



**SCOTTS VALLEY
WATER DISTRICT**

**Scotts Valley Water District
Annual Financial Report
For the Fiscal Year Ended June 30, 2018**



Your dollars at work – Orchard Well

Mission Statement

The mission of the Scotts Valley Water District is to deliver a sustainable, high quality water supply in an environmentally responsible and sound financial manner while providing outstanding customer service.

Scotts Valley Water District

Board of Directors as of June 30, 2018

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Chris Perri	President	Elected	12/16-11/20
Danny Reber	Vice President	Elected	12/16-11/20
David Hodgkin	Director	Elected	12/14-11/18
Wade Leishman	Director	Appointed	12/17-11/18
Ruth Stiles	Director	Elected	12/16-11/18

**Scotts Valley Water District
Piret Harmon, General Manager
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Scotts Valley, California 95066
(831) 438-2363 – www.svwd.org**

Scotts Valley Water District

Annual Financial Report

For the Fiscal Year Ended June 30, 2018

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Annual Financial Report
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Table of Contents

	<u>Page No.</u>
Table of Contents	i
Introductory Section	
Letter of Transmittal	1-9
Financial Section	
Independent Auditor’s Report	10-12
Management’s Discussion and Analysis	13-17
Basic Financial Statements:	
Statement of Net Position	18-19
Statement of Revenues, Expenses and Change in Net Position	20
Statement of Cash Flow	21-22
Notes to the Basic Financial Statements	23-46
Required Supplementary Information Section	
Schedules of the District’s Proportionate Share of the Net Pension Liability	47
Schedules of Pension Plan Contributions	48
Schedule of Changes in Net OPEB Liability and Related Ratios	49
Supplemental Information Section	
Combining Schedule of Net Position as of June 30, 2018	50-51
Combining Schedule of Revenues, Expenses and Change Net Position For the Fiscal Year Ended June 30, 2018	52
Schedules of Customer Account and General and Administrative Expense For the Fiscal Years Ended June 30, 2018	53
Statistical Section	
Statistical Section - Table of Contents	54
Population Estimates	55
Direct and Overlapping Debt	56
Assessed Valuations – Santa Cruz County	57
Report on Internal Controls and Compliance	
Independent Auditor’s Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audits of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58-59

Introductory Section



December 13, 2018

The Honorable Board of Directors of
the Scotts Valley Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Scotts Valley Water District (District) for the fiscal year ended June 30, 2018 (FY 2018). The District's staff prepared this financial report following guidelines set forth by the Governmental Accounting Standards Board (GASB). The District is ultimately responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that helps to enhance your understanding of the District's financial position and activities.

This report is organized into five sections: (1) Introductory, (2) Financial, (3) Required Supplementary (4) Supplemental information, and (5) Statistical. The Introductory section offers general information about the District's organizational and water system, the economic environment, and current District activities. It also offers a summary of significant financial results, as well as the major initiatives and accomplishments. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A) of the District's financial statements, and the District's audited financial statements with accompanying notes. The Required Supplementary section, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board. The Supplemental section contains selected financial information in greater detail than presented in the District's financial statements. The Statistical section is presented in compliance with the 2016 Certificate of Participation's debt covenant requirements.

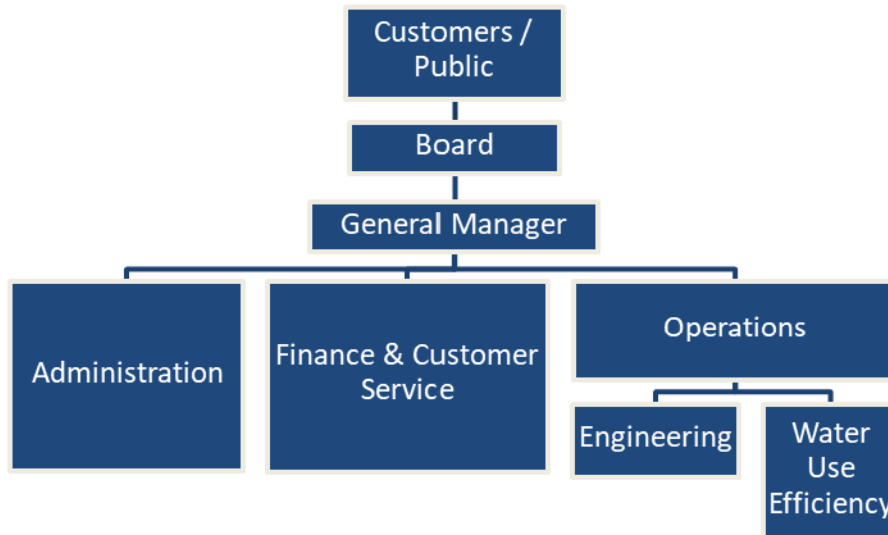
Generally Accepted Accounting Principles (GAAP) requires that the management provides a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis section. This letter of transmittal is designed to complement the MD&A and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

District Structure and Leadership

The Scotts Valley Water District is an independent special district, which operates under the authority of Division 12: County Water District Act of the California Water Code. The District was formed in 1961 and is governed by a five- member Board of Directors, elected at-large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies established by the Board of Directors. The District employs 18 regular employees organized in 3 divisions: Administration, Operations and Finance. The District's Board of Directors meets on the second Thursday of each month. The public is duly notified of these meetings and is encouraged to attend.

District Structure and Leadership, continued

An organizational chart is presented below.



The District provides water service to approximately 4,230 connections, covering most of the City of Scotts Valley and several unincorporated neighborhoods. The City of Scotts Valley, which occupies approximately 6 square miles, is located 6 miles north of the City of Santa Cruz on Highway 17 in Santa Cruz County.

There were no changes to the organizational chart in FY 2018.

District Services

Residential customers represent approximately 91% of the District’s customer base and consume approximately 69% of the potable water produced annually by the District. The District currently has a total of six groundwater wells with a maximum production capacity of 1,400 gallons per minute. Additionally, the District is the sole permitted distributor of the recycled water from the Tertiary Treatment Plant of the City of Scotts Valley. As of June 30, 2018, there were 64 recycled water connections with an annual demand of 64 million gallons, of which 47.7 million was billable consumption.

Potable water connection portfolio and potable water consumption by customer type are presented:

Potable Domestic Water Connections (excludes Fire Service Connections)

3,742 connections as of 6/30/2018:

	6/30/2018	6/30/2017	Incr/(Decr)
Residential	3,372	3,361	11
CII*	286	287	(1)
Landscape	84	86	(2)
	<u>3,742</u>	<u>3,734</u>	<u>8</u>

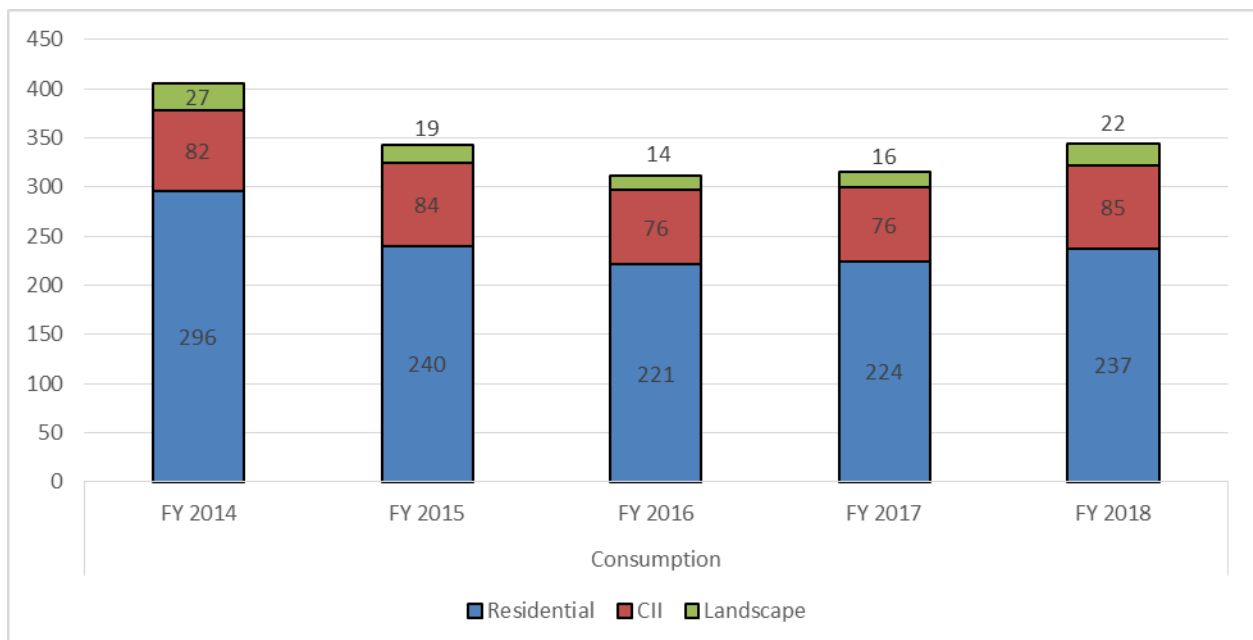
* CII: Commercial, Industrial and Institutional

Potable Water Consumption

Total consumption increased by 28 million gallons (MG), equal to 9.0%, showing continued signs of recovery after a steady downward trend. Residential consumption increased by 13 MG (5.65%), CII increased by 9 MG (12.6%), and Landscape increased by 6 MG (40%). Landscape demand experienced the greatest percentage increase due to a higher elasticity of demand.

Five-year consumption history (in million gallons) is presented below:

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Residential	296	240	221	224	237
CII	82	84	76	76	85
Landscape	27	19	14	16	22
Total	405	343	311	316	344



Local Economic Condition and Outlook

According to data from the State Employment Development Division, Santa Cruz County's average unemployment rate was 4.5% in June 2018, a 0.8% drop from the same period last year. The county's unemployment rate was slightly higher than the statewide average of 4.2% in June 2018.

The number of service connections is impacted by the local economy and driven by the City of Scotts Valley economic development policies, especially the land use policy. The city has a population of approximately 12,195 according to a May 2018 news release by the State Department of Finance, an increase of 5.3% from 11,580 per the 2010 census. The number of households grew from 4,273 in the 2000 census to 4,426 in the 2010 census, an increase of 3.6%. As the city's remaining buildable space is limited, growth in population and the number of households is likely to remain moderate.

The City's Planning Department has reviewed and approved several large commercial and residential developments. New development projects that connected to the system in FY 2018 and paid the Capacity Buy-In fee generated approximately \$597K in revenue.

Local Economic Condition and Outlook, continued

The Lexington Hotel project on Scotts Valley Drive accounted for nearly half of the annual total. Other notable projects that paid the Capacity Buy-In fee include a segment of the 'The Grove' development by City Ventures and a five-unit townhome development on Scotts Valley Drive.

Major Planned Initiatives and Significant Projects

Water supply reliability and the District's aging water infrastructure continue to be primary concerns. The District is committed to water use efficiency and to the pursuit of cost-effective methods of preserving the aquifer while providing quality water service to customers.

The District, in partnership with San Lorenzo Valley Water District, the County of Santa Cruz and other stakeholders has formed a groundwater sustainability agency, the Santa Margarita Groundwater Agency (SMGWA), to develop a Groundwater Sustainability Plan (GSP) in compliance with 2014 Sustainable Groundwater Management Act (SGMA). As a member agency of the Santa Margarita Groundwater Agency (SMGWA), the District continues to support efforts to develop a Groundwater Sustainability Plan (GSP) in compliance with 2014 Sustainable Groundwater Management Act (SGMA).

A multi-year effort is underway to address the aging infrastructure based on the Water System Master Plan completed in April 2017.

In July 2017, a major production well (Well 7A at the Orchard Run Water Treatment Plant) collapsed beyond recovery, distressing the production capacity of the water system. Plans for the replacement of the well were immediately devised and put into action. The replacement well project carries an estimated cost of \$1.6 million, approximately 84% of the FY 2018 capital budget of \$1.9 million. At the time of this letter, most other capital projects were temporarily put on hold until further notice.

FY 2018 Accomplishments

The activities of the District are driven by its Mission, Vision and Strategic Goals. Among other accomplishments, notable accomplishments in each of the Strategic Goal areas are presented as follows:

Water Resource Management:

1. Completed the design and retained a contractor for the replacement of Whispering Pines recycled water main.
2. Contributed to multi-agency initiative focused on San Lorenzo River and watershed conjunctive use.
3. Made progress on the Groundwater Recharge (GWR) project, with the CEQA study planned for FY2019. Conducted initial calculations on the GWR project funding scenarios.
4. Operated the Recycled Water Fill Station in support of the District's Stage 1 Water Supply Condition target of no increase in potable water demand.
5. Supported County and San Lorenzo Valley Water District (SLVWD) initiatives to conduct a feasibility study for in-lieu opportunities with intertiered system.
6. Conducted timely recruitment for Administrative Office Assistant to provide support to the Santa Margarita Groundwater Agency (SMGWA); Facilitated the setup of banking services and contractual agreements for SMGWA.
7. Completed the Water Audits Report pursuant to AWWA M36 Water Audits and Loss Control Program that was accepted by the Department of Water Resources (DWR).
8. Processed approximately 170 leak adjustments (total water loss of over 6MGY) and created a process for tracking/reporting the data.

FY 2018 Accomplishments, continued

9. Promoted water use efficiency goals with a successful, comprehensive rebate program.
10. Achieved the following goals for the Districts rebate program: 40,500 square feet (sqft) of lawn replacements; 5,000 sqft low volume irrigation replacements; 31 toilets; 5 smart controllers; 1 graywater irrigation; 1 rainwater harvesting; 1 downspout diversion; 1 hardscape replacement; 3 pressure regulators.

Infrastructure Integrity:

1. Designed, and constructed the Orchard Well, which was placed in service 11 months after initial collapse. Negotiated access easement with the property owner.
2. Completed design work, conducted informal bid process, and completed repairs of Bethany Pump Station. Replaced 140 feet of potable water main that serves the station.
3. Installed approximately 800 meters as part of the District's annual meter replacement program; installed Automated Metering Infrastructure (AMI) equipment on 1,161 meters.
4. Completed evaluation of the Badger AMI customer portal, concluding that it does not meet the needs of our customers; work underway to identify and implement a long-term solution.
5. Finished the integration of the plant check and work order modules with the GIS system. Transitioned the work assignment tracking using the work order system.
6. Reorganized and indexed digital Service Application (SA) files. Ensured that all Will Serve Requests, Service Applications and Main Extension Agreements are processed in timely manner.

Financial Stewardship:

1. Completed the FY 2017 Audited Financial Report by December 2017, which included an enhancement to the statistical section that satisfies debt covenant requirements. Began work to determine criteria for achieving the CAFR GFOA Excellence in Financial Reporting award.
2. Completed the transition of the District's ERP from on-premise to a cloud-based system.
3. Conducted a Request for Qualification (RFQ) and executed a contract for Capital Asset Evaluation.
4. Prepared a balanced FY 2019 recommended budget that was approved by the Board in June, resulting in only 4% increase in operating expenditures over prior year budget (excluding SMGWA) and very strong debt coverage ratio.
5. Compiled and presented financial data for the Board to approve December 2017 rate changes.
6. Carefully managed cashflow needs throughout the year in light of the unanticipated emergency replacement of Well 7A (Orchard Well).

Public Outreach:

1. Outreach efforts in the local press with monthly ads on relevant and timely topics. Distributed several press releases. Implemented monthly content publication on social media with approximately 3 posts per week. Distributed monthly e-News.
2. Completed the transition to a new web development provider and web hosting service; re-designed the District's website.
3. Supported the facilitation of an information meeting for non-municipal pumpers. Managed the SMGWA website, uploading relevant and timely information. Held one workshop for the general public on the Sustainable Groundwater Management Act (SGMA) and Groundwater Sustainability Plan (GSP)

FY 2018 Accomplishments, continued

Public Outreach, continued:

4. Utilized the sponsor booth at the Scotts Valley Art Wine & Beer Festival to promote careers in water industry.
5. Hosted the Pure Water Soquel Education Trailer at a Lunch & Learn and invited other agencies to attend.
6. Active participation in Association of California Water Agencies (ACWA) and ACWA-JPIA committees and initiatives. Director participation at the CUEMA Leadership Summit; General Manager was a speaker/moderator at numerous public events

Organizational Vitality:

1. Conducted timely and meaningful performance evaluations that included employee input. Improved the performance evaluations process and ensured that all wage adjustments are processed in a timely manner.
2. Revised the Finance Manager job description and made compensation adjustments supported by benchmarking data. Used innovative strategies to attract candidates with optimal aptitudes and compatible values to the District.
3. Prepared and hosted the Board President's Retreat focused on board development to strengthen working relationships and delineate expectations to the board members.
4. Very strong participation by employees and directors for volunteer work at the SV Art Wine & Beer Festival, Scotts Valley Education Foundation's Touch-a-Truck and other events.
5. Prepared and presented the Injury and Illness Prevention Program with 27 Safe Practice Guidelines identified and completed.
6. Made significant progress on the Service Order archiving project.
7. Developed a system for tracking the mandatory training requirements for the directors.
8. Coordinated a non-work event for Santa Cruz water agencies' employees.
9. Attended numerous industry training events for professional development and to maintain certifications.
10. Assistant to the General Manager graduated from Leadership Santa Cruz County.

Recycled Water

Scotts Valley boasts the only recycled water treatment plant (Tertiary Treatment Plant) in the North Santa Cruz County area. The District's policy to use the recycled water wherever feasible by installing recycled irrigation services at new development projects and converting existing potable landscape connections to recycled water has resulted in the total number of recycled water connections reaching 64 since the inception of the Tertiary Treatment Plant in 2002. About 15% of the total annual system demand is fulfilled using recycled water.

The recycled water fill station has been operating from April to October since 2016. Scotts Valley residents and District customers can collect up to 250 gallons per day for irrigation purposes free of charge.

Water Rates and District Revenues

In the Prop 218 public hearing on December 12, 2016, the Board established a new rate structure, setting rates and fees for potable and recycled water as well as fees for new connections for a five-year period (2016-2020). Fiscal Year 2018 was the second year of the rate schedule. The District implemented the scheduled rate increases of 15% in December of 2017.

Water Conservation and Water Use Efficiency Programs

The District demonstrates its commitment to water use efficiency and conservation by offering rebates, educational workshops, home inspections, and consultations. In FY 2018, the District submitted timely monthly demand reports to the State; completed self-certification assessment as required by the State Water Resources Control Board (SWRCB); incentivized the retrofitting of 40,500 square feet of turf and 5,000 square feet of high volume spray irrigation; added a new landscape rebate for pressure regulating valves; promoted alternative water supply sources of greywater, rainwater and downspout diversion; and provided 87 house calls to help detect leaks, complete preventative adjustment, and distribute water-saving devices.

Internal Control Structure

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

Budgetary Control

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

Each division manager is responsible for his/her division budget; the General Manager is responsible for the overall District budget.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund (LAIF), certificate of deposits (CDs) and institutional savings and checking accounts.

Reserve Policy

On June 8, 2017, the Board established a policy setting guidelines on cash reserves that support the District's long-term financial health and operational stability. The Board authorized the target cash reserve level to be the aggregate total of the following individual reserve categories:

1. Operating Reserve: to provide working capital to support the operation, maintenance, and administration of the District ensuring that cash flow needs of normal operations are met.
2. Rate Stabilization Reserve: to bridge the temporary revenue shortfall resulting from reduced consumption associated with declining water sales or unexpected increase in short-term operation and maintenance expenses.
3. Emergency Reserve: to allow the District to provide uninterrupted service in the event of a fiscal emergency, natural disaster, or major facility failure.
4. Capital Reserve: to provide funds for repair, replacement, or improvement of District's infrastructure assets.
5. Debt Service Reserve: to ensure adequate funds for full and timely payment of debt obligations.

Following these established criteria, the District's reserve target for this fiscal year was calculated to be \$4.05 million. As of June 30, 2018, the District's cash balance was \$1.5 million, or approximately 36.9% of the target. The year-end balance was designated as follows:

	<u>FYE 6/30/2018</u>
Operating	\$ 472,300
Rate Stabilization	294,000
Emergency	184,900
Capital	337,500
Debt Service	<u>205,491</u>
Total	<u>\$ 1,494,191</u>

Independent Audit and Financial Reporting

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

Risk Management

The District is a member of the Association of California Water Agencies Joint Power Insurance Authority (JPIA). The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage, as necessary.

Excellent Customer Service with a Strong Connection to the Community

Customer Service is the face of the organization. The District's friendly representatives have a strong local connection and a broad knowledge of the District water services and programs. We strive to provide excellent customer service while promoting awareness of water conservation and water use efficiency.

Other References

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

Acknowledgement

Preparation of this report was accomplished by the combined efforts of the District staff. I appreciate the dedication and professionalism that our staff members bring to the District. I would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Scotts Valley Water District's fiscal policies.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Piret Harmon".

Piret Harmon
General Manager

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Financial Section



Charles Z. Fedak, CPA, MBA
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Fedak & Brown LLP

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Independent Auditor's Report

Board of Directors
Scotts Valley Water District
Scotts Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Scotts Valley Water District (District), which comprises the statement of net position as of June 30, 2018, and the related statement of revenues, expenses, and changes in net position, and cash flows for the years then ended, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2018, 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

Emphasis of a Matter

As discussed in Note 4 to the financial statements, in fiscal year 2018, the District adopted the provisions of GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Consequently, the beginning net OPEB liability was recorded and net position was restated. Our opinion is not modified with respect to this matter.

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 17 and the required supplementary information on pages 47 through 49 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, and the supplemental information schedule on pages 50 through 53, and the statistical section on pages 54 through 57 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 section and the statistical sections have not been subjected to the auditing procedures applied in the audit 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 December 13, 2018, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 58 and 59.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

December 13, 2018

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Scotts Valley Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Scotts Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2018 (with comparative information for fiscal year ended June 30, 2017). 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 decreased 4.72% or \$761,570 to \$15,362,004, primarily due to a prior period adjustment in the amount of \$1,561,066, which was offset by an increase in operations of \$799,496. Please see Note 4 to the basic financial statements for further discussion.
- The District's total revenues increased 36.24% or \$1,964,862 to \$7,387,322.
- The District's operating revenues increased 37.82% or \$1,720,883 to \$6,270,621.
- The District's non-operating revenues increased 27.96% or \$243,979 to \$1,116,701.
- The District's total expenses increased 4.31% or \$272,378 to \$6,588,546
- The District's operating expenses increased 9.83% or \$459,601 to \$5,134,891.
- The District's non-operating expenses decreased 35.20% or \$247,470 to \$455,561.

Required Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, Statements 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 Statements of Net Position include all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. They also provide the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the District's operations over the past years and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. These statements can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the Statements of Cash Flows, which provide information about the District's cash receipts and cash payments during the reporting period. The Statements of Cash Flows report cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One important question to ask about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements 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 of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting method 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.

Scotts Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Financial Analysis of the District, continued

These two statements report the District's net position and changes in it. The District's net position – the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources – is one way to measure the District's financial health, or financial position. Over time, increases or decreases in net position is one indicator of whether its financial health is improving or deteriorating. However, it is also necessary to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 23 through 46.

Statements of Net Position

Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Assets:			
Current assets	\$ 3,398,451	4,104,871	(706,420)
Non-current assets	392,431	554,070	(161,639)
Capital assets, net	<u>21,800,708</u>	<u>20,799,937</u>	<u>1,000,771</u>
Total assets	<u>25,591,590</u>	<u>25,458,878</u>	<u>132,712</u>
Deferred outflows of resources	<u>692,350</u>	<u>497,011</u>	<u>195,339</u>
Liabilities:			
Current liabilities	561,527	978,876	(417,349)
Non-current liabilities	<u>10,176,886</u>	<u>8,640,809</u>	<u>1,536,077</u>
Total liabilities	<u>10,738,413</u>	<u>9,619,685</u>	<u>1,118,728</u>
Deferred inflows of resources	<u>183,523</u>	<u>212,630</u>	<u>(29,107)</u>
Net position:			
Net investment in capital assets	16,700,288	14,790,579	1,909,709
Unrestricted (deficit)	<u>(1,338,284)</u>	<u>1,332,995</u>	<u>(2,671,279)</u>
Total net position	<u>\$ 15,362,004</u>	<u>16,123,574</u>	<u>(761,570)</u>

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 and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$15,362,004 as of June 30, 2018.

By far the largest portion of the District's net position (108.71% as of June 30, 2018) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal year 2018, the District showed a negative balance in its unrestricted net position of \$(1,338,284). See note 11 for the amount of spendable net position that may be utilized in future years.

Scotts Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 6,270,621	4,549,738	1,720,883
Non-operating revenues	1,116,701	872,722	243,979
Total revenues	<u>7,387,322</u>	<u>5,422,460</u>	<u>1,964,862</u>
Expenses:			
Operating expenses	5,134,891	4,675,290	459,601
Depreciation and amortization	998,094	937,847	60,247
Non-operating expenses	455,561	703,031	(247,470)
Total expenses	<u>6,588,546</u>	<u>6,316,168</u>	<u>272,378</u>
Net loss before capital contributions	798,776	(893,708)	1,692,484
Capital contributions	<u>720</u>	<u>803,279</u>	<u>(802,559)</u>
Change in net position	<u>799,496</u>	<u>(90,429)</u>	<u>889,925</u>
Net position, beginning of period, as previously stated	16,123,574	16,214,003	(90,429)
Prior period adjustment (note 4)	<u>(1,561,066)</u>	<u>-</u>	<u>(1,561,066)</u>
Net position, beginning of period, as restated	<u>14,562,508</u>	<u>16,214,003</u>	<u>(1,651,495)</u>
Net position, end of period	<u>\$ 15,362,004</u>	<u>16,123,574</u>	<u>(761,570)</u>

The statements of revenues, expenses and changes in net position show how the District's net position changed during the fiscal years.

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

The District's net position decreased 4.72% or \$761,570 to \$15,362,004, primarily due to a prior period adjustment in the amount of \$1,561,066, which was offset by an increase in operations of \$799,496. Please see Note 4 to the basic financial statements for further discussion.

The District's operating revenues increased 37.82% or \$1,720,883 to \$6,270,621, primarily due to increases of \$858,210 in potable water sales, \$795,554 in service charges, and \$102,775 in recycled water sales.

The District's non-operating revenues increased 27.96% or \$243,979 to \$1,116,701, primarily due to increases of \$84,799 in property tax revenues, and \$161,765 in other non-operating revenue consisting of reimbursements from insurance claims in the amount of \$108,295.

The District's operating expenses increased 9.83% or \$459,601 to \$5,134,891 primarily due to higher general and administrative expenses of \$165,639 and higher production costs consisting of increases in water treatment costs of \$169,032, pumping of \$48,134, and transmission and distribution of \$38,164.

The District's non-operating expenses decreased 35.20% or \$247,470 to \$455,561, primarily due to the disposal of its Well 7A Phase II capital asset, which resulted in a loss of \$347,958.

Scotts Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Capital Asset Administration

Changes in capital asset amounts for 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2018</u>
Capital assets:				
Non-depreciable assets	\$ 851,170	2,346,822	(2,464,816)	733,176
Depreciable assets	41,141,941	2,464,816	(866,940)	42,739,817
Accumulated depreciation	<u>(21,193,174)</u>	<u>(998,094)</u>	<u>518,983</u>	<u>(21,672,285)</u>
Total capital assets, net	<u>\$ 20,799,937</u>			<u>21,800,708</u>

At the end of fiscal year 2018, the District's investment in capital assets amounted to \$21,800,708 (net of accumulated depreciation). The District's investment in capital assets includes land, transmission and distribution systems, tanks, pumps, buildings, equipment, vehicles and construction-in-process.

See note 5 for further capital asset information.

Debt Administration

Changes in long-term debt amounts for 2018, were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2018</u>
Long-term debt:				
2016 JP Morgan Loan	\$ 6,049,548	-	(912,957)	5,136,591
Total loans payable	<u>\$ 6,049,548</u>	<u>-</u>	<u>(912,957)</u>	<u>5,136,591</u>

In 2018, long-term debt decreased by \$912,957, due to principal payments on the debt. See further detailed information in Note 8.

Debt Service Coverage Ratio

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 7,040,084	6,225,739
Less: capital contributions - grants	<u>(720)</u>	<u>(803,279)</u>
Operating revenue:	<u>7,039,364</u>	<u>5,422,460</u>
Total expenses	6,240,588	6,316,168
Less: Non- cash expenses	(1,559,404)	(1,423,007)
Less: Interest expense on debt service*	<u>(162,651)</u>	<u>(175,881)</u>
Total operating expenses	<u>\$ 4,518,533</u>	<u>4,717,280</u>
Net operating revenue	\$ 2,520,831	705,180
Debt service (due in fiscal year)	\$ 912,957	445,881
Debt service coverage ratio	2.76	1.58

*In 2017, interest expense on debt service does not include interest expense related to the defeasance of the 2004 Refunding Certificates of Participation and 2011 WFB Loan.

Scotts Valley Water District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Debt Service Coverage Ratio, continued

In the 2016 Installment Purchase Agreement (The 2016 Agreement) with JPMorgan Chase Bank, Debt Service Coverage Ratio is defined as for any fiscal year, the ratio of Net Revenues to the sum of the 2016 Agreement payments and all debt service and any additional payments required with respect to parity debt during such fiscal year. The District shall prescribe, revise and collect rates, fees and charges sufficient in each fiscal year to provide Net Revenues equal to at least 1.20 times the sum of 1) the 2016 Agreement payments becoming due and payable in such fiscal year, and 2) all debt service and any additional payments required with respect to parity debt for such fiscal year.

The District was in compliance with the minimum required debt service coverage ratio of 1.2 for the fiscal year ended June 30, 2018.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net assets or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager, Piret Harmon at Scotts Valley Water District, 2 Civic Center Drive, Scotts Valley, CA 95066 or (831) 438-2363.

Basic Financial Statements

Scotts Valley Water District
Statement of Net Position
June 30, 2018

	2018
Current assets:	
Cash and cash equivalents (note 2)	\$ 1,494,191
Accrued interest receivable	7,509
Accounts receivable, net	1,314,663
Accounts receivable – property tax	54,828
Accounts receivable – other	59,259
Materials and supplies inventory	211,827
Prepaid expenses and deposits	94,535
Note receivable – due in one year (note 3)	161,639
Total current assets	3,398,451
Non-current assets:	
Note receivable – due in more than one year (note 3)	392,431
Capital assets – not being depreciated (note 5)	733,176
Capital assets – being depreciated (note 5)	21,067,532
Total non-current assets	22,193,139
Total assets	25,591,590
Deferred outflows of resources:	
Deferred pension outflows (note 9)	656,179
Loss on defeasance of debt (note 8)	36,171
Total deferred outflows of resources	\$ 692,350

Continued on next page

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Net Position, continued
June 30, 2018

	2018
Current liabilities:	
Accounts payable and accrued expense	\$ 342,344
Accrued wages and related payables	80,885
Customer deposits	112,436
Long-term liabilities – due in one year:	
Compensated absences (note 6)	25,862
Total current liabilities	561,527
Non-current liabilities:	
Unearned revenue	8,142
Long-term liabilities – due in more than one year:	
Compensated absences (note 6)	77,585
Net OPEB liability (note 7)	2,848,438
Net pension liability (note 9)	2,106,130
Loan payable (note 8)	5,136,591
Total non-current liabilities	10,176,886
Total liabilities	10,738,413
Deferred inflows of resources:	
Deferred pension inflows (note 9)	183,523
Total deferred inflows of resources	183,523
Net position: (note 11)	
Net investment in capital assets	16,700,288
Unrestricted (deficit)	(1,338,284)
Total net position	\$ 15,362,004

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended June 30, 2018

	2018
Operating revenues:	
Water sales - potable	\$ 3,504,698
Service charges - potable and recycled	2,293,336
Water sales – recycled	455,073
Other revenue	17,514
Total operating revenues	6,270,621
Operating expenses:	
Source of supply	163,709
Pumping	584,787
Water treatment	829,736
Recycled water	486,683
Transmission and distribution	835,658
Conservation	163,778
Customer accounts	198,613
General and administrative expenses	1,871,927
Total operating expenses	5,134,891
Operating income before depreciation	1,135,730
Depreciation expense	(998,094)
Operating income	137,636
Non-operating revenue (expense):	
Property tax revenues	923,894
Investment earnings	22,574
Interest expense	(107,603)
Loss on disposal of capital assets	(347,958)
Other non-operating revenue	170,233
Total non-operating revenues, net	661,140
Net income before capital contributions	798,776
Capital contributions:	
Capital grants	720
Total capital contributions	720
Change in net position	799,496
Net position, beginning of period, as previously stated	16,123,574
Prior period adjustment (note 4)	(1,561,066)
Net position, beginning of period, as restated	14,562,508
Net position, end of period	\$ 15,362,004

See accompanying notes to the basic financial statements

**Scotts Valley Water District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018**

	<u>2018</u>
Cash flows from operating activities:	
Cash received from customers	\$ 6,186,343
Cash paid to employees for salaries	(1,650,005)
Payments to vendors for materials and services	<u>(3,236,122)</u>
Net cash provided by operating activities	<u>1,300,216</u>
Cash flows from non-capital financing activities:	
Proceeds from property taxes	930,590
Other non-operating revenue, net	<u>170,233</u>
Net cash provided by non-capital financing activities	<u>1,100,823</u>
Cash flows from capital and related financing activities:	
Cash paid to acquire capital assets	(1,998,865)
Loss on disposal of capital assets	(347,958)
Principal paid on long-term debt	(912,957)
Proceeds from capital grant	720
Interest paid	(162,651)
Principal payments received on note receivable	<u>161,784</u>
Net cash used in capital and related financing activities	<u>(3,259,927)</u>
Cash flows from investing activities:	
Investment earnings	<u>21,714</u>
Net cash provided by investing activities	<u>21,714</u>
Net decrease in cash and cash equivalents	(837,174)
Cash and cash equivalents – beginning of year	<u>2,331,365</u>
Cash and cash equivalents – end of year	<u>\$ 1,494,191</u>

Continued on next page

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Cash Flows, continued
For the Fiscal Year Ended June 30, 2018

	2018
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>137,636</u>
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation and amortization	998,094
Changes in assets and liabilities:	
(Increase) decrease in assets and deferred outflows of resources:	
Customer accounts receivable	(208,693)
Accounts receivable – other	124,361
Materials and supplies inventory	(51,213)
Prepaid expenses and deposits	(1,190)
Deferred pension outflows	(199,358)
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable and accrued expense	76,411
Accrued wages and related payables	16,385
Customer deposits	2,090
Compensated absences	(961)
Unearned revenue	(2,036)
Net OPEB liability	114,046
Net pension liability	323,751
Deferred pension inflows	<u>(29,107)</u>
Total adjustments	<u>1,162,580</u>
Net cash provided by operating activities	\$ <u><u>1,300,216</u></u>

See accompanying notes to the basic financial statements

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Reporting Entity and Component Unit

Scotts Valley Water District (District) was created in 1961 by a vote of the people within the proposed District. It is formed by under the County Water District Act with the purpose of providing water for domestic, commercial, municipal and firefighting purposes. Beginning in 1962, the District acquired and consolidated several small mutual water supply systems. The District is located six miles north of the City of Santa Cruz, along State Highway 17 and covers approximately six square miles including most of the incorporated area of the City of Scotts Valley (City) and a portion of the unincorporated area north of the City.

The financial statements of the District include the financial activities of the District as well as transactions made by the fiscal agent under authority granted by the District in various resolutions authorizing the issuance of revenue bonds, and the Scotts Valley Water District Public Facilities Corporation, a component unit. The District is incorporated as a water district in the State of California and is exempt from federal income and state franchise taxes under Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions.

The Scotts Valley Water District Public Facilities Corporation (Public Facilities Corporation), a California nonprofit corporation, was formed in April 1997, to finance the construction of a one million gallon per day reclaimed water treatment plant and related distribution system. The District's directors serve as directors of the Public Facilities Corporation; the District's General Manager serves as its executive officer. The assets and liabilities of the Public Facilities Corporation are blended with those of the District in the financial statement.

The Public Facilities Corporation was dissolved on June 8, 2018. As of June 30, 2018, the assets and liabilities of the Public Facilities Corporation were distributed properly, resulting in a zero balance.

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 to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. 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 and expenses, such as water sales and water purchases, 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. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

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.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

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

Government Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

Government Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Government Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

Government Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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, deferred inflows, and disclosures of contingent assets and liabilities 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.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Summary of Significant Accounting Policies, continued

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

2. Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents include time deposits, certificates of deposit, investment in Local Agency Investment Fund (LAIF), and all highly liquid debt instruments.

3. Investments and Investment Policy

The District has adopted an investment policy for the prudent investment of the District's surplus cash, reserves, trust funds and restricted monies in a manner that will provide the highest investment return with the maximum security while meeting the cash flow demands of the District and conforming to all provisions of California Government Code Section 53600.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Fair Value Measurements

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 the asset, 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 defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. 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.

6. Supplies Inventory

Supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Supplies inventory is carried at the lower of cost (first-in, first-out) or market.

7. 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.

8. Deferred Outflows of Resources

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

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Summary of Significant Accounting Policies, continued

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

9. Property Taxes and Assessments

The Santa Cruz County Assessor's Office assesses all real and personal property within the County each year. The Santa Cruz County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The Auditor-Controller'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

10. Capital Assets

District capital assets, purchased or constructed, are recorded at cost. The cost of assets built by the District includes direct costs and eligible capitalized interest. Contributed assets are recorded at fair market value at the date of contribution. That value is generally the developer's cost.

The amount of interest capitalized as part of the District constructed assets is the difference between the interest the District must pay on the tax-exempt bonds issued to finance improvements, and the interest the District earns on bond proceeds not yet expended.

District policy is to capitalize all assets that cost \$5,000 or more with a life greater than two years, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the capital asset, which range from five to fifty years.

11. Compensated Absences

The District records employees' vacation and sick leave benefits in the period in which they accumulate and become vested.

12. Deferred Inflows of Resources

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

13. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB Liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's Retiree Health Plan and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Summary of Significant Accounting Policies, continued

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

14. 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** – This component of net position consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – This component of net position 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** – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”.

15. Water Sales

Potable water sales are billed on a bi-monthly cyclical basis. Recycled water sales and bulk water sales are billed on a monthly basis.

16. 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.

17. Pensions

For purposes of measuring the net pension liability and 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) plan (Plan) and addition to/deduction from the Plan’s 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 this report, the following timeframes are used:

- Valuation Date: June 30, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

18. 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.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(2) Cash and Investments

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

	2018
Cash and cash equivalents	\$ <u>1,494,191</u>

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

	2018
Petty cash	\$ 250
Deposits with financial institutions	850,776
Investments	<u>643,165</u>
Total cash and cash equivalents	\$ <u>1,494,191</u>

As of June 30, the District's authorized deposits had the following maturities:

	2018
Deposits held with California Local Agency Investment Fund (LAIF)	193 days

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S Treasury and Agency securities	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	50%
Passbook savings account	None	None	None
Investment Trust of California (CalTRUST)	5 years	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. 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).

Investment in State Investment Pool

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

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 a \$1,000 dollars.
- 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.

Interest Rate Risk

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

Credit Risk

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.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as 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, 2018.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(3) Note Receivable

Changes in notes receivable amounts for 2018, were as follows:

	<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u> <u>2018</u>
Note receivable:				
City of Scotts Valley - RCW	\$ 609,342	-	(150,272)	459,070
City of Scotts Valley - 97-1 Bonds	100,000	-	(5,000)	95,000
Vineyards HOA MOU	<u>6,512</u>	<u>-</u>	<u>(6,512)</u>	<u>-</u>
Total notes receivable	715,854	<u>-</u>	<u>(161,784)</u>	554,070
Less: current portion	<u>(161,784)</u>			<u>(161,639)</u>
Long-term portion	\$ <u>554,070</u>			<u>392,431</u>

Vineyards HOA MOU

On October 15, 2008, the District entered into a Memorandum of Understanding with the Vineyards Homeowners Association (Association) where the Association agreed to pay the District for installation of backflow protective devices on the Association's premises totaling \$65,116. The Association will make 10 equal annual payments of \$6,512 on November 30th each year. The remaining balance of the note with the Association in the amount of \$6,512 was received as of June 30, 2018.

City of Scotts Valley - RCW

On September 4, 2013, the District entered into a Recycled Water Supply Use, Maintenance and Operation Agreement (Agreement) setting forth terms and conditions between the parties concerning the relationship of the parties with respect to the City of Scotts Valley's (City) Waste Water Treatment Plant (WWTP) and the Tertiary Treatment Plant and Pump Station that was constructed at the City's Waste Water Facility by the District. The District and the City have agreed for the District to release a portion of its guaranteed entitlement in exchange for compensation from the City. The District agreed to reduce its entitlement to waste water for tertiary treatment to the City. In exchange, the City agrees to pay the District \$758,169 over five (5) equal annual payments of \$155,817 with annual interest rate of 0.91% each year commencing on June 1, 2017. At June 30, 2018, the balance of the City's obligation to the District amounted to \$459,070.

Principal and estimated interest receivable payments on the note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Amortized Interest</u>	<u>Total</u>
2019	\$ 151,639	4,178	155,817
2020	153,019	2,798	155,817
2021	<u>154,412</u>	<u>1,405</u>	<u>155,817</u>
Total	459,070	8,381	467,451
Less: current	<u>(151,639)</u>		
Non-current	\$ <u>307,431</u>		

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(3) Note Receivable, continued

City of Scotts Valley - 97-1 bonds

The City of Scotts Valley (City) entered into an agreement with the District on June 4, 1997, for the construction of the water main extension into the Gateway South vicinity (Extension) in order to furnish water facilities to supply sufficient water and pressure for adequate fire suppression and to assist a project known as the Inn at Scotts Valley (Project). Total cost of the extension amounted to \$277,000. The owner of the Project is contributing \$112,000, as its share of the Extension, and the City will be contributing, as a result of the District's bond issuance, \$165,000.

Terms of the agreement call for principal payable semi-annually on January 1st and July 1st of each year maturing in 2027, with variable annual interest rates ranging from 5.3% to 7%. At June 30, 2018, the balance of the note with the City regarding the 97-1 Bonds amounted to \$95,000.

Principal and estimated interest receivable payments on the note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Amortized Interest</u>	<u>Total</u>
2019	\$ 10,000	5,400	15,400
2020	10,000	4,800	14,800
2021	5,000	4,350	9,350
2022	5,000	4,050	9,050
2023	10,000	3,600	13,600
2024-2027	<u>55,000</u>	<u>8,850</u>	<u>63,850</u>
Total	95,000	31,050	126,050
Less: current	<u>(10,000)</u>		
Non-current \$	<u><u>85,000</u></u>		

(4) Prior Period Adjustment

In fiscal year 2018, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, to recognize its net OPEB liability under this pronouncement. As a result, the District has recognized the net OPEB liability and remove the net OPEB obligation associated with GASB 45 as of June 30, 2017 in the amount of \$2,878,311 and \$1,173,326, respectively. In addition, the District recorded a prior period adjustment to reclassify prior year's employer OPEB Contribution from expense to deferred outflows of resources of \$143,918.

Previously recorded net position of \$16,123,574 has been restated to \$14,562,507 as of June 30, 2017. In addition, the effect of the implementation of GASB 75 is recorded as an adjustment to the beginning net position at July 1, 2017.

The effect of the above changes is summarized as follows:

Net position at June 30, 2017, as previously stated		\$	16,123,574
Net OPEB Liability - GASB 75 Implementation:			
Effect of adjustment to record net OPEB liability	\$		(2,878,310)
Effect of adjustment to remove net OPEB liability associated with GASB 45			1,173,326
Effect of adjustment to record deferred OPEB outflows			<u>143,918</u>
Total adjustment to net position			<u>(1,561,066)</u>
Net position at July 1, 2017, as restated		\$	<u><u>14,562,508</u></u>

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(5) Capital Assets

Changes in capital assets for 2018, were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2018</u>
Non-depreciable assets:				
Land & land rights	\$ 641,798	8,899	-	650,697
Construction-in-process	209,372	2,337,923	(2,464,816)	82,479
Total non-depreciable assets	<u>851,170</u>	<u>2,346,822</u>	<u>(2,464,816)</u>	<u>733,176</u>
Depreciable assets:				
Water rights – recycled water	5,267,834	-	-	5,267,834
Water treatment	5,521,874	-	-	5,521,874
Transmission and distribution	8,868,055	-	-	8,868,055
Reservoirs and tanks	6,358,503	-	-	6,358,503
Source of supply - wells	5,609,973	1,850,473	(866,940)	6,593,506
Pumping	1,417,075	431,154	-	1,848,229
Buildings	1,605,999	-	-	1,605,999
Recycled water	2,468,076	-	-	2,468,076
Equipment and tools	982,198	-	-	982,198
Office equipment	223,498	-	-	223,498
Infrastructure	2,249,690	146,846	-	2,396,536
Transportation	569,166	36,343	-	605,509
Total depreciable assets	<u>41,141,941</u>	<u>2,464,816</u>	<u>(866,940)</u>	<u>42,739,817</u>
Accumulated depreciation:				
Water rights – Recycled water	(1,598,611)	(102,004)	-	(1,700,615)
Water treatment	(4,549,701)	(76,018)	-	(4,625,719)
Transmission and distribution	(5,417,722)	(184,432)	-	(5,602,154)
Reservoirs and tanks	(2,813,490)	(168,490)	-	(2,981,980)
Source of supply - wells	(3,540,833)	(114,414)	518,983	(3,136,264)
Pumping	(872,855)	(71,862)	-	(944,717)
Buildings	(497,528)	(62,494)	-	(560,022)
Recycled water	(681,012)	(62,048)	-	(743,060)
Equipment and tools	(753,590)	(27,027)	-	(780,617)
Office equipment	(83,791)	(32,992)	-	(116,783)
Infrastructure	(34,082)	(60,676)	-	(94,758)
Transportation	(349,959)	(35,637)	-	(385,596)
Total accumulated depreciation	<u>(21,193,174)</u>	<u>(998,094)</u>	<u>518,983</u>	<u>(21,672,285)</u>
Total depreciable assets, net	<u>19,948,767</u>	<u>1,466,722</u>	<u>(347,957)</u>	<u>21,067,532</u>
Total capital assets, net	<u>\$ 20,799,937</u>			<u>21,800,708</u>

In fiscal year 2018, major capital assets additions include upgrades as follows: source of supply – wells \$1,850,473, pumping \$431,154, infrastructure \$146,846, and transportation \$36,343.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(5) Capital Assets, continued

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. Additions to construction in process during the year amounted to \$2,337,923 consisted of Well 7A replacement \$1,850,473, Bethany Pump Station Rehabilitation \$247,524, AMI Technology for Meters \$144,437, and various miscellaneous projects \$95,489.

(6) Compensated Absences

Changes in compensated absences for 2018 were as follows:

<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2018</u>	<u>Due within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 104,408	98,339	(99,300)	103,447	25,862	77,585

(7) Other Post-Employment Benefits

Plan Description

The District's defined benefit Other Post-Employment Benefit (OPEB) Plan (Plan) provides OPEB for all employees covered by the benefit terms as listed in the note below. The Plan is a single-employer defined benefit OPEB plan administered by the District. The District's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. Effective January 1, 2015, the District participates in a retiree benefits program through Association of California Water Agencies (ACWA/JPIA). The District does not have an OPEB trust established and no assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District's Plan provider. The contribution requirements of Plan members and the District are established in the Memorandum of Understanding with Scotts Valley Water District Employees Union AFSCME Local 101 AFL-CIO (Union).

The District participates in a retiree benefits program through ACWA/JPIA and pays 100% of the premiums for employee only or employee plus one coverage up to the non-Medicare rates for the Account Based Health (HDHP) Plan and similar Medicare rates for post-65 coverage. Mixed two-party contracts where either the retiree or other covered party is on Medicare will also be subject to the non-Medicare maximum. The benefits covered include medical, dental, and vision. The District pays 100% of the cost for dental and vision coverage. The District's contribution is payable for the lifetime of the retiree and the other covered party.

Employee Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

	<u>2018</u>
Participating active employees	1
Inactive employees or beneficiaries currently receiving benefit payments	<u>18</u>
Total plan membership	<u><u>19</u></u>

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(7) Other Post-Employment Benefits, continued

Total OPEB Liability

The District's total OPEB liability of \$2,848,438 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Payable to the OPEB Plan

At June 30, 2018, the District had no outstanding amount of contributions required to the OPEB plan.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2017 actuarial valuation, which was measured at June 30, 2017, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial cost method	Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75
Salary increases	3% per annum, in aggregate
Inflation	2.75%
Mortality	Pre and Post retirement mortality rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample deaths per 1,000 employees applicable to Miscellaneous and Safety employees were used as part of the experience study.
Claim Cost Development	The valuation claim costs are based on the premiums paid for medical insurance coverage. The District participates in ACWA/JPIA, a community rated plan. An implicit rate subsidy can exist when the non-Medicare rates for retirees are the same as for active employees. Since non-Medicare eligible retirees are typically much older than active employees, their actual medical costs are typically higher than for active employees. The current valuation contains an estimate of the implicit rate subsidy.
Discount rate	3.40% per annum. The discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO index, Fidelity GO AA 20 Year Bond Index.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(7) Other Post-Employment Benefits, continued

Changes in the Net OPEB Liability

Changes in the net OPEB Liability as of June 30, 2018 (measured at June 30, 2017) were as follows:

	Increase (Decrease)		
	Plan		
	Total OPEB	Fiduciary	Net OPEB
	Liability (a)	Net Position	Liability/(Asset)
	(b)	(c) = (a) - (b)	
Balance at July 1, 2017	\$ 2,878,309	-	2,878,309
Changes during the year:			
Service cost	18,018	-	18,018
Interest	96,029	-	96,029
Contributions - employer	-	143,918	(143,918)
Benefit payments	(143,918)	(143,918)	-
Net changes	(29,871)	-	(29,871)
Balance at June 30, 2018	\$ 2,848,438	-	2,848,438

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.40%) or 1-percentage-point higher (4.40%) than the current discount rate:

	Discount	Current	Discount
	Rate - 1%	Discount	Rate + 1%
	2.40%	Rate	4.40%
	3.40%		
Net OPEB Liability	\$ 3,236,926	2,848,438	2,527,886

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
	Healthcare		
	Cost Trend		
	5% HDHP & HMO/5.5% PPO decreasing to 4%	6% HDHP & HMO/6.5% PPO decreasing to 5%	7% HDHP & HMO/7.5% PPO decreasing to 6%
	HDHP & HMO/ 4% PPO	HDHP & HMO/ 5% PPO	HDHP & HMO/ 6% PPO
Net OPEB Liability	\$ 2,530,823	2,848,438	3,227,803

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$114,047.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(8) Long-Term Debt

Changes in long-term debt amounts for 2018 were as follows:

	<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u> <u>2018</u>
Long-term debt:				
2016 JPMorgan Loan	\$ 6,049,548	-	(912,957)	5,136,591
Total long-term debt	6,049,548	-	(912,957)	5,136,591
Less: current portion	(452,927)			-
Long-term portion	\$ 5,596,621			5,136,591

2004 Refunding Certificates of Participation

In 2004, the District issued certificates of participation of \$4,010,000 to, among other things, refund all of the outstanding Scotts Valley Water District Public Facilities Corporation 1997-1 Certificates of Participation issued November 13, 1997. The debt service schedule provides for principal payable annually on July 1st of each year maturing in 2027. Interest is calculated at the rate between 1.8% and 4.75% payable semi-annually by January 1st and July 1st.

In December 2016, the District refunded all of the 2004 Refunding Certificates of Participation with the 2016 JPMorgan Loan. See the JPMorgan Loan for their respective debt service requirements.

2011 WFB Loan

In December 2011, the District entered into a loan agreement of \$5,120,000 with Wells Fargo Bank, National Association to, among other things; refinance all of the outstanding 2002 certificates which were originally issued for an aggregate principal amount of \$5,475,000. Terms of the agreement provide for principal payable semi-annually on January 1st and July 1st of each year maturing in 2027. Interest is fixed at 3.25%.

In December 2016, the District refunded all of the 2011 WFB Loan with the 2016 JPMorgan Loan. See the 2016 JPMorgan Loan for their respective debt service requirements.

2016 JPMorgan Loan

In December 2016, the District entered into an installment purchase agreement of \$6,049,548 with JPMorgan Chase Bank to provide funds to prepay \$2,520,000 of the 2004 Refunding Certificates of Participation and \$4,325,000 of the 2011 WFB Loan. The difference between the refunding debt and the refunded debt is being netted against the new debt and amortized over the life of the refunding debt. Terms of the agreement provide for principal payable semi-annually on January 1st and July 1st at the rate of 1.85% per annum. The remaining defeased bond refunding amount recorded as part of deferred outflows of resources of \$36,171 in the statement of net position will be amortized over the remaining life of the 2016 JPMorgan Loan. As of June 30, 2018, the District paid its outstanding principal payment in the amount of \$460,030, which is due on July 1, 2018.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(8) Long-Term Debt, continued

2016 JPMorgan Loan, continued

Principal and estimated interest payments on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	99,282	99,282
2020	468,579	90,692	559,271
2021	567,298	81,111	648,409
2022	662,832	69,732	732,564
2023	671,991	57,384	729,375
2024-2028	<u>2,765,891</u>	<u>163,116</u>	<u>2,929,007</u>
Total	5,136,591	<u>561,317</u>	<u>5,697,908</u>
Less: Current	<u>-</u>		
Non-current	<u>\$ 5,136,591</u>		

(9) Defined Benefit Pension Plan

Plan Description

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 CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Benefits Provided

CalPERS provide 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. The 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 January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, 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.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(9) Defined Benefit Pension Plan, continued

The provisions and benefits for the Plan's miscellaneous pool in effect as June 30, 2018, are summarized as follows:

	Miscellaneous Risk Pool		
	Classic	New Classic	PEPRA
		On or after January 1,	
	Prior to January 1,	2011 - December 31,	On or after January 1,
Hire date	<u>2011</u>	<u>2012</u>	<u>2013</u>
Benefit formula	2.7% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 service years	5 service years	5 service years
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.1% to 2.0%	1.0% to 2.0%
Required employee contribution rates	8.00%	7.00%	6.25%
Required employer contribution rates	12.014%	8.418%	6.533%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1, following notice of a change in rate. Funding contribution for the Plan is 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 year ended June 30, 2018, the contributions recognized as part of pension expense for the Plan was as follows:

	2018
Contributions – employer	\$ <u>176,792</u>

Net Pension Liability

As of the fiscal years ended June 30, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	2018
Proportionate share of net pension liability	\$ <u>2,106,130</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, 2018, the net pension liability of the Plan is measured as of June 30, 2017 (the measurement date). 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, 2016 (the valuation date), rolled forward to June 30, 2017, using standard update procedures.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(9) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

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 net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2017, was as follows:

	Miscellaneous
Proportion – June 30, 2016	0.02060%
Proportion – June 30, 2017	0.02124%
Increase in proportion	0.00064%

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2018, the District recognized pension expense of \$95,286.

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 207,207	-
Differences between actual and expected experience	-	(41,937)
Changes in assumptions	360,670	-
Net differences between projected and actual earnings on plan investments	88,302	-
Differences between actual contribution and proportionate share of contribution	-	(113,656)
Net adjustment due to differences in proportions of net pension liability	-	(27,930)
Total	\$ 656,179	(183,523)

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(9) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2018, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$207,207 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

At June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30,	Deferred Net Outflows of Resources
2019	\$ (3,970)
2020	200,769
2021	107,364
2022	(38,714)
2023	-
Remaining	-

Actuarial Assumptions

The total pension liabilities were determined by actuarial valuations as of June 30, 2016, which were rolled forward to June 30, 2017, using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68

Actuarial assumptions:

Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Mortality Rate Table*	Derived using CalPERS Membership Data for all Funds
Period Upon Which Actuarial Experience Survey Assumptions Were Based	1997-2011
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(9) Defined Benefit Pension Plan, continued

Discount Rate

The discount rates used in the actuarial valuations to measure the total pension liability as of June 30, 2018, reflect the long-term expected rates of return. The discount rates used to measure the total pension liability as of June 30, 2018, was 7.15%. These differ from the discount rates used as of June 30, 2017, which was 7.65%, due to a decrease in the long-term expected rate of return. The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period.

To determine whether the municipal bond rate should be used in the calculation of the discount rate, the amortization and smoothing periods adopted by CalPERS in 2013 were used. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C.

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 returns of all of the 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 the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

As of June 30, 2018, the target allocation and the long-term expected real rate of return by asset class were as follows:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u>100.0%</u>		

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(9) Defined Benefit Pension Plan, continued

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 were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate.

As of June 30, 2018, 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, is as follows:

	Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
	6.15%	7.15%	8.15%
District's Net Pension Liability*	\$ 3,393,138	2,106,130	1,040,207

*Data source: CalPERS GASB 68 Accounting Valuation Report and Schedules of Employer Allocations by Rate Plan and Collective Pension Amounts.

Payable to the Pension Plan

At June 30, 2018, the District reported no payables for the outstanding amount of contribution to the pension plan.

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 47 through 48 for the Required Supplementary Schedules.

(10) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program) administered by Nationwide Retirement Solutions through administrative service agreements. The purpose of this program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseen emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation; therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by the District plan amounted to \$442,126 in fiscal year 2018.

The District has implemented GASB Statement No. 32, Accounting for Financial Reporting for Internal Revenue code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function of this plan, the assets and related liabilities are not shown on the Statements of Net Position.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(11) Net Position

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

	2018
Net investment in capital assets:	
Capital assets, net	\$ 21,800,708
Loss on defeasance of debt	36,171
Loan payable – long-term	(5,136,591)
Total net investment in capital assets	16,700,288
Unrestricted net position:	
Non-spendable net position:	
Materials and supplies inventory	211,827
Prepaid expenses and deposits	94,535
Total non-spendable net position	306,362
Spendable net position are designated as follows:	
Total spendable net position	(1,644,646)
Total unrestricted net position	(1,338,284)
Total net position	\$ 15,362,004

(12) 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 is a member of Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide pooled, self-insured programs for potential exposures. At June 30, 2018, the District participated in the liability, property, and workers compensation programs of the ACWA/JPIA as follows:

- Property coverage: Property coverage: Per occurrence, \$150 million with liability limits varying by property. Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$150 million, subject to a deductible between \$500 and \$5,000 depending on the type of property. Property coverage includes flood coverage with various deductibles and earthquake coverage with deductibles of 5% per unit of insurance, \$75,000 minimum; premium of \$13,226.
- General, Auto, Errors and Omissions and Employment Practices Liability coverage: ACWA/JPIA's total risk financing self-insurance limits of \$5 million per occurrence. The ACWA/JPIA purchased additional excess coverage layers up to \$60 million; \$74,492 premium.
- Crime coverage: Limit of coverage \$100,000 with a deductible of \$1,000.
- Workers compensation: Limit up to California Statutory limits for all work related injuries/illness covered by California Law. ACWA JPIA pooled self-insured limit of \$2 million each accident or each employee by disease and a premium of \$35,147.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government’s AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. 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 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

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

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. 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 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Scotts Valley Water District
Notes to the Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(14) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the 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.

(15) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of December 13, 2018, which is the date the financial statements were available to be issued.

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Required Supplementary Information

Scotts Valley Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last Ten Years*

Defined Benefit Plan

	Measurement Dates			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
District's Proportion of the Net Pension Liability	0.02124%	0.02060%	0.01796%	0.00000%
District's Proportionate Share of the Net Pension Liability	\$ 2,106,130	1,782,379	1,233,015	1,329,971
District's Covered-Employee Payroll	\$ 1,310,286	1,372,299	1,169,390	817,021
District's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	160.74%	129.88%	105.44%	162.78%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	77.49%	79.61%	84.83%	81.15%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 274,342	259,120	238,519	175,950

Notes:

Changes in Benefit Terms – The District 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 the District's plan can be found in the plan's annual valuation report.

Changes of Assumptions – In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used 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.

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

Scotts Valley Water District
Schedules of Pension Plan Contributions
As of June 30, 2018
Last Ten Years*

Defined Benefit Plan

<u>Description</u>	<u>Fiscal Year Ended</u>				
	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Actuarially Determined Contribution	\$ 226,013	199,381	179,072	185,477	179,480
Contributions in Relation to the Actuarially Determined Contribution	<u>(207,207)</u>	<u>(176,792)</u>	<u>(108,719)</u>	<u>(570,843)</u>	<u>(141,599)</u>
Contribution Deficiency (Excess)	\$ <u>18,806</u>	<u>22,589</u>	<u>70,353</u>	<u>(385,366)</u>	<u>37,881</u>
Covered Payroll	\$ <u>1,502,301</u>	<u>1,310,286</u>	<u>1,372,299</u>	<u>1,169,390</u>	<u>817,021</u>
Contribution's as a percentage of Covered-employee Payroll	<u>13.79%</u>	<u>13.49%</u>	<u>7.92%</u>	<u>48.82%</u>	<u>17.33%</u>

Note:

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

Scotts Valley Water District
Schedule of Changes in Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2018
Last Ten Years*

Defined Benefit OPEB Plan

	2018
Total OPEB Liability	
Service cost	\$ 18,018
Interest	96,029
Benefit payments	(143,918)
Net change in total OPEB liability	(29,871)
Total OPEB liability - beginning of year	2,878,309
Total OPEB liability - end of year (a)	\$ 2,848,438
 Plan Fiduciary Net Position	
Contributions - employer	\$ 143,918
Benefit payments	(143,918)
Net change in plan fiduciary net position	-
Plan Fiduciary Net Position - beginning of year	-
Plan Fiduciary Net Position - end of year (b)	-
Net OPEB Liability - ending (a) - (b)	\$ 2,848,438
 Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.00%
Covered - employee payroll	N/A
Net OPEB Liability as a percentage of covered-employee payroll	N/A

Notes to Schedule

Benefit changes – None noted.

Changes of assumptions – None noted.

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

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Supplemental Information

Scotts Valley Water District
Combining Schedule of Net Position
June 30, 2018

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 1,486,756	7,435	1,494,191
Accrued interest receivable	4,311	3,198	7,509
Accounts receivable, net	1,243,269	71,394	1,314,663
Accounts receivable – property tax	54,828	-	54,828
Accounts receivable – other	59,259	-	59,259
Materials and supplies inventory	211,827	-	211,827
Prepaid expenses and deposits	94,535	-	94,535
Note receivable – due in one year	-	161,639	161,639
Total current assets	<u>3,154,785</u>	<u>243,666</u>	<u>3,398,451</u>
Non-current assets:			
Note receivable – due in more than one year	-	392,431	392,431
Capital assets – not being depreciated	710,504	22,672	733,176
Capital assets – being depreciated	15,597,205	5,470,327	21,067,532
Total non-current assets	<u>16,307,709</u>	<u>5,885,430</u>	<u>22,193,139</u>
Total assets	<u>19,462,494</u>	<u>6,129,096</u>	<u>25,591,590</u>
Deferred outflows of resources:			
Deferred pension outflows	590,560	65,619	656,179
Loss on defeasance of debt	36,171	-	36,171
Total deferred outflows of resources	<u>\$ 626,731</u>	<u>65,619</u>	<u>692,350</u>

Continued on next page

See accompanying notes to the basic financial statements

Scotts Valley Water District
Combining Schedule of Net Position, continued
June 30, 2018

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
Current liabilities:			
Accounts payable and accrued expense	\$ 214,870	127,474	342,344
Accrued wages and related payables	80,885	-	80,885
Due to (from) funds	(368,440)	368,440	-
Customer deposits	86,436	26,000	112,436
Long-term liabilities – due in one year:			
Compensated absences	23,377	2,485	25,862
Total current liabilities	<u>37,128</u>	<u>524,399</u>	<u>561,527</u>
Non-current liabilities:			
Unearned revenue	8,142	-	8,142
Long-term liabilities – due in more than one year:			
Compensated absences	70,130	7,455	77,585
Net OPEB liability	2,563,594	284,844	2,848,438
Net pension liability	1,895,516	210,614	2,106,130
Loan payable	3,116,882	2,019,709	5,136,591
Total non-current liabilities	<u>7,654,264</u>	<u>2,522,622</u>	<u>10,176,886</u>
Total liabilities	<u>7,691,392</u>	<u>3,047,021</u>	<u>10,738,413</u>
Deferred inflows of resources:			
Deferred pension inflows	165,173	18,350	183,523
Total deferred inflows of resources	<u>165,173</u>	<u>18,350</u>	<u>183,523</u>
Net position:			
Net investment in capital assets	13,226,998	3,473,290	16,700,288
Unrestricted (deficit)	(994,338)	(343,946)	(1,338,284)
Total net position	<u>\$ 12,232,660</u>	<u>3,129,344</u>	<u>15,362,004</u>

Scotts Valley Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
Operating revenues:			
Water sales	\$ 3,504,698	-	3,504,698
Service charges	2,250,118	43,218	2,293,336
Water sales – recycled	-	455,073	455,073
Other revenue	16,743	771	17,514
Total operating revenues	<u>5,771,559</u>	<u>499,062</u>	<u>6,270,621</u>
Operating expenses:			
Source of supply	163,709	-	163,709
Pumping	584,787	-	584,787
Water treatment	829,736	-	829,736
Recycled water	5,828	480,855	486,683
Transmission and distribution	835,658	-	835,658
Conservation	163,778	-	163,778
Customer accounts	198,613	-	198,613
General and administrative expenses	1,871,927	-	1,871,927
Total operating expenses	<u>4,654,036</u>	<u>480,855</u>	<u>5,134,891</u>
Operating loss before depreciation	1,117,523	18,207	1,135,730
Depreciation expense	(814,864)	(183,230)	(998,094)
Operating income (loss)	<u>302,659</u>	<u>(165,023)</u>	<u>137,636</u>
Non-operating revenue (expense):			
Property tax revenues	923,894	-	923,894
Investment earnings	11,443	11,131	22,574
Interest expense	(66,874)	(40,729)	(107,603)
Loss on disposal of capital assets	(347,958)	-	(347,958)
Other non-operating revenue (expense), net	170,233	-	170,233
Total non-operating revenues, net	<u>690,738</u>	<u>(29,598)</u>	<u>661,140</u>
Net income (loss) before capital contributions	<u>993,397</u>	<u>(194,621)</u>	<u>798,776</u>
Capital contributions:			
Capital grants – State	720	-	720
Total capital contributions	<u>720</u>	<u>-</u>	<u>720</u>
Change in net position	<u>994,117</u>	<u>(194,621)</u>	<u>799,496</u>
Net position, beginning of period, as previously stated	12,643,500	3,480,074	16,123,574
Prior period adjustment	<u>(1,404,957)</u>	<u>(156,109)</u>	<u>(1,561,066)</u>
Net position, beginning of period, as restated	<u>11,238,543</u>	<u>3,323,965</u>	<u>14,562,508</u>
Net position, end of period	<u>\$ 12,232,660</u>	<u>3,129,344</u>	<u>15,362,004</u>

**Scotts Valley Water District
Schedule of Customer Account and
General and Administrative Expense
For the Fiscal Year Ended June 30, 2018**

		<u>2018</u>
Customer accounts:		
Collection	\$	37,358
Customer service		<u>161,255</u>
Total customer accounts	\$	<u><u>198,613</u></u>
 General and administrative:		
Office	\$	175,816
General maintenance		177,138
Salaries and benefits		1,092,423
Education		42,066
Outside services		356,076
Other		<u>28,408</u>
Total general and administrative expense	\$	<u><u>1,871,927</u></u>

Statistical Section

**Scotts Valley Water District
Statistical Section**

This part of the District’s annual financial report is presented as a requirement by the debt covenant of the District’s 2016 Certificate of Participation (COP). See Note 8 for more details of the District’s 2016 COP.

Table of Contents

	<u>Page No.</u>
Population Estimates	55
Direct and Overlapping Debt	56
Assessed Valuations – Santa Cruz County	57

**Scotts Valley Water District
Population Estimates - City of Scotts Valley
2011-2018 with 2010 Benchmark**

<u>City</u>	<u>April 1 2010</u>	<u>January 1, 2011</u>	<u>January 1, 2012</u>	<u>January 1, 2013</u>	<u>January 1, 2014</u>	<u>January 1, 2015</u>	<u>January 1, 2016</u>	<u>January 1, 2017</u>	<u>January 1, 2018</u>
Santa Cruz County									
Scotts Valley	11,580	11,598	11,697	11,796	11,944	12,137	12,195	12,196	12,195

Source: The 2010 figure reflects the census data while 2011-2018 estimates are from California Department of Finance.

**Scotts Valley Water District
Direct and Overlapping Debt
As of June 30, 2018**

	Debt Outstanding	Estimated Percentage Applicable⁽¹⁾	Estimated Share of Direct and Overlapping Debt
Direct and Overlapping Tax and Assessment Debt:			
Cabrillo Joint Community College District	\$ 106,580,565	5.256%	5,601,874
Scotts Valley Unified School District	44,935,000	56.170%	25,239,990
Scotts Valley Water District	-	100.000%	-
Santa Cruz Library Facilities Community Facilities District No. 2016-1	21,170,000	5.916%	1,252,417
City of Scotts Valley Community Facilities District No. 97-1	3,395,000	81.353%	2,761,934
Total Direct and Overlapping Tax and Assessment Debt			34,856,215
Overlapping General Fund Debt:			
Santa Cruz County General Fund Obligations	71,964,078	5.294%	3,809,778
Santa Cruz County Office of Education Certificates of Participation	8,862,102	5.294%	469,160
Scotts Valley Unified School District Certificates of Participation	9,825,000	56.170%	5,518,703
City of Scotts Valley Certificates of Participation	5,305,588	81.353%	4,316,255
City of Scotts Valley Pension Obligation Bonds	2,675,000	81.353%	2,176,193
Total Overlapping General Fund Debt			16,290,089
Overlapping Tax Increment Debt (Successor Agency)	13,465,000	99.699%	13,424,470
Total Direct Debt			-
Total Overlapping Debt			64,570,774
Combined Total Debt			64,570,774⁽²⁾
2017-18 Assessed Valuation:	2,284,037,059		
Ratios to 2017-18 Assessed Valuation:			
Total Overlapping Tax and Assessment Debt		1.53%	
Total Direct Debt		0.00%	
Combined Total Debt		2.83%	
Ratios to Redevelopment Successor Agency Incremental Valuation		678,571,378	
Total Overlapping Tax Increment Debt		1.98%	

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the District divided by the District's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage and non-bonded capital lease obligations.

**Scotts Valley Water District
Assessed Valuations – Santa Cruz County
2013 - 2018**

Fiscal Year	Local Secured	Utility	Unsecured	Total
2013	\$ 1,690,236,305	-	\$ 69,943,436	\$ 1,760,179,741
2014	1,741,335,638	-	65,219,381	1,806,555,019
2015	1,850,583,702	-	69,765,255	1,920,348,957
2016	1,977,106,591	-	74,898,080	2,052,004,671
2017	2,078,152,308	-	84,632,026	2,162,784,334
2018	2,196,063,260	-	87,973,799	2,284,037,059

2017-18 Total Local Secured Assessed Valuation Breakdown

Residential Property	Commercial Property	Industrial Property	Other Property	Total Local Secured Property
\$ 1,780,064,704	\$ 260,310,274	\$ 111,691,305	\$ 43,996,977	\$ 2,196,063,260

Typical Total Tax Rate per \$100 of Assessed Valuation (TRA 08117)

	2013	2014	2015	2016	2017	2018
General	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
Scotts Valley	0.048489	0.045875	0.041027	0.075224	0.051200	0.083657
Cabrillo Community College District	0.040482	0.040468	0.036941	0.036693	0.032597	0.024250
Total All Property	1.088971	1.086343	1.077968	1.111917	1.083797	1.107907

**2017-18 Assessed Valuation of Redevelopment Agency Project Area
Within the District**

Residential Property	Commercial Property	Industrial Property	Other Property
Scotts Valley	1,094,983,532	416,412,154	678,571,378

Report on Internal Controls and Compliance



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

Board of Directors
Scotts Valley Water District
Scotts Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Scotts Valley Water District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit 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 audit 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 audit, 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 Controls Over Financial Reporting
And on Compliance and Other Matters Based on an 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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
December 13, 2018