286,437	286,437			
Total	$ 9,520,093	$ 2,179,627	$ 1,294,424	$ 2,151,973	$ 3,894,069

Maturities of investments at June 30, 2010 are as follows:

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	61 to 120 Months
U.S. Treasury Bills	-				
Tennessee Valley Authority	$ 84,461			$ 84,461	
Federal Farm Credit Bank	-				
Federal Home Loan Mortgage Corp.	1,260,161				$ 1,260,161
Federal National Mortgage Assn.	1,534,167				1,534,167
Certificates of Deposits	6,401,683	$ 486,457	$ 2,076,076	3,088,693	750,457
Local Agency Investment Fund (LAIF)	47,284	47,284			
County of Santa Cruz Pool	31,903	31,903			
Money Market Funds	127,751	127,751			
Held by Bond/Loan Trustee:					
Money Market Funds	285,928	285,928			
Total	$ 9,773,338	$ 979,323	$ 2,076,076	$ 3,173,154	$ 3,544,785

3. 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, 2011, were as follows:

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rating As of Year End AAA	Not Rated
U.S. Treasury Bills	-	N/A			
Tennessee Valley Authority	-	AAA			
Federal Farm Credit Bank	-	AAA			
Federal Home Loan Mortgage Corp.	$ 2,605,724	AAA		$ 2,605,724	
Federal National Mortgage Assn.	795,692	AAA		795,692	
Certificates of Deposits	5,713,476	N/A			$ 5,713,476
Local Agency Investment Fund (LAIF)	42,977	N/A			42,977
County of Santa Cruz Pool	31,903	N/A			31,903
Money Market Funds	43,884	N/A	$ 43,884		
Held by Bond/Loan Trustee:	-				
Money Market Funds	286,437	N/A	285,928		
Total	$ 9,520,093		$ 329,812	$ 3,401,416	$ 5,788,356

Credit ratings of investments as of June 30, 2010, were as follows:

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rating As of Year End AAA	Not Rated
U.S. Treasury Bills		N/A			
Tennessee Valley Authority	$ 84,461	AAA		$ 84,461	
Federal Farm Credit Bank	-	AAA			
Federal Home Loan Mortgage Corp.	1,260,161	AAA		1,260,161	
Federal National Mortgage Assn.	1,534,167	AAA		1,534,167	
Certificates of Deposits	6,401,683	N/A			$ 6,401,683
Local Agency Investment Fund (LAIF)	47,284	N/A			47,284
County of Santa Cruz Pool	31,903	N/A			31,903
Money Market Funds	127,751	N/A	$ 127,751		
Held by Bond/Loan Trustee:					
Money Market Funds	285,928	N/A	285,928		
Total	$ 9,773,338		$ 413,679	$ 2,878,789	$ 6,480,870

3. CASH AND INVESTMENTS (Continued):

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.

Local Agency Investment Fund

The District is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2011, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities.

Structured Notes - Debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities - Generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2011, the District had $42,977 invested in LAIF, of which LAIF had invested 10.02% of the pool investment funds in Structured Notes and Asset-Backed Securities. LAIF provided a fair value factor of 1.001576470 to calculate the fair value of the investments in LAIF. However, an adjustment was not made to reflect the fair market value of LAIF, as the fair market value adjustment was considered immaterial.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

4. ACCOUNTS RECEIVABLE - WATER SALES AND SERVICES, NET:

The balance at June 30, consists of the following:

	2011	2010
Accounts Receivable - Water Sales and Services	$ 351,339	$ 339,424
Allowance for Uncollectible Accounts	-	(5,000)
Accounts Receivable - Water Sales, Net	$ 351,339	$ 334,424

5. CAPITAL ASSETS, NET:

Capital assets for the year were as follows:

	Balance 2010	Additions/ Transfers	Deletions/ Transfers	Balance 2011
Non-Depreciable Assets:				
Land	$ 5,072,763	$ 526,679		$ 5,599,442
Construction-In-Progress	472,516	327,877		800,393
Total Non-Depreciable Assets	5,545,279	854,556		6,399,835
Depreciable Assets:				
Water Transmission and Distribution System	33,498,107	399,490	$ (772,831)	33,124,766
Wastewater Systems	1,449,395		(1,874)	1,447,521
Buildings	2,912,982		(120,245)	2,792,737
Transportation Equipment	724,348	38,203	(7,023)	755,528
Field and Shop Equipment	678,142	16,396	(30,180)	664,358
Office Equipment	620,236		(109,021)	511,215
Total Depreciable Assets	39,883,210	454,089	(1,041,174)	39,296,125
Accumulated Depreciation	(19,602,513)	(1,334,021)	804,205	(20,132,329)
Total Depreciable Assets, Net	20,280,697	(879,932)	(236,969)	19,163,796
Total Capital Assets, Net	$ 25,825,976	$ (25,376)	$ (236,969)	$ 25,563,631

	Balance 2009	Additions/ Transfers	Deletions/ Transfers	Balance 2010
Non-Depreciable Assets:				
Land	$ 5,072,763			$ 5,072,763
Construction-In-Progress	319,483	$ 153,033		472,516
Total Non-Depreciable Assets	5,392,246	153,033		5,545,279
Depreciable Assets:				
Water Transmission and Distribution System	33,178,928	319,179		33,498,107
Wastewater Systems	1,449,395			1,449,395
Buildings	2,882,500	30,482		2,912,982
Transportation Equipment	739,744	82,805	$ (98,201)	724,348
Field and Shop Equipment	613,469	64,673		678,142
Office Equipment	637,444	20,824	(38,032)	620,236
Total Depreciable Assets	39,501,480	517,963	(136,233)	39,883,210
Accumulated Depreciation	(18,356,745)	(1,378,846)	133,078	(19,602,513)
Total Depreciable Assets, Net	21,144,735	(860,883)	(3,155)	20,280,697
Total Capital Assets, Net	$ 26,536,981	$ (707,850)	$ (3,155)	$ 25,825,976

6. LONG-TERM DEBT:

Changes in long-term debt amounts for the year ended June 30, 2011 were as follows:

	Balance 2010	Additions	Principal Payments	Balance 2011	Current Portion	Long-Term Portion
1999 Refunding Bonds	$ 565,000		$ (85,000)	$ 480,000	$ 90,000	$ 390,000
1997 Certificates of Participation, Series EE	75,000		(25,000)	50,000	25,000	25,000
California Safe Drinking Water Loan	1,946,876		(156,201)	1,790,675	161,630	1,629,045
California Safe Drinking Water Refunding Loan	439,686		(65,630)	374,056	68,565	305,491
1998 Certificates of Participation	1,558,563		(145,196)	1,413,367	151,684	1,261,683
Malosky Creek Loan	1,444,270		(149,511)	1,294,759	51,418	1,243,341
Johnson Building Loan	1,151,839		(87,410)	1,064,429	91,522	972,907
Felton Safe Drinking Water Loan	2,652,751		(120,787)	2,531,964	126,420	2,405,544
Total Long-Term Debt	$ 9,833,985	$ -	$ (834,735)	$ 8,999,250	$ 766,239	$ 8,233,011

Changes in long-term debt amounts for the year ended June 30, 2010 were as follows:

	Balance 2009	Additions	Principal Payments	Balance 2010	Current Portion	Long-Term Portion
1999 Refunding Bonds	$ 645,000		$ (80,000)	$ 565,000	$ 85,000	$ 480,000
1997 Certificates of Participation, Series EE	95,000		(20,000)	75,000	25,000	50,000
California Safe Drinking Water Loan	2,097,715		(150,839)	1,946,876	156,201	1,790,675
California Safe Drinking Water Refunding Loan	502,656		(62,970)	439,686	65,742	373,944
1998 Certificates of Participation	1,697,873		(139,310)	1,558,563	145,437	1,413,126
Malosky Creek Loan	1,491,081		(46,811)	1,444,270	96,982	1,347,288
Johnson Building Loan	1,235,322		(83,483)	1,151,839	87,410	1,064,429
Felton Safe Drinking Water Loan	2,773,238		(120,487)	2,652,751	123,418	2,529,333
Total Long-Term Debt	$ 10,537,885	$ -	$ (703,900)	$ 9,833,985	$ 785,190	$ 9,048,795

6. LONG-TERM DEBT (Continued):

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.

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

In 1997, the District issued Certifications of Participation for the purpose of purchasing and renovating the District's operations building. The Certifications 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 December 1, 2012 with a final principal payment of $25,000 on that date.

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.

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.

1998 Certificates of Participation

In 1998, the District issued Certifications 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 Certifications of Participation through a refunding agreement bearing interest at 4.25% per annum and 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.

Malosky Creek Loan

In 2007, the District entered into an agreement to purchase land at a fixed rate of 4.75%, maturing on July 18, 2021. The District makes semi-annual payments of $82,224 including principal and interest on January 18th and July 18th each year.

6. LONG-TERM DEBT (Continued):

Johnson Building Loan

In 2007, 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 makes semi-annual payments of $70,005, including principal and interest on June 15th and December 15th each year.

Felton Safe Drinking Water Loan

In fiscal year 2009, the District purchased the Felton water system and assumed Felton's California Safe Drinking Water Loan with a fixed rate of 2.41750%, maturing on June 30, 2027. The District makes semi-annual payments of $93,399 including principal and interest on July 1st and January 1st each year.

Future Maturities of Long Term Debt are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 766,239	$ 299,743	$ 1,065,982
2013	844,174	297,964	1,142,138
2014	857,663	263,856	1,121,519
2015	887,431	228,912	1,116,343
2016	918,346	192,797	1,111,143
2017-2021	3,526,849	495,296	4,022,145
2022-2026	924,166	92,044	1,016,210
2027-2028	274,382	6,622	281,004
	$ 8,999,250	$ 1,877,234	$ 10,876,484

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:

	2011	2010
Balance, Beginning of Year	$ 354,487	$ 330,439
Earned	268,848	250,429
Taken	(258,763)	(226,381)
Balance, End of Year	364,572	354,487
Current Portion	91,143	87,978
Long-Term Portion	$ 273,429	$ 266,509

7. NET ASSETS:

Calculation of net assets as of June 30, were as follow:

	2011	2010
Net Investment in Capital Assets:		
Capital Assets - Not Being Depreciated	$ 6,399,835	$ 5,545,279
Capital Assets - Being Depreciated, Net	19,163,796	20,280,697
Current:		
Long-Term Debt	(766,239)	(785,190)
Non-Current:		
Long-Term Debt	(8,233,011)	(9,048,795)
Total Net Investment in Capital Assets	16,564,381	15,991,991
Restricted Net Assets:		
Restricted - Investments	865,923	935,665
Total Restricted Net Assets	865,923	935,665
Unrestricted Net Assets:		
Non-Spendable Net Assets:		
Materials and Supplies Inventory	195,242	196,756
Deferred Charges, Net	198,345	223,597
Total Non-Spendable Net Assets	393,587	420,353
Spendable Net Assets are Designated as Follow:		
Wastewater fund Net Assets	(195,136)	(210,654)
Watershed Property Asset Reserve	5,991,911	6,500,000
Capital Replacement/Improvement Reserve	1,250,000	1,250,000
Equipment Replacement Reserve	318,478	350,000
Vacation and Sick Reserve	0	300,000
Emergency Reserve	541,034	1,000,000
Rate Stabilization	0	10,000
Working Capital Reserve	0	68,331
Total Spendable Net Assets	7,906,287	9,267,677
Total Unrestricted Net Assets	8,299,874	9,688,030
Total Net Assets	$ 25,730,178	$ 26,615,686

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS):

Plan Description - The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District ordinance.

Copies of PERS' 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 District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The District's contribution rate for 2010/2011 was 8.515%. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost - For the fiscal year ended June 30, 2011, the District's annual pension cost of $276,072 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value).

Three Year Trend Information for PERS:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	$ 114,482	100%	$ -
June 30, 2010	$ 264,067	100%	$ -
June 30, 2011	$ 276,072	100%	$ -

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (Continued):

As part of the program to smooth the changes in required employer contributions for smaller plans, PERS placed plans of 100 or fewer members into "Risk Pools". Formation of the risk pools required the establishment of "Side Funds" to account for the differences between the funded status of the risk pool and the funded status of the member districts plan. The "Side Fund" represents unfunded liabilities to be amortized on an annual basis over a closed period.

FUNDED STATUS OF THE MISCELLANEOUS PLAN RISK POOL

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Asset Value	Unfunded Liability (UL)	Funded Ratio	Annual Covered Payroll	UL as % of Covered Payroll
6/30/2007	$2,611,746,790	$2,391,434,447	$ 220,312,343	91.6%	$ 665,522,859	33.1%
6/30/2008	$2,780,280,768	$2,547,323,278	$ 232,957,490	91.6%	$ 688,606,681	33.8%
6/30/2009	$3,104,798,222	$2,758,511,101	$ 346,287,121	88.9%	$ 742,981,488	46.6%

9. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

In addition to pension benefits described in Note 8, the District provides postemployment health care benefits to employees. Employees are eligible for post-employment benefits when they retire from the District on or after attaining age 55 with at least 5 years service under PERS. For eligible employees with at least 15 years of service, the District will pay up to $250 per month of the retired members' health insurance premiums. The most recent OPEB plan was completed April 2010.

Current Accounting and Funding Policy of the Plan:

The District finances the plan on a "pay-as-you-go" basis. For the years ended June 30, 2011 and 2010, the District paid $13,453 and $11,789, respectively, in post-employment health care benefits for the retired employees who are currently eligible for benefits.

9. OTHER POSTEMPLOYMENT BENEFITS (Continued):

Net OPEB Obligation and Annual OPEB Cost:

The District's annual other postemployment benefits (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount contributed to the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution (ARC)	$ 55,964
Interest on Net OPEB Obligation	2,209
Adjustment to ARC	-
Annual OPEB Cost	58,173
Contributions Made (Payments for Current Retirees)	(13,453)
Increase in OPEB Obligation	44,720
Net OPEB Obligation - Beginning of Year	44,175
Net OPEB Obligation - End of Year	$ 88,895

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011, and the one year preceding are as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 55,964	21.1%	$ 44,175
6/30/2011	$ 58,173	23.1%	$ 44,720

Funded Status of the District Service Benefit are as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/10	$ -	$ 452,179	$ 452,179	0.0%	$ 1,908,411	23.694%

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, 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, 2011, the District participated in the liability and property programs of the SDRMA as follows:

General and automotive 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 $5,000,000 per occurrence, with an annual aggregate of $5,000,000 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 three years ending June 30, 2011, 2010 and 2009. 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 the end of the last three fiscal years June 30, 2011, 2010 and 2009.

11. 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 the financial condition.

12. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA:

Under the provisions of Proposition 1A and as part of the 2009-2010 budget package by the California State Legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue apportioned to cities, counties and special districts. The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California Legislature may consider only one additional borrowing within a ten year period. The amount of this borrowing pertaining to the San Lorenzo Valley Water District was $42,268. This borrowing was recognized as a receivable and property tax revenue in the accompanying financial statements.

13. THIRD PARTY SETTLEMENT AGREEMENT REIMBURSEMENT:

The District entered a third party settlement agreement with Manana Woods Mutual Water Company for reimbursement of operating and maintenance costs of their water treatment plant. Total reimbursement income for the year ended June 30, 2011 totaled $8,748. Reimbursements receivable at June 30, 2011 were $88,421. Total reimbursement income for the year ended June 30, 2010 totaled $711,712 and included reimbursements for the period July 1, 2006 through June 30, 2010. Reimbursements receivable at June 30, 2010 were $557,712.

14. SUBSEQUENT EVENTS:

The District's management has evaluated events and transactions subsequent to June 30, 2011 for potential recognition or disclosure in the financial statements. The District did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2011. Subsequent events have been evaluated through January 27, 2012, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after January 27, 2012.

SAN LORENZO VALLEY WATER DISTRICT

COMBINING STATEMENT OF NET ASSETS

June 30, 2011

ASSETS

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CURRENT ASSETS:			
Cash and Cash Equivalents	$ 386,017		$ 386,017
Investments	8,288,315	$ 4,538	8,292,853
Restricted - Investments	865,923		865,923
Accrued Interest Receivable	45,309		45,309
Accounts Receivable - Water Sales and Services, Net	351,339		351,339
Accounts Receivable - Property Taxes	69,583		69,583
Accounts Receivable - Settlement Agreement, Net	88,421		88,421
Accounts Receivable - Other	30,294		30,294
Internal Balances	196,435	(196,435)	-
Materials and Supplies Inventory	195,242		195,242
Total Current Assets	10,516,878	(191,897)	10,324,981
NON-CURRENT ASSETS:			
Deferred Charges, Net	198,345		198,345
Capital Assets - Not Being Depreciated	6,371,622	28,213	6,399,835
Capital Assets - Being Depreciated, Net	18,498,168	665,628	19,163,796
Total Non-Current Assets	25,068,135	693,841	25,761,976
Total Assets	$ 35,585,013	$ 501,944	$ 36,086,957

LIABILITIES AND NET ASSETS

	Water Fund	Sewer Fund	Total
CURRENT LIABILITIES:			
Accounts Payable and Accrued Expenses	$ 385,417		$ 385,417
Accrued Wages and Related Payables	10,449		10,449
Customer Deposits	33,655		33,655
Connection and Construction Deposits	166,356		166,356
Accrued Interest Payable on Long-Term Debt	59,835		59,835
Long-Term Liabilities - Due Within One Year:			0
Compensated Absences	87,904	$ 3,239	91,143
Long-Term Debt	766,239		766,239
Total Current Liabilities	1,509,855	3,239	1,513,094
NON-CURRENT LIABILITIES:			
Long-Term Liabilities - Due in More than One Year:			
Compensated Absences	273,429		273,429
Long-Term Debt	8,233,011		8,233,011
Net Other Postemployment Benefits Obligation	88,895		88,895
Total Non-Current Liabilities	8,595,335		8,595,335
Total Liabilities	10,105,190	3,239	10,108,429
NET ASSETS:			
Net Investments in Capital Assets	15,870,540	693,841	16,564,381
Restricted for Debt Service	865,923		865,923
Unrestricted	8,743,360	(195,136)	8,548,224
Total Net Assets	25,479,823	498,705	25,978,528
Total Liabilities and Net Assets	$ 35,585,013	$ 501,944	$ 36,086,957

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

COMBINING STATEMENT OF NET ASSETS

June 30, 2010

ASSETS

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CURRENT ASSETS:			
Cash and Cash Equivalents	$ 829,861		$ 829,861
Investments	8,468,020	$ 4,538	8,472,558
Restricted - Investments	935,665		935,665
Accrued Interest Receivable	54,850		54,850
Accounts Receivable - Water Sales and Services, Net	334,424		334,424
Accounts Receivable - Property Taxes	70,397		70,397
Accounts Receivable - Settlement Agreement, Net	557,712		557,712
Accounts Receivable - Other	11,501		11,501
Internal Balances	210,938	(210,938)	-
Materials and Supplies Inventory	196,756		196,756
Total Current Assets	11,670,124	(206,400)	11,463,724
NON-CURRENT ASSETS:			
Deferred Charges, Net	223,597		223,597
Capital Assets - Not Being Depreciated	5,517,066	28,213	5,545,279
Capital Assets - Being Depreciated, Net	19,573,296	707,401	20,280,697
Total Non-Current Assets	25,313,959	735,614	26,049,573
Total Assets	$ 36,984,083	$ 529,214	$ 37,513,297

LIABILITIES AND NET ASSETS

	Water Fund	Sewer Fund	Total
CURRENT LIABILITIES:			
Accounts Payable and Accrued Expenses	$ 203,924	$ 942	$ 204,866
Accrued Wages and Related Payables	91,820		91,820
Customer Deposits	35,630		35,630
Connection and Construction Deposits	232,880		232,880
Accrued Interest Payable on Long-Term Debt	99,768		99,768
Long-Term Liabilities - Due Within One Year:			0
Compensated Absences	84,666	3,312	87,978
Long-Term Debt	785,190		785,190
Total Current Liabilities	1,533,878	4,254	1,538,132
NON-CURRENT LIABILITIES:			
Long-Term Liabilities - Due in More than One Year:			
Compensated Absences	266,509		266,509
Long-Term Debt	9,048,795		9,048,795
Net Other Postemployment Benefits Obligation	44,175		44,175
Total Non-Current Liabilities	9,359,479		9,359,479
Total Liabilities	10,893,357	4,254	10,897,611
NET ASSETS:			
Net Investments in Capital Assets	15,256,377	735,614	15,991,991
Restricted for Debt Service	935,665		935,665
Unrestricted	9,898,684	(210,654)	9,688,030
Total Net Assets	26,090,726	524,960	26,615,686
Total Liabilities and Net Assets	$ 36,984,083	$ 529,214	$ 37,513,297

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

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2011

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Water Consumption Sales	$ 4,369,713		$ 4,369,713
Wastewater Service		$ 99,764	99,764
Assessments	119,025		119,025
Meter Sales	92,119		92,119
Charges and Penalties	57,350		57,350
Miscellaneous	81,571		81,571
Total Operating Revenues	4,719,778	99,764	4,819,542
OPERATING EXPENSES:			
Salaries and Benefits	2,776,171	34,044	2,810,215
Professional Services	377,240	25,075	402,315
Materials and Supplies	148,221	6,298	154,519
Utilities and Telephone	367,525	8,625	376,150
Insurance	51,580		51,580
LAFCO Fees	8,262		8,262
Vehicle and Equipment Maintenance	96,447	643	97,090
Building Maintenance	26,063	219	26,282
Repairs	150,558		150,558
Collection Fees and Charges	5,404		5,404
Travel, Meals and Conferences	8,091		8,091
Auto Allowance	4,200		4,200
Office Expenses	56,921	385	57,306
Rentals and Permits	24,418	4,957	29,375
Miscellaneous	60,640	4,000	64,640
Total Operating Expenses	4,161,741	84,246	4,245,987
OPERATING INCOME (LOSS) Before Depreciation	558,037	15,518	573,555
Depreciation and Amortization	(1,292,248)	(41,773)	(1,334,021)
OPERATING INCOME (LOSS)	(734,211)	(26,255)	(760,466)
NON-OPERATING REVENUES (EXPENSES):			
Property Taxes	492,443		492,443
Interest and Investment Earnings	217,145		217,145
Rental Revenue	24,468		24,468
Interest Expense - Long-Term Debt	(357,274)		(357,274)
Amortization of Deferred Charges	(25,252)		(25,252)
Gain (Loss) on Disposition of Capital Assets	(236,970)		(236,970)
Settlement and Purchase Agreements	8,748		8,748
Total Non-Operating Revenues, Net	123,308	0	123,308
CHANGE IN NET ASSETS	(610,903)	(26,255)	(637,158)
NET ASSETS AT BEGINNING OF YEAR	26,090,726	524,960	26,615,686
NET ASSETS AT END OF YEAR	$ 25,479,823	$ 498,705	$ 25,978,528

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

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Water Consumption Sales	$ 4,093,942		$ 4,093,942
Wastewater Service		$ 89,519	89,519
Assessments	121,763		121,763
Meter Sales	41,298		41,298
Charges and Penalties	57,114		57,114
Miscellaneous	77,681		77,681
Total Operating Revenues	4,391,798	89,519	4,481,317
OPERATING EXPENSES:			
Salaries and Benefits	2,697,665	14,119	2,711,784
Professional Services	465,376	26,325	491,701
Materials and Supplies	169,904	3,633	173,537
Utilities and Telephone	402,681	7,022	409,703
Insurance	46,972		46,972
LAFCO Fees	6,238		6,238
Vehicle and Equipment Maintenance	86,819	645	87,464
Building Maintenance	30,502	145	30,647
Repairs	131,713		131,713
Collection Fees and Charges	3,188		3,188
Travel, Meals and Conferences	7,223		7,223
Auto Allowance	4,200		4,200
Office Expenses	56,879	375	57,254
Rentals and Permits	29,286	5,183	34,469
Miscellaneous	75,476	4,000	79,476
Total Operating Expenses	4,214,122	61,447	4,275,569
OPERATING INCOME (LOSS) Before Depreciation	177,676	28,072	205,748
Depreciation and Amortization	(1,337,842)	(41,773)	(1,379,615)
OPERATING INCOME (LOSS)	(1,160,166)	(13,701)	(1,173,867)
NON-OPERATING REVENUES (EXPENSES):			
Property Taxes	504,342		504,342
Interest and Investment Earnings	532,957		532,957
Rental Revenue	26,038		26,038
Interest Expense - Long-Term Debt	(349,705)		(349,705)
Amortization of Deferred Charges	(25,252)		(25,252)
Gain (Loss) on Disposition of Capital Assets			
Settlement and Purchase Agreements	711,712		711,712
Total Non-Operating Revenues, Net	1,400,092	0	1,400,092
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	239,926	(13,701)	226,225
CAPITAL CONTRIBUTIONS:			
Felton Purchase	0	0	0
Capital Contributions	0	0	0
CHANGE IN NET ASSETS	239,926	(13,701)	226,225
NET ASSETS AT BEGINNING OF YEAR	25,850,800	538,661	26,389,461
NET ASSETS AT END OF YEAR	$ 26,090,726	$ 524,960	$ 26,615,686

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

REPORT ON INTERNAL CONTROL AND COMPLIANCE

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 financial statements of San Lorenzo Valley Water District as of and for the year ended June 30, 2011, and have issued our report thereon dated January 27, 2012. 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 opinion 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 *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying schedule of findings and responses as item 2010/2011-1. The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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

Berger/Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
Santa Cruz, California
January 27, 2012

Finding/Program	Findings/Non-Compliance
CURRENT YEAR FINDING: FINANCIAL STATEMENTS AUDIT	
COMPLIANCE AND OTHER MATTERS:	
2010/2011-1	Investment Policy not in alignment with California Government Code
Condition	The District's investment policy and related investments are not in alignment with California Government Code for mix of investments.
Criteria	The District is responsible for investing funds in accordance with California Government Code.
Cause of Condition	The District's investment policy was not consistently reviewed against the California Government Code.
Effect of Condition	Investments mix is not in alignment with applicable California Government Code; specifically the District has investments in certificates of deposits in excess of 30% of total investments.
Recommendation	We recommend that the District move towards compliance as investments mature.
Corrective Action Plan	We concur with this recommendation. The contact person for the Organization is: James Mueller, District Manager (831) 430-4625