



NOTICE OF SPECIAL BUDGET & FINANCE COMMITTEE MEETING

Responsible for the review of District finances including rates, fees, charges, and other sources of revenue; budget and reserves; audit; investments; insurance; and other financial matters.

NOTICE IS HEREBY GIVEN that the San Lorenzo Valley Water District has called a special meeting of the Budget & Finance Committee to be held on **Monday, November 9, 2020, 9:00 am**, via video/teleconference.

<https://global.gotomeeting.com/join/422056877>

You can also dial in using your phone.

(For supported devices, tap a one-touch number below to join instantly.)

United States (Toll Free): 1 866 899 4679

- One-touch: tel:+18668994679,,422056877#

United States: +1 (571) 317-3116

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Access Code: 422-056-877

AGENDA

1. Convene Meeting/Roll Call

2. Oral Communications:

This portion of the agenda is reserved for Oral Communications by the public for items that are not on the Agenda. Please understand that California law (The Brown Act) limits what the Board can do regarding issues raised during Oral Communication. No action or discussion may occur on issues outside of those already listed on today's agenda. Any person may address the Committee at this time, on any subject that lies within the jurisdiction of the District. Normally, presentations must not exceed five (5) minutes in length, and individuals may only speak once during Oral Communications. Any Director may request that the matter be placed on a future agenda or staff may be directed to provide a brief response.

3. New Business:
Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.
- A. REVIEW OF DRAFT FISCAL YEAR 2019-20 COMPREHENSIVE ANNUAL FINANCIAL REPORT
Discussion and possible action by the Committee regarding the review of the FY 19-20 Audit.
4. Adjournment

Agenda documents, including materials related to an item on this agenda submitted to the Committee after distribution of the agenda packet, are available for public inspection and may be reviewed at the office of the District Secretary, 13060 Highway 9, Boulder Creek, CA 95006 during normal business hours. Such documents may also be available on the District website at www.slwvd.com subject to staff's ability to post the documents before the meeting.

Certification of Posting

I hereby certify that on November 6, 2020 I posted a copy of the foregoing agenda in the outside display case at the District Office, 13060 Highway 9, Boulder Creek, California, said time being at least 24 hours in advance of the special meeting of the Budget & Finance Committee of the San Lorenzo Valley Water District in compliance with California Government Code Section 54956.

Executed at Boulder Creek, California, on November 6, 2020

Holly B. Hossack, District Secretary

MEMO

TO: Finance Committee

FROM: Director of Finance

SUBJECT: Draft ANNUAL FINANCIAL REPORT FY2019-20 (CAFR)

DATE: November 9, 2020

RECOMMENDATION:

It is recommended that the Budget & Finance Committee review this memo and the attached Comprehensive Annual Financial Report (CAFR) for fiscal year 2019-20. Upon review, it is recommended we suggest any edits and move it to a Special BOD Meeting in the near future.

BACKGROUND:

District staff, with the assistance of our auditors, prepared a CAFR in accordance with guidelines established by the Government Finance Officers Association (GFOA). GFOA awards a Certificate of Achievement for Excellence in Financial Reporting Program, of which we were awarded for the prior fiscal year 2018-2019.

The District is required by state law to annually examine its financial records. The firm has conducted an independent audit of the District's financial records for the respective fiscal years. This examination of the District's financial records was conducted in accordance with generally accepted accounting standards and principles. As in previous years, the District received an "unmodified opinion," meaning the financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2020. The Financial Statements are transmitted under separate cover. A representative from the firm will be present to address the Board regarding this matter.

The CAFR furnishes information concerning the District's financial position and activities for the one (1) year period from July 1, 2019 – June 30, 2020 for all funds:

- Net position increased 7.11% or \$2,221,426 to \$33,448,938. Net position is made up of three components: net investment in capital assets, restricted net position and unrestricted net position
 - Net investment in capital (net of related debt) increased more than 8.8% or \$2,820,800. There was depreciation expense of \$1,582,370 compared to the investment in current year capital of \$4,747,113, with ~\$2.6M funded by debt.
 - Restricted net position decreased \$1,563,833 to \$667,387. Restricted is for contractual restricted amounts such as required by debt covenants and

assessment districts. The main contributor is the debt funding for the Probation Tank project loan was used.

- Unrestricted net position increased \$964,459, leaving a positive balance of \$867,999. As discussed in prior years, there have been certain events that put the District at a deficit. Main contributors to this were interties 2, 3 & 4, in 2016, where once the grant funding ran out, the remaining was paid from our cash. Another factor this year was the GASB 75 accounting pronouncement that required the District to put Other Post-Employment Benefits (OPEB) liabilities on the books. The Water Fund has a positive unrestricted balance of \$1,006,634, Sewer Fund has a deficit of \$138,635. With the future Sewer Fund rate increases, this should gradually be remedied.
- Operating revenues increased 9.92% or \$1M to \$11.1M, primarily due to increased water sales revenues related to the 2017 rate study.
- Operating expenses increased 7.95% or \$584K to \$7.9M. The increase had \$517K related to the pension and OPEB expenses (\$373K and \$144K, respectively), \$211K related to other salary/benefit increases and offset by a \$151K decrease related to lower legal expenses attributed to less fees and settlements from the prior year.
- Non-operating revenues increased \$284,195 to \$1,546,042. This is attributed to increases in interest earned on investments, mainly being the remaining loan balances yet to be used.
- Non-operating expenses increased \$632,480 to \$1,229,698. This was mainly due to interest expense payments and debt issuance costs on the new debt.
- Net income before capital contributions increased \$140K to \$2.2M. This is a good indicator that the District is moving in the right direction. With continued positive income, we will focus on building reserves back up and funding capital projects.
- Overall net position for the end of period increased \$2.2M. This is a positive direction for the District.

It is important to understand the differences between external and internal financial reports and analysis. Audited financial statements, unlike budgets, have been examined, or "audited," by an external, independent certified public accountant. Extensive tests are performed on account details and balances that are represented on a company's financial statements to ensure their accuracy and reliability, while budgets are reviewed internally by upper management to ensure company goals and targets are reasonable and achievable, and its resources are being allocated in a way that maximizes revenue.

This current process is the audit portion of the fiscal year 2019-2020 results. There will be a more in depth review of how the results compared to the budget at the next Budget & Finance Committee meeting.

The supplemental charts and transmittal letter are also in the process of being finalized. For the supplemental information, we are adding a glossary/acronym section as well as a chart tracking the unfunded pension and OPEB liabilities. These will all be part of the final package submitted to the Board.



San Lorenzo Valley Water District
Comprehensive Annual Financial Report
For the Fiscal Years June 30, 2020 and 2019



Boulder Creek, California



Our Mission

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

San Lorenzo Valley Water District

Board of Directors as of June 30, 2020

Name	Title	Elected/ Appointed	Term Expires
Steve Swan	President	Elected	December 2022
Lois Henry	Vice President	Elected	December 2022
Bob Fultz	Director	Elected	December 2022
Lew Farris	Director	Appointed	December 2020
Rick Moran	Director	Appointed	December 2020

Rick Rogers, 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
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2020 and 2019

Subject to Review

Prepared by:

Stephanie Hill, Director of Finance and Business Services

**San Lorenzo Valley Water District
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2020 and 2019**

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**San Lorenzo Valley Water District
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2020 and 2019**

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Introductory Section

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November 19, 2020

< Transmittal Letter >

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Respectfully,

Rick Rogers
District Manager

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Board of Directors

A five member Board of Directors are elected by the San Lorenzo Valley area to set policy and govern the District. Currently the Board of Directors are:



Steve Swan
(President)



Lois Henry
(Vice President)



Lew Farris
(Director)



Rick Moran
(Director)



Bob Fultz
(Director)

The organizational chart for the City of San Diego Water Department is structured as follows:

- Community** (represented by a bracket on the left)
 - Board of Directors**
 - District Manager**
 - District Secretary / Administrative Assistant**
 - Environmental Programs Manager**
 - Water Conservation Specialist (vacant as of 6/2019)**
 - Engineering Manager**
 - GIS/CAD Specialist**
 - Director of Finance & Business Services**
 - Accountant**
 - Human Resource Specialist**
 - Customer Service Representative II**
 - Field Customer Service Representative II**
 - Customer Service Representative I**
 - Customer Service Representative I**
 - Director of Operations**
 - Field Services & Systems Coordinator**
 - Network Specialist**
 - Water Treatment & System Supervisor**
 - Electrician / Instrumentation Tech II**
 - Senior Water Treatment & System Operator**
 - Water Treatment & System Operator**
 - Water Treatment & System Operator**
 - Water Treatment & System Operator**
 - Water Treatment & System Operator**
 - Electrician / Instrumentation Tech II**
 - Lead Field Services Worker**
 - Field Services Worker II**
 - Water Treatment & System Operator**
 - Field Services Worker II**
 - Water Treatment & System Operator**
 - Field Services Worker II**
 - Field Services Supervisor**
 - Lead Field Services Worker**
 - Field Services Worker II**
 - Field Services Worker II**
 - Field Services Worker II**

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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**San Lorenzo Valley Water District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO

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Financial Section

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the San Lorenzo Valley Water District (District), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special District. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the San Lorenzo Valley Water District as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 19 and the required supplementary information on pages 58 through 60 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 audits 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.

Other Information

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 introductory section on pages 1 through 9, the supplemental information schedules on pages 61 through 63, and the statistical section on pages 64 through 77, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Independent Auditor's Report, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 78 and 79.

Fedak & Brown LLP
Cypress, California
November 19, 2020

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San Lorenzo Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

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, 2020 and 2019. 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 position increased 7.11% or \$2,221,426 to \$33,448,938. In 2019, the District's net position increased 7.24% or \$2,108,538 to \$31,227,512.
- The District's operating revenues increased 9.92% or \$1,005,105 to \$11,135,904. In 2019, the District's operating revenues increased 9.93% or \$915,435 to \$10,130,799.
- The District's non-operating revenues increased 22.52% or \$284,195 to \$1,546,042. In 2019, the District's non-operating revenues increased 7.28% or \$85,626 to \$1,261,847.
- The District's operating expenses increased 7.95% or \$583,523 to \$7,924,554. In fiscal year 2019, the District's operating expenses decreased 3.30% or \$250,760 to \$7,341,031.
- The District's non-operating expenses increased 105.90% or \$632,480 to \$1,229,698. In 2019, the District's non-operating expenses increased 213.54% or \$406,741 to \$597,218.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statements 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 services to the District's customers are financed primarily through user charges.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. 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 revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. 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 change in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing 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.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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 Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets, deferred outflows, liabilities, and deferred inflows 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 position* and changes in it. One can think of the District's net position – the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as change in economic conditions, population growth, zoning, and new or changed government legislation, such as change 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 25 through 57.

Statements of Net Position

Condensed Statements of Net Position					
	2020	2019	Change	2018	Change
Assets:					
Current assets	\$ 21,801,497	7,555,633	14,245,864	5,130,142	2,425,491
Non-current assets	21,681	52,510	(30,829)	30,030	22,480
Capital assets, net	38,568,902	35,405,873	3,163,029	34,528,731	877,142
Total assets	60,392,080	43,014,016	17,378,064	39,688,903	3,325,113
Deferred outflows of resources	1,675,805	934,898	740,907	1,253,820	(318,922)
Liabilities:					
Current liabilities	2,714,300	1,903,383	810,917	1,871,108	32,275
Non-current liabilities	25,726,813	10,694,373	15,032,440	9,643,477	1,050,896
Total liabilities	28,441,113	12,597,756	15,843,357	11,514,585	1,083,171
Deferred inflows of resources	177,834	123,646	54,188	309,164	(185,518)
Net position:					
Net investment in capital assets	31,913,552	29,092,752	2,820,800	29,278,749	(185,997)
Restricted	667,387	2,231,220	(1,563,833)	637,205	1,594,015
Unrestricted (deficit)	867,999	(96,460)	964,459	(796,980)	700,520
Total net position	\$ 33,448,938	31,227,512	2,221,426	29,118,974	2,108,538

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$33,448,938 and \$31,227,512 as of June 30, 2020 and 2019, respectively.

The District's net position increased 7.11% or \$2,221,426. In fiscal year 2019, the District's net position increased 7.24% or \$2,108,538. The District's total net position is made up of three components: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

At the end of fiscal year 2020, the District showed a unrestricted net position of \$867,999, compared to a deficit balance of \$96,460 at the end of fiscal year 2019. See Note 9 for the further information.

By far the largest portion of the District's net position (95.41% and 93.16% as of June 30, 2020 and 2019, 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. See Note 9 for further information.

Statements of Revenues, Expenses, and Changes in Net Position

Condensed Statements of Revenues, Expenses, and Changes in Net Position					
	2020	2019	Change	2018	Change
Revenues:					
Operating revenues	\$ 11,135,904	10,130,799	1,005,105	9,215,364	915,435
Non-operating revenues	1,546,042	1,261,847	284,195	1,176,221	85,626
Total revenues	<u>12,681,946</u>	<u>11,392,646</u>	<u>1,289,300</u>	<u>10,391,585</u>	<u>1,001,061</u>
Expenses:					
Operating expenses	7,924,554	7,341,031	583,523	7,591,791	(250,760)
Non-operating expenses	1,229,698	597,218	632,480	190,477	406,741
Overhead absorption	(231,862)	(146,321)	(85,541)	(163,697)	17,376
Depreciation	1,582,370	1,563,805	18,565	1,640,273	(76,468)
Total expenses	<u>10,504,760</u>	<u>9,355,733</u>	<u>1,149,027</u>	<u>9,258,844</u>	<u>96,889</u>
Net income before capital contributions	2,177,186	2,036,913	140,273	1,132,741	904,172
Capital contributions	<u>44,240</u>	<u>71,625</u>	<u>(27,385)</u>	<u>434,908</u>	<u>(363,283)</u>
Changes in net position	<u>2,221,426</u>	<u>2,108,538</u>	<u>112,888</u>	<u>1,567,649</u>	<u>540,889</u>
Net position, beginning of year	<u>31,227,512</u>	<u>29,118,974</u>	<u>2,108,538</u>	<u>27,551,325</u>	<u>1,567,649</u>
Net position, end of year	<u>\$ 33,448,938</u>	<u>31,227,512</u>	<u>2,221,426</u>	<u>29,118,974</u>	<u>2,108,538</u>

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

The District's net position increased 7.11% or \$2,221,426 to \$33,448,938, due primarily to ongoing operations.

In fiscal year 2019, the District's net position increased 7.24% or \$2,108,538 to \$31,227,512, due primarily to ongoing operations.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Revenues, Expenses, and Changes in Net Position, continued

Total Revenues

	2020	2019	Change	2018	Change
Operating revenues:					
Water consumption sales	\$ 10,865,193	9,917,657	947,536	8,983,340	934,317
Wastewater service	134,148	111,820	22,328	100,138	11,682
Meter sales, charges, and penalties	135,129	99,464	35,665	128,305	(28,841)
Other charges and services	1,434	1,858	(424)	3,581	(1,723)
Total operating revenues	11,135,904	10,130,799	1,005,105	9,215,364	915,435
Non-operating revenues:					
Property tax	813,051	780,378	32,673	747,404	32,974
Assessment revenues	349,254	350,694	(1,440)	349,130	1,564
Investment income	333,478	86,733	246,745	23,040	63,693
Rental revenue	44,047	44,042	5	56,647	(12,605)
Gain on disposal of capital assets	1,786	-	1,786	-	-
Settlement and purchase agreements	4,426	-	4,426	-	-
Total non-operating revenues	1,546,042	1,261,847	284,195	1,176,221	85,626
Capital contributions:					
Capital grants - other governments	44,240	71,625	(27,385)	434,908	(363,283)
Total revenues	\$ 12,726,186	11,464,271	1,261,915	10,826,493	637,778

The District's total revenues increased \$1,261,915. Operating revenues increased \$1,005,105, primarily due to an increase in water consumption sales of \$947,536. Non-operating revenues increased \$284,195, primarily due to increases of \$246,745 in investment income and \$32,673 in property taxes.

In fiscal year 2019, the District's total revenues increased \$637,778. Operating revenues increased \$915,435, primarily due to an increase in water consumption sales of \$934,317. Non-operating revenues increased \$85,626, primarily due to increases of \$63,693 in investment income and \$32,974 in property taxes; which were offset by a decrease of \$12,605 in rental revenues.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Revenues, Expenses, and Changes in Net Position, continued

Total Expenses

	2020	2019	Change	2018	Change
Operating expenses including depreciation expense:					
Salaries and benefits	\$ 5,594,324	4,865,859	728,465	4,840,518	25,341
Professional services	777,556	1,037,612	(260,056)	1,349,279	(311,667)
Operational	415,672	375,948	39,724	320,876	55,072
Maintenance	200,153	153,892	46,261	143,714	10,178
Facilities	569,129	568,165	964	554,547	13,618
General and administrative	367,720	339,555	28,165	382,857	(43,302)
Depreciation	1,582,370	1,563,805	18,565	1,640,273	(76,468)
Total operating expenses including depreciation expense	9,506,924	8,904,836	602,088	9,232,064	(327,228)
Non-operating expenses:					
Interest expense	638,604	153,662	484,942	150,507	3,155
Change in investment in JPA	178,740	123,148	55,592	39,970	83,178
Bond issuance cost	412,354	-	412,354	-	-
Loss on disposition of capital assets	-	320,408	(320,408)	-	320,408
Total non-operating expenses	1,229,698	597,218	632,480	190,477	406,741
Total expenses	\$ 10,736,622	9,502,054	1,234,568	9,422,541	79,513

The District's total expenses increased \$1,234,568. The District's operating expenses increased \$602,088 primarily due to increases of \$728,465 in salaries and benefits and \$46,261 in maintenance; which were offset by a decrease of \$260,056 in professional services. The District's non-operating expenses increased \$632,480, primarily due to increases of \$484,942 in interest expense and \$412,354 in bond issuance cost; which were offset by a decrease of \$320,408 in loss on disposal of capital assets caused by the destruction of a well.

In fiscal year 2019, the District's total expenses increased \$79,513. The District's operating expenses decreased \$327,228 primarily due to decreases of \$311,667 in professional services, \$76,468 in depreciation expense, and \$43,302 in general and administrative; which were offset by an increase of \$55,072 in operational expenses. The District's non-operating expenses increased \$323,563, primarily due to increases of \$320,408 in loss on disposal of capital assets caused by the destruction of a well and \$83,178 in change in investment in JPA.

Capital Asset Administration

Change in capital assets for 2020, was as follows:

	Balance 2019	Additions	Transfers/ Disposals	Balance 2020
Capital assets:				
Non-depreciable assets	\$ 9,200,401	4,747,113	(4,818,376)	9,129,138
Depreciable assets	58,213,826	4,818,376	(33,904)	62,998,298
Accumulated depreciation	(32,008,354)	(1,582,370)	32,190	(33,558,534)
Total capital assets	\$ 35,405,873	7,983,119	(4,820,090)	38,568,902

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Capital Asset Administration, continued

Change in capital assets for 2019, was as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance 2019</u>
Capital assets:				
Non-depreciable assets	\$ 8,010,150	2,761,355	(1,571,104)	9,200,401
Depreciable assets	58,493,808	1,571,104	(1,851,086)	58,213,826
Accumulated depreciation	<u>(31,975,227)</u>	<u>(1,563,805)</u>	<u>1,530,678</u>	<u>(32,008,354)</u>
Total capital assets	<u>\$ 34,528,731</u>	<u>2,768,654</u>	<u>(1,891,512)</u>	<u>35,405,873</u>

The District's investment in capital assets (net of accumulated depreciation) amounted to \$38,568,902. Major capital assets additions during the year included upgrades to the District's water transmission and distribution system, buildings and structures, field and shop equipment, and transportation equipment¹.

At the end of fiscal year 2019, the District's investment in capital assets (net of accumulated depreciation) amounted to \$35,405,873. Major capital assets additions during the year included upgrades to the District's water transmission and distribution system, field and shop equipment, and office equipment.

See Note 4 for further information.

Debt Administration

Change in long-term debt amounts for 2020, was as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2020</u>
Long-term debt:				
Notes payable	\$ 5,063,293	-	(303,135)	4,760,158
Bonds payable	1,179,809	-	(582,031)	597,778
Certificate of participation	-	14,912,354	(24,649)	14,887,705
Capital lease payable	<u>70,019</u>	<u>-</u>	<u>(23,160)</u>	<u>46,859</u>
Total long-term debt	<u>\$ 6,313,121</u>	<u>14,912,354</u>	<u>(932,975)</u>	<u>20,292,500</u>

Change in long term debt amounts for 2019, was as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2019</u>
Long-term debt:				
Notes payable	\$ 3,311,635	2,000,000	(248,342)	5,063,293
Bonds payable	1,845,823	-	(666,014)	1,179,809
Capital lease payable	<u>92,524</u>	<u>-</u>	<u>(22,505)</u>	<u>70,019</u>
Total long-term debt	<u>\$ 5,249,982</u>	<u>2,000,000</u>	<u>(936,861)</u>	<u>6,313,121</u>

¹ Capital assets are at original purchase price and not replacement cost.

San Lorenzo Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Debt Administration, continued

The District's long-term debt increased \$13,979,379, primarily due to the addition of a \$14,887,705 Revenue Series 2019 Certificate-of-Participation, offset by \$908,326 in principal payments.

In fiscal year 2019, the District's long-term debt increased \$1,063,139, primarily due to the addition of a \$2,000,000 Capital One loan, offset by \$936,861 in principal payments.

See Note 6 for further information.

Conditions Affecting Current Financial Position

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the District and the duration cannot be estimated at this time.

Management is unaware of any other conditions which could have a significant impact on the District's current financial position, net position, 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 Director of Finance and Business Services, Stephanie Hill, at San Lorenzo Valley Water District, 13060 Highway 9, Boulder Creek, California 95006, (831) 430-4620, or shill@slvwd.com.

Basic Financial Statements

Subject to Review

San Lorenzo Valley Water District
Statements of Net Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 1,488,104	1,043,351
Cash and cash equivalents – restricted (note 2)	14,304,537	2,231,220
Accrued interest receivable	3,206	5,487
Investments (note 2)	3,969,393	2,276,600
Accounts receivable – water sales and services	1,737,057	1,452,006
Accounts receivable – property taxes	1,324	1,715
Accounts receivable – other	635	35,448
Prepaid expenses	14,105	242,749
Materials and supplies inventory	283,136	267,057
Total current assets	<u>21,801,497</u>	<u>7,555,633</u>
Non-current assets:		
Investments in joint-powers authority (note 3)	21,681	52,510
Capital assets – not being depreciated (note 4)	9,129,138	9,200,401
Capital assets – being depreciated (note 4)	29,439,764	26,205,472
Total non-current assets	<u>38,590,583</u>	<u>35,458,383</u>
Total assets	<u>60,392,080</u>	<u>43,014,016</u>
Deferred outflows of resources:		
Deferred OPEB outflows (note 7)	736,559	5,432
Deferred pension outflows (note 8)	939,246	929,466
Total deferred outflows of resources	<u>\$ 1,675,805</u>	<u>934,898</u>

Continued on next page

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Net Position, continued
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Current liabilities:		
Accounts payable and accrued expense	\$ 947,456	363,590
Accrued wages and related payables	149,315	243,215
Unearned revenues – customer deposits	109,048	141,871
Unearned revenues – construction deposits	17,000	13,945
Accrued interest payable	206,656	38,209
Long-term liabilities – due in one year:		
Compensated absences (note 5)	205,304	194,131
Loans payable (note 6)	330,959	303,135
Bonds payable (note 6)	494,531	582,031
Certificate of participation (note 6)	230,000	-
Capital lease payable (note 6)	24,031	23,256
Total current liabilities	<u>2,714,300</u>	<u>1,903,383</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	364,985	345,122
Loans payable (note 6)	4,429,199	4,760,158
Bonds payable (note 6)	103,247	597,778
Certificate of participation (note 6)	14,657,705	-
Capital lease payable (note 6)	22,828	46,763
Net OPEB liability (note 7)	1,990,505	1,138,893
Net pension liability (note 8)	4,158,344	3,805,659
Total non-current liabilities	<u>25,726,813</u>	<u>10,694,373</u>
Total liabilities	<u>28,441,113</u>	<u>12,597,756</u>
Deferred inflows of resources		
Deferred OPEB inflows (note 7)	23,821	-
Deferred pension inflows (note 8)	154,013	123,646
Total deferred inflows of resources	<u>177,834</u>	<u>123,646</u>
Net position: (note 10)		
Net investment in capital assets	31,913,552	29,092,752
Restricted for debt service	667,387	2,231,220
Unrestricted (deficit)	867,999	(96,460)
Total net position	<u>\$ 33,448,938</u>	<u>31,227,512</u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Water consumption sales	\$ 10,865,193	9,917,657
Wastewater service	134,148	111,820
Meter sales, charges, and penalties	135,129	99,464
Other charges and services	1,434	1,858
Total operating revenues	<u>11,135,904</u>	<u>10,130,799</u>
Operating expenses:		
Salaries and benefits	5,594,324	4,865,859
Professional services	777,556	1,037,612
Operational	415,672	375,948
Maintenance	200,153	153,892
Facilities	569,129	568,165
General and administrative	367,720	339,555
Total operating expenses	<u>7,924,554</u>	<u>7,341,031</u>
Operating income before overhead absorption	3,211,350	2,789,768
Overhead absorption	231,862	146,321
Operating income before depreciation expense	3,443,212	2,936,089
Depreciation expense	(1,582,370)	(1,563,805)
Operating income	<u>1,860,842</u>	<u>1,372,284</u>
Non-operating revenues(expenses):		
Property tax	813,051	780,378
Assessment revenues	349,254	350,694
Investment earnings	333,478	86,733
Change in investment in Santa Margarita Groundwater Agency	(178,740)	(123,148)
Rental revenue	44,047	44,042
Bond issuance expense	(412,354)	-
Interest expense	(638,604)	(153,662)
Gain(Loss) on disposition of capital assets	1,786	(320,408)
Settlement and purchase agreements	4,426	-
Total non-operating revenues, net	<u>316,344</u>	<u>664,629</u>
Net income before capital contributions	<u>2,177,186</u>	<u>2,036,913</u>
Capital contributions:		
Capital grants – other governments	44,240	71,625
Total capital contributions	<u>44,240</u>	<u>71,625</u>
Changes in net position	2,221,426	2,108,538
Net position, beginning of year	<u>31,227,512</u>	<u>29,118,974</u>
Net position, end of year	<u>\$ 33,448,938</u>	<u>31,227,512</u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash receipts from customers for sales and services	\$ 10,858,890	10,104,764
Cash paid to employees for salaries and wages	(5,657,188)	(4,830,861)
Cash paid to vendors for materials and services	(782,925)	(2,470,416)
Net cash provided by operating activities	<u>4,418,777</u>	<u>2,803,487</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes/assessments	1,162,696	1,131,834
Proceeds from rental revenue	44,047	44,042
Net cash provided by non-capital financing activities	<u>1,206,743</u>	<u>1,175,876</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,743,613)	(2,761,355)
Proceeds from capital contributions	44,240	71,625
Proceeds from long-term debt	14,912,354	2,000,000
Bond issuance cost	(412,354)	-
Principal paid on long-term debt	(932,975)	(936,861)
Interest paid on long-term debt	(470,157)	(131,452)
Net cash provided by (used in) capital and related financing activities	<u>8,397,495</u>	<u>(1,758,043)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	(1,692,793)	(214,416)
Santa Margarita Groundwater Agency contribution	(147,911)	(145,628)
Proceeds from investment earnings	335,759	81,246
Net cash used in investing activities	<u>(1,504,945)</u>	<u>(278,798)</u>
Net increase in cash and cash equivalents	12,518,070	1,942,522
Cash and cash equivalents, beginning of year	<u>3,274,571</u>	<u>1,332,049</u>
Cash and cash equivalents, end of year	<u>\$ 15,792,641</u>	<u>3,274,571</u>
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and cash equivalents	\$ 1,488,104	1,043,351
Cash and cash equivalents – restricted	14,304,537	2,231,220
Total cash and cash equivalents	<u>\$ 15,792,641</u>	<u>3,274,571</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 Fiscal Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,860,842	1,372,284
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,582,370	1,563,805
Change in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
(Increase)decrease in assets and deferred outflows of resources:		
Accounts receivable – water sales and services, net	(285,051)	(40,376)
Accounts receivable – other	34,813	(21,694)
Prepaid expenses	228,644	(188,697)
Materials and supplies inventory	(16,079)	(13,061)
Deferred outflows of resources	(740,907)	318,922
Increase(decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expense	583,866	(20,757)
Accrued wages and related payables	(93,900)	9,919
Unearned revenues – customer deposits	(32,823)	39,426
Unearned revenues – construction deposits	3,055	(1,533)
Compensated absences	31,036	25,079
Net OPEB liability	851,612	109,627
Net pension liability	352,685	(163,939)
Deferred inflows of resources	54,188	(185,518)
Total adjustments	<u>2,557,935</u>	<u>1,431,203</u>
Net cash provided by operating activities	<u>\$ 4,418,777</u>	<u>2,803,487</u>

See accompanying notes to the basic financial statements

San Lorenzo Valley Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2020 and 2019

Note 1 Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The San Lorenzo Valley Water District (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 serving four-year terms. The District provides water and sewer services to approximately 7,900 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, 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.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government, which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncement in the current year:

In May 2020, the GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 1 Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

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, deferred outflows, liabilities, and deferred inflows, and disclosures of contingent assets, deferred outflows, liabilities, and deferred inflows at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the District and the duration cannot be estimated at this time.

3. 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 to be cash equivalents.

4. Investments and Investment Policy

The District has adopted an investment policy directing the Finance Manager to deposit and invest funds in financial institutions in accordance with California Government Code section 53600. The investment policy applies to all financial assets and investment activities of the District.

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.

5. Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on valuation inputs used to measure the fair value of assets as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of default, loss severity, and other assumptions that are internally generated and cannot be observed in the market.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 1 Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

6. Accounts Receivable and Allowance for Uncollectible Accounts

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.

7. 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 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 which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

8. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipes, and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time those items are withdrawn from inventory or consumed.

9. Prepaid Expenses

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

10. 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 \$5,000. Donated assets are recorded at acquisition value rather than fair market value at the date of donation. 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:

- Transmission and distribution mains – 33 to 50 years
- Buildings – 33 years
- Transportation and other equipment – 10 years
- Computer and office equipment – 5 years

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 1 Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

11. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

12. 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.

13. Compensated Absences

The District's policy is to permit employees to accumulate earned paid time off. 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 paid time off except for those employees that have not completed the probationary period.

14. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

15. Pensions

For the purpose of measuring net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For fiscal years 2020 and 2019, the following timeframes are used:

- Valuation Dates: June 30, 2018 and 2017
- Measurement Dates: June 30, 2019 and 2018
- Measurement Periods: July 1, 2018 to June 30, 2019; and July 1, 2017 to June 30, 2018

16. Water and Sewer Sales

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

17. Capital Contributions

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

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 1 Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

18. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- **Net investment in capital 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** – consists of constraints placed on net position 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** – consists of net position that does not meet the definition of *restricted* or *net investment in capital assets* components of net position.

19. Budgetary Policies

The District adopts an annual 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.

Note 2 Cash and Investments

Cash and investments as of June 30, are classified as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,488,104	1,043,351
Cash and cash equivalents – restricted	14,304,537	2,231,220
Investments – current	<u>3,969,393</u>	<u>2,276,600</u>
Total cash and investments	<u>\$ 19,762,034</u>	<u>5,551,171</u>

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

	<u>2020</u>	<u>2019</u>
Cash on hand	\$ 306	321
Deposits with financial institutions	605,850	184,492
Investments	<u>19,155,878</u>	<u>5,366,358</u>
Total cash and investments	<u>\$ 19,762,034</u>	<u>5,551,171</u>

As of June 30, the District's authorized deposits had the following average days to maturity:

	<u>2020</u>	<u>2019</u>
Deposits held with the California Local Agency Investment Fund	191 days	173 days
Deposits held with the County of Santa Cruz Investment Fund	366 days	237 days

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 2 Cash and Investments, continued

As of June 30, 2020, the District's investment was allocated as follows:

Investment Type	2020	Percent Allocation
Local Agency Investment Fund	\$ 881,948	4.60 %
County of Santa Cruz Investment Fund	17,990,420	93.92
Held by bond trustee:		
Money market funds	283,510	1.48
Total	\$ 19,155,878	100.00 %

As of June 30, 2019, the District's investment was allocated as follows:

Investment Type	2019	Percent Allocation
Local Agency Investment Fund	\$ 858,538	16.00 %
County of Santa Cruz Investment Fund	4,330,179	80.69
Held by bond trustee:		
Money market funds	177,641	3.31
Total	\$ 5,366,358	100.00 %

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

The following table 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, the table addresses 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
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
County of Santa Cruz Investment Fund	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 2 Cash and Investments, continued

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of 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 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 and policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions 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. As of June 30, 2020 and 2019, bank balances are federally insured up to \$250,000. 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 California 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 fair value factor for LAIF is reported on a quarterly basis. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of \$1,000.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Investment in County of Santa Cruz Investment Pool

The District is a voluntary participant in the County of Santa Cruz Investment Fund (Fund) that is established and controlled by the Treasury-Tax Department of the County of Santa Cruz to afford smaller agencies the benefits of a larger investment portfolio, including higher interest rates and greater diversification. Authority for the County of Santa Cruz Investment Fund is delegated to the County of Santa Cruz Treasurer. The fair value of the District's investment in this fund is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value for the entire Fund portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Fund, which are stated at cost in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools".

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 2 Cash and Investments, continued

Investment in County of Santa Cruz Investment Pool, continued

The District's deposit and withdrawal restrictions and limitations are as follows:

- Notice must be submitted to the County at least one day prior to actual fund transfer or withdrawal.
- Transactions amounting to \$1,000,000 must be provided with a 2 day notice.
- All requests must be in writing. Verbal transactions are not permitted.

Interest Rate Risk

Interest rate risk is the risk that the change 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 the change 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 for cash flow requirements and liquidity needed for operations.

As of June 30, 2020, the District's investments are scheduled to mature as follows:

Investment Type	Total	Remaining Maturity (12 Months or Less)
Local Agency Investment Fund	\$ 881,948	881,948
County of Santa Cruz Investment Fund	17,990,420	17,990,420
Held by bond trustee:		
Money market funds	283,510	283,510
Total	\$ 19,155,878	19,155,878

As of June 30, 2019, the District's investments are scheduled to mature as follows:

Investment Type	Total	Remaining Maturity (12 Months or Less)
Local Agency Investment Fund	\$ 858,538	858,538
County of Santa Cruz Investment Fund	4,330,179	4,330,179
Held by bond trustee:		
Money market funds	177,641	177,641
Total	\$ 5,366,358	5,366,358

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 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 the years ended for each investment type.

Credit ratings as of June 30, 2020, were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating At Year End (Not Rated)</u>
Local Agency Investment Fund	\$ 881,948	N/A	-	881,948
County of Santa Cruz Investment Fund	17,990,420	N/A	-	17,990,420
Held by bond trustee:				
Money market funds	283,510	AAA	283,510	-
Total	<u>\$ 19,155,878</u>		<u>283,510</u>	<u>18,872,368</u>

Credit ratings as of June 30, 2019, were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating At Year End (Not Rated)</u>
Local Agency Investment Fund	\$ 858,538	N/A	-	858,538
County of Santa Cruz Investment Fund	4,330,179	N/A	-	4,330,179
Held by bond trustee:				
Money market funds	177,641	AAA	177,641	-
Total	<u>\$ 5,366,358</u>		<u>177,641</u>	<u>5,188,717</u>

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments at June 30, 2020 and 2019.

Note 3 Investment in Joint Powers Authority

Jointly governed organizations are legal entities or other organizations that result from a contractual arrangement and that are owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility as permitted by the California Government Code.

As of June 30, 2020, the District's participation in the jointly governed organization consists of the following balance:

	<u>2019</u>	<u>Additions</u>	<u>Deletion</u>	<u>2020</u>
Santa Margarita Groundwater Agency	\$ 52,510	147,911	(178,740)	21,681

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 3 Investment in Joint Powers Authority, continued

As of June 30, 2019, the District's participation in the jointly governed organization consists of the following balance:

	<u>2018</u>	<u>Additions</u>	<u>Deletion</u>	<u>2019</u>
Santa Margarita Groundwater Agency	\$ 30,030	145,628	(123,148)	52,510

The District has recorded its interest in the joint-powers authorities under the equity method of accounting whereby, the District's equity in the joint-powers authorities is equal to the original cost of assets contributed plus their pro rata share of the net position of the joint-powers authorities.

Note 4 Capital Assets

Change in capital assets for 2020, was as follows:

	<u>Balance 2019</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2020</u>
Non-depreciable assets:				
Land	\$ 5,107,583	-	-	5,107,583
Construction-in-process	4,092,818	4,747,113	(4,818,376)	4,021,555
Total non-depreciable assets	9,200,401	4,747,113	(4,818,376)	9,129,138
Depreciable assets:				
Water transmission and distribution	50,963,667	4,655,085	-	55,618,752
Wastewater system	1,428,103	-	-	1,428,103
Buildings and structures	2,929,197	-	-	2,929,197
Transportation equipment	1,180,044	-	(33,904)	1,146,140
Field and shop equipment	1,217,849	156,051	-	1,373,900
Office equipment	494,966	7,240	-	502,206
Total depreciable assets	58,213,826	4,818,376	(33,904)	62,998,298
Accumulated depreciation:				
Water transmission and distribution	(27,393,008)	(1,196,634)	-	(28,589,642)
Wastewater system	(1,099,241)	(42,001)	-	(1,141,242)
Buildings and structures	(1,615,356)	(96,148)	-	(1,711,504)
Transportation equipment	(892,962)	(87,467)	32,190	(948,239)
Field and shop equipment	(604,234)	(110,645)	-	(714,879)
Office equipment	(403,553)	(49,475)	-	(453,028)
Total accumulated depreciation	(32,008,354)	(1,582,370)	32,190	(33,558,534)
Total depreciable assets, net	26,205,472	3,236,006	(1,714)	29,439,764
Total capital assets, net	\$ 35,405,873			38,568,902

In fiscal year 2020, total depreciation expense of \$1,582,370 was charged to the District's water and sewer funds in the amount of \$1,540,370 and \$40,388, respectively.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 4 Capital Assets, continued

	<u>Balance 2018</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2019</u>
Non-depreciable assets:				
Land	\$ 5,107,583	-	-	5,107,583
Construction-in-process	2,902,567	2,761,355	(1,571,104)	4,092,818
Total non-depreciable assets	<u>8,010,150</u>	<u>2,761,355</u>	<u>(1,571,104)</u>	<u>9,200,401</u>
Depreciable assets:				
Water transmission and distribution	51,048,590	1,117,754	(1,202,677)	50,963,667
Wastewater system	1,447,521	-	(19,418)	1,428,103
Buildings and structures	2,943,834	27,224	(41,861)	2,929,197
Transportation equipment	1,058,359	177,850	(56,165)	1,180,044
Field and shop equipment	1,263,818	248,276	(294,245)	1,217,849
Office equipment	731,686	-	(236,720)	494,966
Total depreciable assets	<u>58,493,808</u>	<u>1,571,104</u>	<u>(1,851,086)</u>	<u>58,213,826</u>
Accumulated depreciation:				
Water transmission and distribution	(27,084,783)	(1,208,088)	899,863	(27,393,008)
Wastewater system	(1,073,146)	(42,001)	15,906	(1,099,241)
Buildings and structures	(1,537,785)	(111,872)	34,301	(1,615,356)
Transportation equipment	(879,252)	(69,875)	56,165	(892,962)
Field and shop equipment	(816,702)	(78,357)	290,825	(604,234)
Office equipment	(583,559)	(53,612)	233,618	(403,553)
Total accumulated depreciation	<u>(31,975,227)</u>	<u>(1,563,805)</u>	<u>1,530,678</u>	<u>(32,008,354)</u>
Total depreciable assets, net	<u>26,518,581</u>	<u>7,299</u>	<u>(320,408)</u>	<u>26,205,472</u>
Total capital assets, net	<u>\$ 34,528,731</u>			<u>35,405,873</u>

In fiscal year 2019, total depreciation expense of \$1,563,805 was charged to the District's water and sewer funds in the amount of \$1,521,804 and \$42,001, respectively.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 4 Capital Assets, continued

Construction-In-Process

The District has been involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. The projects that comprise the construction-in-process balances at June 30, are as follows:

	<u>2020</u>	<u>2019</u>
Admin Campus (inactive)	\$ 1,015,535	1,015,535
Bear Creek Wastewater	88,010	87,049
California Drive Pipeline Project	88,747	-
Fall Creek Intake	-	129,670
Fish Ladder	473,087	359,784
Hillside Drive Pipeline Project	65,172	-
Kaski tank	119,032	-
Lewis Tank	542,551	-
Lyon Pipeline Project	188,046	150,902
Lyon Water Treatment Plant Access Road Repair	152,365	126,373
Madrone Tank	299,890	-
Mobile Generator No. 9	106,597	-
Mobile Generator No. 10	106,603	-
Paso Well Replacement	-	658,558
Probation Tank	-	1,132,139
Swim Tank	221,575	181,609
Water Master Plan	63,525	-
Various individual projects under \$50,000	490,820	251,199
Construction-in-process	\$ <u>4,021,555</u>	<u>4,092,818</u>

Note 5 Compensated Absences

Compensated absences comprise of unpaid time off which is accrued as earned. The District's liability for compensated absences is determined annually. Compensated absences turn-over each year; therefore, the compensated absence balance of the District is recorded as a liability on the Statements of Net Position and will be liquidated through the water fund.

Change in compensated absences for the year ended June 30, 2020, are as follows:

<u>Balance</u> <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2020</u>	<u>Due within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 539,253	413,114	(382,078)	570,289	205,304	364,985

Change in compensated absences for the year ended June 30, 2019, are as follows:

<u>Balance</u> <u>2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2019</u>	<u>Current</u> <u>Portion</u>	<u>Due in more</u> <u>than one year</u>
\$ 514,174	432,625	(407,546)	539,253	194,131	345,122

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 6 Long-Term Debt

Changes in long-term debt for the year ended June 30, 2020, are as follows:

	<u>Balance 2019</u>	<u>Transfer/ Additions</u>	<u>Transfer/ Payments</u>	<u>Balance 2020</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Loans payable:						
Felton Safe Drinking Water Loan	\$ 1,351,293	-	(155,010)	1,196,283	158,863	1,037,420
State of California Revolving Fund Loan	1,461,621	-	(67,097)	1,394,524	68,833	1,325,691
Capital One Loan	2,000,000	-	(50,716)	1,949,284	71,820	1,877,464
Government Obligation Contract	250,379	-	(30,312)	220,067	31,443	188,624
Total loans payable	<u>5,063,293</u>	<u>-</u>	<u>(303,135)</u>	<u>4,760,158</u>	<u>330,959</u>	<u>4,429,199</u>
Bonds payable						
Bank of Nevada Refunding Bonds	<u>1,179,809</u>	<u>-</u>	<u>(582,031)</u>	<u>597,778</u>	<u>494,531</u>	<u>103,247</u>
Total bonds payable	<u>1,179,809</u>	<u>-</u>	<u>(582,031)</u>	<u>597,778</u>	<u>494,531</u>	<u>103,247</u>
Certificate-of-participation						
Revenue Series 2019	-	14,025,000	-	14,025,000	230,000	13,795,000
Premium	-	887,354	(24,649)	862,705	-	862,705
Total certificate-of-participation	<u>-</u>	<u>14,912,354</u>	<u>(24,649)</u>	<u>14,887,705</u>	<u>230,000</u>	<u>14,657,705</u>
Obligation under capital lease:						
Capital lease payable	<u>70,019</u>	<u>-</u>	<u>(23,160)</u>	<u>46,859</u>	<u>24,031</u>	<u>22,828</u>
Total capital lease payable	<u>70,019</u>	<u>-</u>	<u>(23,160)</u>	<u>46,859</u>	<u>24,031</u>	<u>22,828</u>
Total long-term debt payable	<u>6,313,121</u>	<u>14,912,354</u>	<u>(932,975)</u>	<u>20,292,500</u>	<u>1,079,521</u>	<u>19,212,979</u>
Less: current portion	<u>(932,975)</u>			<u>(1,079,521)</u>		
Non-current portion	<u>\$ 5,380,146</u>			<u>19,212,979</u>		

Changes in long-term debt for the year ended June 30, 2019, are as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2019</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Loans payable:						
Felton Safe Drinking Water Loan	\$ 1,502,664	-	(151,371)	1,351,293	155,010	1,196,283
State of California Revolving Fund Loan	1,527,028	-	(65,407)	1,461,621	67,097	1,394,524
Capital One Loan	-	2,000,000	-	2,000,000	50,716	1,949,284
Government Obligation Contract	281,943	-	(31,564)	250,379	30,312	220,067
Total loans payable	<u>3,311,635</u>	<u>2,000,000</u>	<u>(248,342)</u>	<u>5,063,293</u>	<u>303,135</u>	<u>4,760,158</u>
Bonds payable						
Bank of Nevada Refunding Bonds	<u>1,845,823</u>	<u>-</u>	<u>(666,014)</u>	<u>1,179,809</u>	<u>582,031</u>	<u>597,778</u>
Total bonds payable	<u>1,845,823</u>	<u>-</u>	<u>(666,014)</u>	<u>1,179,809</u>	<u>582,031</u>	<u>597,778</u>
Obligation under capital lease:						
Capital lease payable	<u>92,524</u>	<u>-</u>	<u>(22,505)</u>	<u>70,019</u>	<u>23,256</u>	<u>46,763</u>
Total capital lease payable	<u>92,524</u>	<u>-</u>	<u>(22,505)</u>	<u>70,019</u>	<u>23,256</u>	<u>46,763</u>
Total long-term debt payable	<u>5,249,982</u>	<u>2,000,000</u>	<u>(936,861)</u>	<u>6,313,121</u>	<u>908,422</u>	<u>5,404,699</u>
Less: current portion	<u>(936,861)</u>			<u>(908,422)</u>		
Non-current portion	<u>\$ 4,313,121</u>			<u>5,404,699</u>		

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 6 Long-Term Debt, continued

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 2.42%, 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.

Annual debt service requirements for the loan are as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$	158,863	27,935	186,798
2022		162,686	24,112	186,798
2023		166,642	20,155	186,797
2024		170,674	16,122	186,796
2025		174,864	11,933	186,797
2026-2027		362,554	11,040	373,594
Total		1,196,283	111,297	1,307,580
Current		(158,863)		
Non-current	\$	1,037,420		

State of California Revolving Fund Loan

On June 30, 2014, the District entered into a grant funding agreement with the California Department of Public Health (State) for a construction loan and grant under the Safe Drinking Water State Revolving Fund Law of 1997 (Revolving Fund Law) at a rate of 2.60%, maturing on January 1, 2037. The construction was for a mainline improvement and extension, in part to connect to the Olympia Mutual service area. A portion of this loan is funded by assessment district fees of the Olympia Mutual Assessment District. The District makes semi-annual payments of \$52,116, including principal and interest on July 1st and January 1st.

Annual debt service requirements for the loan are as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$	68,833	35,400	104,233
2022		70,613	33,619	104,232
2023		72,440	31,793	104,233
2024		74,313	29,919	104,232
2025		76,236	27,997	104,233
2026-2030		411,795	109,369	521,164
2031-2035		467,878	53,286	521,164
2036-2037		152,416	3,934	156,350
Total		1,394,524	325,317	1,719,841
Current		(68,833)		
Non-current	\$	1,325,691		

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 6 Long-Term Debt, continued

Capital One Loan

On December 12, 2018, the District entered into a loan agreement with Capital One Public Funding, LLC to finance the construction, acquisitions, and improvements associated with the District's water storage facilities, known as the Probation Tank, servicing the Scotts Valley area. The terms of the agreement state an interest rate of 4.15% and matures on September 1, 2038. The District makes semi-annual payments of \$75,989, including principal and interest on September 1st and March 1st.

Annual debt service requirements for the loan are as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$	71,820	74,009	145,829
2022		74,831	70,739	145,570
2023		77,969	67,333	145,302
2024		81,238	63,784	145,022
2025		84,645	60,086	144,731
2026-2030		479,534	239,298	718,832
2031-2035		588,862	120,610	709,472
2036-2039		490,385	160,298	650,683
Total		1,949,284	856,157	2,805,441
Current		(50,716)		
Non-current	\$	1,898,568		

Government Obligation Contract

On November 7, 2016, the District entered into a loan agreement with NBH Bank to finance the installation of the solar electric system in three different locations (as noted in Exhibit B of the agreement) at a rate of 3.67%, maturing on November 15, 2026. The District makes monthly payments of \$3,250, including principal and interest.

Annual debt service requirements for the loan are as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$	31,443	7,551	38,994
2022		32,617	6,377	38,994
2023		33,834	5,160	38,994
2024		35,097	3,897	38,994
2025		5,976	523	6,499
2026-2027		81,100	3,391	84,491
Total		220,067	26,899	246,966
Current		(31,443)		
Non-current	\$	188,624		

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 6 Long-Term Debt, continued

Bank of Nevada Refunding Bonds

On March 22, 2012, the District entered into a refunding bond agreement with the Bank of Nevada at a rate of 2.6% in order to pay off several other previously held loans. The District makes semi-annual payments of \$354,855, including principal and interest on September 1st and March 1st. Final maturity is September 1, 2022.

Annual debt service requirements for the bond are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 494,531	12,354	506,885
2022	103,247	1,345	104,592
Total	597,778	13,699	611,477
Current	(494,531)		
Non-current	\$ 103,247		

Revenue Series 2019 Certificate of Participation

On August 1, 2019, the District executed and delivered a certificate of participation at a rate ranging from 4.0% to 5.0%. The proceeds from the sale of the certificate will be used to finance the acquisition and construction of certain water storage and transmission facilities of the District's water and wastewater system. The District makes payments of principal and interest on September 1st commencing on September 1, 2020 and maturing on September 1, 2049.

Annual debt service requirements for the bond are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 230,000	532,260	762,260
2022	245,000	507,975	752,975
2023	260,000	495,350	755,350
2024	270,000	482,100	752,100
2025	285,000	468,225	753,225
2026-2030	1,655,000	2,106,625	3,761,625
2031-2035	2,070,000	1,691,150	3,761,150
2036-2040	2,525,000	1,233,250	3,758,250
2041-2045	3,005,000	752,625	3,757,625
2046-2050	3,480,000	267,300	3,747,300
Total	14,025,000	8,536,860	22,561,860
Premium	862,705		
Current	(230,000)		
Non-current	\$ 14,657,705		

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 6 Long-Term Debt, continued

Capital Lease

On May 31, 2017, the District entered into a municipal lease purchase agreement (agreement) with Leasource Financial Services, Inc. to purchase three vehicles (lease asset). The agreement has a bargain purchase option, where the District has the option to purchase the lease asset following the expiration of the lease at below market rate. Per Exhibit E of the agreement, the value at the end of the lease term is zero. The District makes monthly payments of \$2,101, including principal and interest, and matures on May 31, 2022.

Annual lease payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 24,031	1,177	25,208
2022	22,828	375	23,203
Total	46,859	1,552	48,411
Current	(24,031)		
Non-current	\$ 22,828		

Note 7 Other Post-Employment Benefits

Plan Description

The District's defined benefit Other Post-Employment Benefit (OPEB) Plan (Plan) provides lifetime retiree medical coverage to eligible employees who retire from the District with a CalPERS Pension. Coverage is extended to dependents and surviving spouses of eligible retirees. The Plan is a single-employer defined benefit OPEB plan administered by the District. The medical plan benefits are contracted with the California Public Employees' Retirement System under the public Employees' Medical and Hospital Care Act (PEMHCA). No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The District provides a capped benefit, which varies based on years of service and employee classification. Classified employees who retire directly from the District are eligible to receive a monthly benefit up to \$325, if having over 25 years of District service. Classified employees with 15-24 years of service receive a monthly benefit up to \$275. Classified employees with under 15 years of service receive a monthly benefit up to \$225. Management employees who retire directly from the District are eligible to receive a monthly benefit up to \$275, if having over 25 years of District service. Management employees with 15-24 years of service receive a monthly benefit up to \$225. Management employees with under 15 years of service receive a monthly benefit up to \$175. Current retirees are subject to caps ranging from \$150 per month to \$275 per month. One retiree receives the full premium. The District also pays the PEMHCA administrative fee (0.27% and 0.23% for the years ended June 30, 2020 and 2019, respectively).

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 7 Other Post-Employment Benefits, continued

Employee Covered by Benefit Terms

At June 30, the following employees were covered by the benefit terms:

	<u>2020</u>	<u>2019</u>
Participating active employees	35	33
Inactive employees or beneficiaries		
currently receiving benefit payments	<u>7</u>	<u>5</u>
Total plan membership	<u>42</u>	<u>38</u>

Total OPEB Liability

The District's total OPEB liability of \$1,990,505 and \$1,13,893 was measured as of June 30, 2020 and 2019, respectively, and was determined by an actuarial valuation as June 30, 2020 and 2017, respectively.

Actuarial Assumptions and Other Inputs

As of June 30, 2020 and 2019, the total OPEB liability in the actuarial valuations was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2020: 2.26% 2019: 3.00%
Salary increases	3.00%
Discount rate	2020: 2.21% 2019: 3.13%
Healthcare cost trend rates	2020: 6.85% for 2022 decreasing 0.25% until 4.60% in 2031, and then 4.50% for years 2032 and later 2019: 5.00% for 2018 and later years
Retirees share of benefit-related cost	See benefit provisions

For the year ended June 30, 2020, the discount rate was based on a yield or index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or better for benefits not covered by plan assets.

Pre-retirement and post-retirement mortality rates were based on the CalPERS 2017 Mortality Table.

For the year ended June 30, 2019, the discount rate was based on the Municipal Bond 20 Year High Grade Rate Index.

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 7 Other Post-Employment Benefits, continued

Changes in the Total OPEB Liability

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 1,138,893	1,029,266
Changes during the year:		
Service cost	87,353	66,682
Interest cost	37,710	36,676
Difference between expected and actual experience	43,911	
Contributions - employer	(43,216)	(32,501)
Change in assumptions	725,854	38,770
Net change	851,612	109,627
Balance at end of year	\$ 1,990,505	1,138,893

No changes of benefit terms were noted for the years ended June 30, 2020 and 2019.

Change of assumptions and other inputs reflect a change in the average per capita claims cost which was updated to reflect actual 2020 and 2021 premiums, the health care cost trend rate was updated to reflect 2018 industry survey data, the mortality, withdrawal, disablement, and retirement tables was updated to reflect the 2017 CalPERS studies. The population for curving and morbidity factors have also been updated to the 2017 CalPERS study. The discount rate changed from 3.13% as of June 30, 2019 to 2.21% as of June 30, 2020. Other assumptions due to change in actuaries may include future retiree participation assumption and PEMHCA Minimum trend.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate as of June 30, 2020:

	<u>Discount Rate - 1% 1.21%</u>	<u>Current Discount Rate 2.21%</u>	<u>Discount Rate + 1% 3.21%</u>
Total OPEB liability	\$ 2,405,230	1,990,505	1,668,507

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate as of June 30, 2019:

	<u>Discount Rate - 1% 2.13%</u>	<u>Current Discount Rate 3.13%</u>	<u>Discount Rate + 1% 4.13%</u>
Total OPEB liability	\$ 1,225,182	1,138,893	1,062,064

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 7 Other Post-Employment Benefits, continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate as of June 30, 2020:

	1% Decrease 3.50%	Current 4.50%	1% Increase 5.50%
Net OPEB Liability	\$ 1,825,369	1,990,505	2,206,507

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate as of June 30, 2019:

	1% Decrease 4.00%	Current 5.00%	1% Increase 6.00%
Net OPEB Liability	\$ 1,025,729	1,138,893	1,273,538

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2020 and 2019, the District recognized OPEB expense of \$187,522 and \$103,533, respectively. As of June 30, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
Description	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 40,358	-	-	-
Changes in assumptions	696,201	(23,821)	5,432	-
Total	\$ 736,559	(23,821)	5,432	-

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30,	Deferred Outflows(Inflows) of Resources
2020	\$ 62,459
2021	62,459
2022	62,459
2023	62,459
2024	62,459
Thereafter	400,443

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 8 Defined Benefit Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect on January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect at June 30, are summarized as follows:

	2020		2019	
	Classic	PEPRA	Classic	PEPRA
Hire date	Prior to January 1, 2011	On or after January 1, 2013	Prior to January 1, 2011	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 62	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service		5 years of service	
Benefit payments	Monthly for life		Monthly for life	
Retirement age	50 - 55	62 - 67	50 - 55	62 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	6.91%	6.75%	7.00%	6.25%
Required employer contribution rates	9.68%	6.99%	8.89%	6.84%

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 8 Defined Benefit Pension Plan, continued

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that employer contribution rates for all public employers be determined on an annual basis by an actuary and shall be effective on July 1, following notice of a change in rates. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal years ended June 30, 2020 and 2019, the contributions recognized as part of pension expense for the Plan were as follows:

	<u>2020</u>	<u>2019</u>
Contributions – employer	\$ <u>486,796</u>	<u>427,168</u>

Net Pension Liability

As of June 30, 2020 and 2019, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	<u>2020</u>	<u>2019</u>
Proportionate share of net pension liability	\$ <u>4,158,344</u>	<u>3,805,659</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2020 and 2019, the net pension liability of the Plan is measured as of June 30, 2019 and 2018 (the measurement dates), respectively. The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and 2017 (the valuation dates), rolled forward to June 30, 2019 and 2018, respectively, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the pension liability for the Plan as of the measurement dates June 30, 2019 and 2018, was as follows:

	<u>Miscellaneous</u>
Proportion – June 30, 2017	0.04003 %
Change in proportion	<u>(0.00053)</u>
Proportion – June 30, 2018	0.03949
Change in proportion	<u>0.00109</u>
Proportion – June 30, 2019	<u>0.04058 %</u>

Deferred Pension Outflows (Inflows) of Resources

For the years ended June 30, 2020 and 2019, the District recognized pension expense of \$918,083 and \$488,394, respectively.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 8 Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

Description	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 544,811	-	486,796	-
Differences between actual and expected experience	266,438	-	96,328	-
Change in assumptions	127,997	-	327,527	-
Net difference between projected and actual earnings on plan investments	-	(72,700)	18,815	-
Adjustment due to difference in proportions and difference between actual and proportionate share of contributions	-	(81,313)	-	(123,646)
Total	\$ 939,246	(154,013)	929,466	(123,646)

As of June 30, 2020 and 2019, the District reported \$544,811 and \$486,796, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date. Pension contributions subsequent to the measurement date for the year ended June 30, 2020, will be recognized as a reduction of the net pension liability for the year ended June 30, 2021. Pension contributions subsequent to the measurement date for the year ended June 30, 2019, will be recognized as a reduction of the net pension liability for the year ended June 30, 2020.

As of June 30, 2020, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources
2021	\$ 256,485
2022	(57,039)
2023	26,287
2024	14,689

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 8 Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation dates	June 30, 2019 and 2018
Measurement dates	June 30, 2020 and 2019
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.50%
Salary increase	Varies by entry age and service
Mortality Table*	Derived using CalPERS membership data
Period upon which actuarial Experience survey assumptions were based	1997 – 2015
Post-retirement benefit increase	Contract COLA up to 2.50% until PPPA floor on purchasing power applies; 2.50% thereafter

* The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP 2016. For more details on this table, please refer to the December 2017, experience study report (based on CalPERS demographic data from 1997 to 2015) available online on the CalPERS website.

On December 21, 2016, the Board lowered the discount rate for the PERF C for funding purposes from 7.50% to 7.00% percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations.

On December 19, 2017, the Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases, and inflation assumption. These new assumptions are incorporated into the June 30, 2017 actuarial valuations.

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2020 and 2019, for the PERF C was 7.15%. This discount rate is not adjusted for administrative expenses.

The PERF C fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return for those pension plans' investments were applied to all periods of projected benefit payments to determine the total pension liability.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 8 Defined Benefit Pension Plan, continued

Discount Rate, continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical and forecasted information for all funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	50.00 %	4.80 %	5.98 %
Fixed income	28.00	1.00	2.62
Inflation assets	0.00	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	0.00	(0.92)
	<u>100.00 %</u>		

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it was calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate.

As of June 30, 2020, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	\$ <u>6,733,535</u>	<u>4,158,344</u>	<u>2,032,706</u>

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 8 Defined Benefit Pension Plan, continued

As of June 30, 2019, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	\$ 6,246,603	3,805,659	1,790,700

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 59 through 60 for the Required Supplementary Information.

Note 9 Net Position

Calculation of net position as of June 30, was as follows:

	2020	2019
Net investment in capital assets:		
Capital assets, net	\$ 38,568,902	35,405,873
Loans payable	(4,760,158)	(5,063,293)
Bonds payable	(597,778)	(1,179,809)
Certificate of participation	(1,250,555)	-
Capital lease payable	(46,859)	(70,019)
Total net investment in capital assets	31,913,552	29,092,752
Restricted net position:		
Restricted for debt service	14,304,537	2,231,220
Funds from certificate of participation	(13,637,150)	-
Total restricted net position	667,387	2,231,220
Unrestricted net position:		
Non-spendable net position		
Materials and supplies inventory	283,136	267,057
Total non-spendable net position	283,136	267,057
Spendable net position designated for the following purpose:		
Assessment reserve fund	380,723	587,238
Spendable net position are designated as follows:		
Unrestricted (deficit)	204,140	(950,755)
Total unrestricted net position (deficit)	867,999	(96,460)
Total net position	\$ 33,448,938	31,227,512

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 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, 2020, the District participated in the liability and property programs of the SDRMA as follows:

- General and automotive liability: \$5,000,000 per occurrence with \$500-\$1,000 per occurrence for third party general liability property damage.
- Public officials and employees' errors and omissions: \$5,000,000 per occurrence with 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.
- Public officials' personal liability: \$500,000 per occurrence with \$500,000 annual aggregate limit per each elected/appointed official and a deductible of \$500 per claim.
- Employment practices and benefits liability: \$5,000,000 per occurrence with 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: \$1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss: \$1,000,000,000 per occurrence with a \$2,000 deductible per occurrence.
- Boiler and machinery: \$100,000,000 per occurrence with a \$1,000 deductible.
- Workers compensation: \$5,000,000 each accident or each employee by disease.

Note 11 Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 11 Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 84, continued

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 11 Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 11 Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 91, continued

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 92

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 11 Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 93, continued

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 11 Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

Note 12 Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to an audit by grantor agencies. Such an audit could lead to requests for reimbursements to grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

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.

San Lorenzo Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Note 13 Subsequent Event

On August 2020, the District suffered damages to its water infrastructures caused by the Boulder Creek Fire.

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of November 19, 2020, which is the date the financial statements were available to be issued.

Subject to Review

Required Supplementary Information

Subject to Review

Subject to Review

San Lorenzo Valley Water District
Schedules of Changes in Total OPEB Liability and Related Ratios
For the Years Ended June 30, 2020
Last Ten Years*

Defined Benefit OPEB Plan

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 87,353	66,682	69,318
Interest	37,710	36,676	30,730
Difference between expected and actual experience	43,911		
Assumption changes	725,854	38,770	(37,834)
Benefit payments	<u>(43,216)</u>	<u>(32,501)</u>	<u>(29,229)</u>
Net change in total OPEB liability	851,612	109,627	32,985
Total OPEB liability – beginning of year	<u>1,138,893</u>	<u>1,029,266</u>	<u>996,281</u>
Total OPEB liability – end of year	\$ <u>1,990,505</u>	<u>1,138,893</u>	<u>1,029,266</u>
Covered payroll	\$ <u>3,395,754</u>	<u>3,092,118</u>	<u>2,962,700</u>
Total OPEB liability as a percentage of covered payroll	<u>58.62%</u>	<u>36.83%</u>	<u>34.74%</u>

Notes to Schedule

Change in Benefit Terms

There was no change in benefit terms.

Change of Assumptions and Methods

Change of assumptions and other inputs reflect a change in the average per capita claims cost which was updated to reflect actual 2020 and 2021 premiums, the health care cost trend rate was updated to reflect 2018 industry survey data, the mortality, withdrawal, disablement, and retirement tables was updated to reflect the 2017 CalPERS studies. The population for curving and morbidity factors have also been updated to the 2017 CalPERS study. The discount rate changed from 3.13% as of June 30, 2019 to 2.21% as of June 30, 2020. Other assumptions due to change in actuaries may include future retiree participation assumption and PEMHCA Minimum trend.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

San Lorenzo Valley Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2020
Last Ten Years*

Defined Benefit Pension Plan

Description	Measurement Dates					
	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
District's proportion of the net pension liability	0.04058%	0.03949%	0.04003%	0.04058%	0.03675%	0.03675%
District's proportionate share of the net pension liability	\$ 4,158,344	3,805,659	3,969,598	3,511,169	2,522,518	2,307,630
District's covered payroll	\$ 3,100,397	2,701,505	2,524,999	2,446,674	2,319,224	1,995,604
District's proportionate share of the net pension liability as a percentage of its covered payroll	134.12%	140.87%	157.21%	143.51%	108.77%	115.64%
Plan's fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	76.96%	78.58%	83.20%	83.03%

Notes:

Change in Benefit Terms

Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

Change of Assumptions and Methods

In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90% of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75% to 2.50%.

The assumptions for individual salary increases and overall payroll growth are reduced from 3.00% to 2.75%. These changes will be implemented in two steps commencing in the June 30, 2017 funding valuation. However, for financial reporting purposes, these assumption changes are fully reflected in the results for fiscal year 2018.

In fiscal year 2017, the financial reporting discount rate for the PERF C was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF C from 7.50% to 7.00%, which is to be phased in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In fiscal year 2015, the financial reporting discount rate was increased from 7.50% to 7.65% resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50% during this period, and remained adjusted for administrative expenses.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

San Lorenzo Valley Water District
Schedules of Pension Plan Contributions
As of June 30, 2020
Last Ten Years*

Defined Benefit Pension Plan

Description	Fiscal Years Ended					
	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	\$ 544,811	486,796	433,466	324,612	282,083	284,005
Contributions in relation to the actuarially determined contribution	(544,811)	(486,796)	(427,195)	(522,774)	(172,110)	(232,831)
Contribution deficiency(excess)	\$ -	-	6,271	(198,162)	109,973	51,174
District's covered payroll	\$ 3,100,397	2,901,753	2,701,505	2,524,999	2,446,674	2,319,224
Contribution's as a percentage of covered payroll	17.57%	16.78%	15.81%	20.70%	7.03%	10.04%

Notes to the Schedule of Pension Plan Contributions

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Subject to Review

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Subject to Review

Supplemental Information

Subject to Review

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San Lorenzo Valley Water District
Combining Schedules of Net Position
June 30, 2020 and 2019

	Water Fund	Sewer Fund	2020	Water Fund	Sewer Fund	2019
Current assets:						
Cash & cash equivalents	\$ 1,488,104	-	1,488,104	1,043,351	-	1,043,351
Cash & cash equivalents – restricted	14,304,537	-	14,304,537	2,231,220	-	2,231,220
Accrued interest receivable	3,206	-	3,206	5,487	-	5,487
Investments	3,969,393	-	3,969,393	2,276,600	-	2,276,600
Accounts receivable – water sales and services, net	1,737,057	-	1,737,057	1,452,006	-	1,452,006
Accounts receivable – property taxes	1,324	-	1,324	1,715	-	1,715
Accounts receivable – other	635	-	635	35,448	-	35,448
Internal balances	138,027	(138,027)	-	138,032	(138,032)	-
Prepaid expenses	13,761	344	14,105	242,405	344	242,749
Materials and supplies inventory	283,136	-	283,136	267,057	-	267,057
Total current assets	21,939,180	(137,683)	21,801,497	7,693,321	(137,688)	7,555,633
Non-current assets:						
Investments in joint-powers authorities	21,681	-	21,681	52,510	-	52,510
Capital assets – not being depreciated	9,012,916	116,222	9,129,138	9,085,139	115,262	9,200,401
Capital assets – being depreciated	29,152,902	286,862	29,439,764	25,876,610	328,862	26,205,472
Total non-current assets	38,187,499	403,084	38,590,583	35,014,259	444,124	35,458,383
Total assets	60,126,679	265,401	60,392,080	42,707,580	306,436	43,014,016
Deferred outflows of resources						
Deferred OPEB outflows	736,559	-	736,559	5,432	-	5,432
Deferred pension outflows	939,246	-	939,246	929,466	-	929,466
Total deferred outflows of resources	\$ 1,675,805	-	1,675,805	934,898	-	934,898

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San Lorenzo Valley Water District
Combining Schedules of Net Position, continued
June 30, 2020 and 2019

	Water Fund	Sewer Fund	2020	Water Fund	Sewer Fund	2019
Current liabilities:						
Accounts payable and accrued expense	\$ 946,504	952	947,456	361,991	1,599	363,590
Accrued wages and related payables	149,315	-	149,315	243,215	-	243,215
Unearned revenues – customer deposits	109,048	-	109,048	141,871	-	141,871
Unearned revenues – construction deposits	17,000	-	17,000	13,945	-	13,945
Accrued interest payable	206,656	-	206,656	38,209	-	38,209
Long-term liabilities – due in one year:						
Compensated absences	205,304	-	205,304	194,131	-	194,131
Loans payable – current	330,959	-	330,959	303,135	-	303,135
Bonds payable – current	494,531	-	494,531	582,031	-	582,031
Certificate of participation	230,000	-	230,000	-	-	-
Capital lease payable – current	24,031	-	24,031	23,256	-	23,256
Total current liabilities	2,713,348	952	2,714,300	1,901,784	1,599	1,903,383
Non-current liabilities:						
Long-term liabilities – due in more than one year:						
Compensated absences	364,985	-	364,985	345,122	-	345,122
Loans payable – non-current	4,429,199	-	4,429,199	4,760,158	-	4,760,158
Bonds payable – non-current	103,247	-	103,247	597,778	-	597,778
Certificate of participation	14,657,705	-	14,657,705	-	-	-
Capital lease payable – non-current	22,828	-	22,828	46,763	-	46,763
Net OPEB liability	1,990,505	-	1,990,505	1,138,893	-	1,138,893
Net pension liability	4,158,344	-	4,158,344	3,805,659	-	3,805,659
Total non-current liabilities	25,726,813	-	25,726,813	10,694,373	-	10,694,373
Total liabilities	28,440,161	952	28,441,113	12,596,157	1,599	12,597,756
Deferred inflows of resources						
Deferred OPEB inflows	23,821	-	23,821	-	-	-
Deferred pension inflows	154,013	-	154,013	123,646	-	123,646
Total deferred inflows of resources	177,834	-	177,834	123,646	-	123,646
Net position						
Net investment in capital assets	31,510,468	403,084	31,913,552	28,648,628	444,124	29,092,752
Restricted for debt service	667,387.37	-	667,387	2,231,220	-	2,231,220
Unrestricted (deficit)	1,006,634	(138,635)	867,999	42,827	(139,287)	(96,460)
Total net position	\$ 33,184,489	264,449	33,448,938	30,922,675	304,837	31,227,512

San Lorenzo Valley Water District
Combining Schedules of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2020 and 2019

	Water Fund	Sewer Fund	2020	Water Fund	Sewer Fund	2019
Operating revenues:						
Water consumption sales	\$ 10,865,193	-	10,865,193	9,917,657	-	9,917,657
Wastewater service	-	134,148	134,148	-	111,820	111,820
Meter sales, charges, and penalties	135,129	-	135,129	99,464	-	99,464
Other charges and services	1,434	-	1,434	1,858	-	1,858
Total operating revenues	11,001,756	134,148	11,135,904	10,018,979	111,820	10,130,799
Operating expenses:						
Salaries and benefits	5,550,028	44,296	5,594,324	4,817,360	48,499	4,865,859
Professional services	715,378	62,178	777,556	1,008,868	28,744	1,037,612
Operational	404,444	11,228	415,672	360,737	15,211	375,948
Maintenance	198,650	1,503	200,153	152,752	1,140	153,892
Facilities	557,313	11,816	569,129	559,080	9,085	568,165
General and administrative	366,205	1,515	367,720	337,948	1,607	339,555
Total operating expenses	7,792,018	132,536	7,924,554	7,236,745	104,286	7,341,031
Operating income before overhead absorption	3,209,738	1,612	3,211,350	2,782,234	7,534	2,789,768
Overhead absorption	231,862	-	231,862	146,321	-	146,321
Operating income before depreciation expense	3,441,600	1,612	3,443,212	2,928,555	7,534	2,936,089
Depreciation expense	(1,540,370)	(42,000)	(1,582,370)	(1,521,804)	(42,001)	(1,563,805)
Operating income(loss)	1,901,230	(40,388)	1,860,842	1,406,751	(34,467)	1,372,284
Non-operating revenues(expenses):						
Property taxes	813,051	-	813,051	780,378	-	780,378
Assessment revenues	349,254	-	349,254	350,694	-	350,694
Investment earnings	333,478	-	333,478	86,733	-	86,733
Change in investment in Santa Margarita Groundwater Agency	(178,740)	-	(178,740)	(123,148)	-	(123,148)
Rental revenues	44,047	-	44,047	44,042	-	44,042
Bond issuance expense	(412,354)	-	(412,354)	-	-	-
Interest expense	(638,604)	-	(638,604)	(153,662)	-	(153,662)
Gain(Loss) on disposition of capital assets	1,786	-	1,786	(320,408)	-	(320,408)
Other non-operating revenues	4,426	-	4,426	-	-	-
Total non-operating revenues, net	316,344	-	316,344	664,629	-	664,629
Net income(loss) before capital contributions	2,217,574	(40,388)	2,177,186	2,071,380	(34,467)	2,036,913
Capital contributions:						
Capital grants - other governments	44,240	-	44,240	71,625	-	71,625
Total capital contributions	44,240	-	44,240	71,625	-	71,625
Changes in net position						
Net position, beginning of year	2,261,814	(40,388)	2,221,426	2,143,005	(34,467)	2,108,538
Net position, end of year	30,922,675	304,837	31,227,512	28,779,670	339,304	29,118,974
	\$ 33,184,489	264,449	33,448,938	30,922,675	304,837	31,227,512

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Subject to Review

Statistical Information Section

Subject to Review

Subject to Review

**San Lorenzo Valley Water District
Statistical Section**

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the District's overall financial health.

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

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

We have audited, in accordance with the 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, the financial statements of the San Lorenzo Valley Water District (District), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP
Cypress, California
November 19, 2020

Subject to Review