



**SCOTTS VALLEY
WATER DISTRICT**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Fiscal Years Ended June 30, 2020 and 2019



Scotts Valley, California

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, 2020

<u>Name</u>	<u>Title</u>	<u>Elected / Appointed</u>	<u>Current Term</u>
Wade Leishman	President	Elected	12/18 - 11/22
Bill Ekwall	Vice President	Elected	12/18 - 11/22
Chris Perri	Director	Elected	12/16 - 11/20
Danny Reber	Director	Elected	12/16 - 11/20
Ruth Stiles	Director	Elected	12/18 - 11/22

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

SCOTTS VALLEY WATER DISTRICT

For the Fiscal Years Ended June 30, 2020 and 2019

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SCOTTS VALLEY WATER DISTRICT

For the Fiscal Years Ended June 30, 2020 and 2019

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SCOTTS VALLEY WATER DISTRICT

2 Civic Center
Scotts Valley, California 95066
831-438-2363
December 10, 2020

To the Honorable Board of Directors of the Scotts Valley Water District and Members of the Community

It is my pleasure to submit the Scotts Valley Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020 (FY 2020). The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited with generally accepted auditing standards.

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. I believe that the data presented is accurate in all material respects. This report is designed in a manner that helps to enhance the understanding of the District's financial position and activities. The management of the District has established an internal controls framework that is designed to protect the District's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP.

The District's financial statements have been audited by Nigro and Nigro, PC, a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2020 are free of material misstatement. The independent audit involved examining, on a test basis, the evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditors concluded that there was reasonable basis for rendering an unmodified opinion which states that the District's financial statements for the fiscal year ended June 30, 2020 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the Financial Section of this report.

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

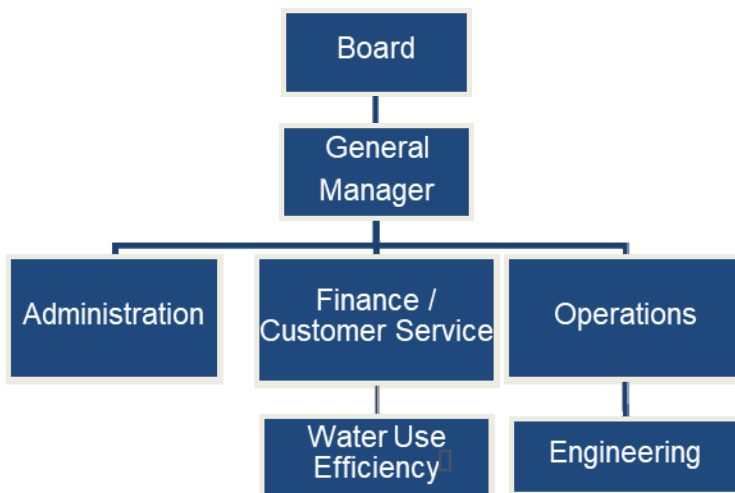
This report is organized into three sections: (1) Introductory, (2) Financial, and (3) Statistical. The Introductory section offers general information about the District's organizational structure and water system, the economic environment, as well as the District's major initiatives and accomplishments. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis, and the financial statements with accompanying notes including required supplementary reports. The supplementary reports segment contains selected financial information in greater detail than presented in the financial statements in accordance with the District's internal fund structure. The Statistical section includes additional tables of unaudited data depicting select information about the District.

District Organizational 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 District's Board of Directors meets on the second Thursday of each month. The public is notified of these meetings and is encouraged to attend.

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 19 regular employees organized in three divisions: Administration, Operations, and Finance. There was one change to the organization chart in FY 2020. The Water Use Efficiency department transitioned to the Finance / Customer Service division.

The District's organization chart is presented by position at the end of this letter. The organization's department structure is presented below:



The District provides water service to approximately 4,330 connections, covering most of the City of Scotts Valley and several unincorporated neighborhoods.

The City of Scotts Valley, which covers approximately six square miles, is located north of the City of Santa Cruz on Highway 17 in Santa Cruz County.

District Services

Residential customers represent approximately 92% of the District's customer base and consume approximately 67% 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.

The District's potable water connection portfolio increased by 29 accounts in FY 2020.

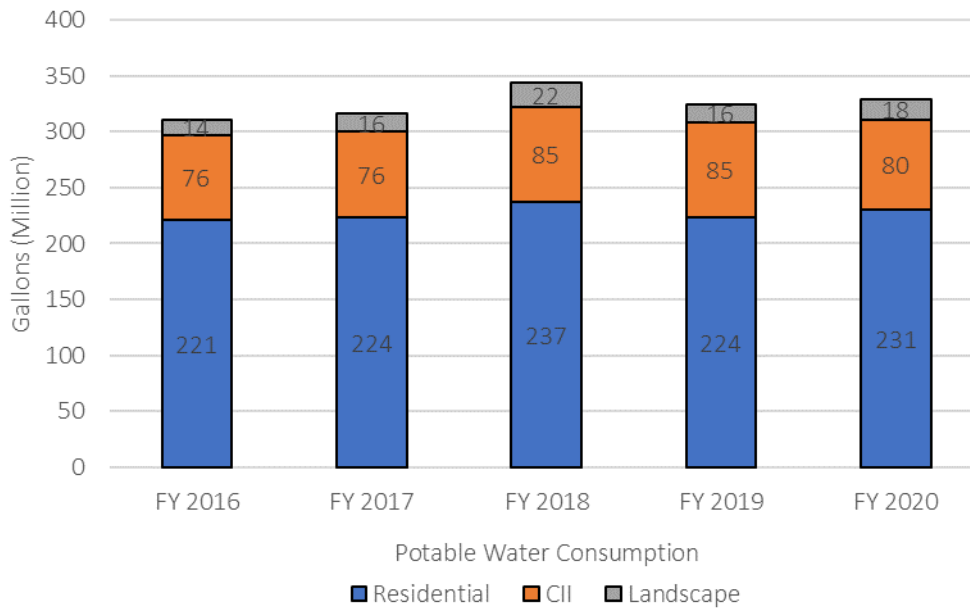
Potable Domestic Water Connections (excludes Fire Service Connections)

	6/30/2019	6/30/2020	Incr/(Decr)
Residential	3,417	3,450	33
CII*	290	287	(3)
Landscape	83	82	(1)
	3,790	3,819	29

* CII: Commercial, Industrial and Institution

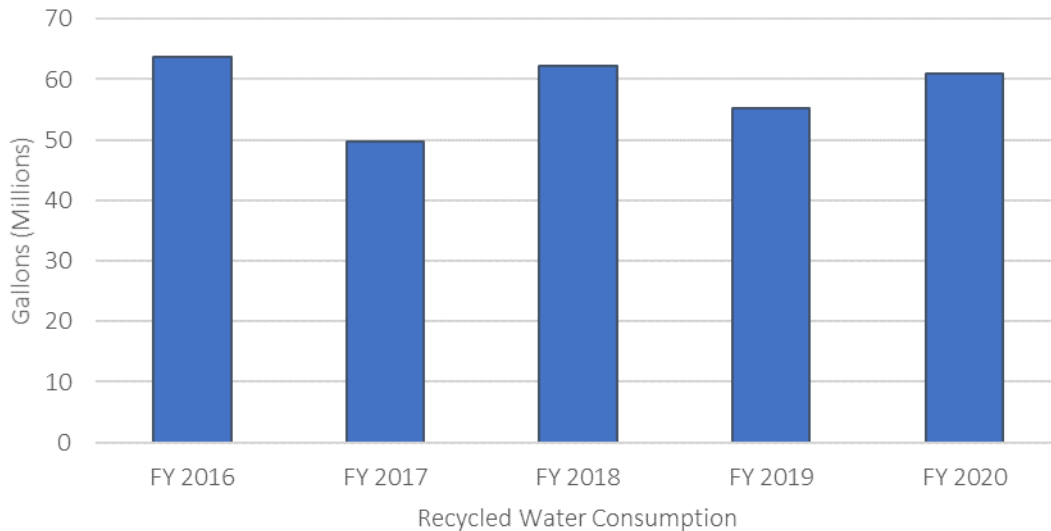
Total potable water consumption increased by 4 million gallons (MG) from FY 2019, equal to 1.2%, with residential and landscape customers as the primary drivers for the change. Residential consumption increased by 7 MG (3.1%), landscape consumption increased by 2 MG (12.5%), while CII consumption decreased by 5 MG (5.8%). One factor that is impacting the overall consumption trend is the effectiveness of the District’s water use efficiency program.

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



Scotts Valley boasts the only recycled water treatment plant (Tertiary Treatment Plant) in the North Santa Cruz County area. The District’s goal is to maximize the potential use of recycled water wherever feasible by installing recycled irrigation services at new development projects and converting existing potable landscape connections to recycled water. About 16% of the total annual system demand is fulfilled using recycled water. As of June 30, 2020, there were 67 recycled water connections with an annual demand of 60.9 MG. Total recycled water consumption increased by 5.5 MG from FY 2019, or 10%.

Total recycled water consumption increased by 5.5 million gallons (MG) from prior year, or ten percent. The five-year history of recycled water consumption (in million gallons) is presented below:



Water Rates

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 2020 was the fourth year of the rate schedule. The District implemented a 3% increase for potable water rates in December 2019, which was 7% below the originally adopted rate

Water Use Efficiency Programs

The District is committed to promoting and supporting efficient water use by its customers and demonstrates this commitment by reducing water waste, providing ongoing education, offering rebates, and performing home inspections and water use consultations. The COVID-19 pandemic and shelter-in-place restrictions resulted in modified procedures and transformed activities. The District quickly implemented changes to reduce in-person contact and leverage technology. Staff lead the effort to optimize the District's use of WaterSmart, a software platform for customers to access and manage their consumption data. The software notifies customers about unusual water use patterns and offers guidance on how to address the underlying issues. Implementing these notifications has resulted in the average duration of customer water leaks significantly decreasing.

Other accomplishments in FY 2020 include the following: incentivized retrofitting of 20,400 square feet of turf and 3,800 square feet of high-volume spray irrigation; promoted alternative water supply sources of greywater, rainwater, and downspout diversion; and provided 220 house calls to help detect leaks and distribute water-saving devices.

Local Economic Condition and Outlook

The COVID-19 pandemic that began in Spring 2020 had a significant impact on the global and local economy. According to data from the State Employment Development Division, the unemployment rate for Santa Cruz County in June 2020 was 11.3%, which represents a 7% increase from the same period last year. The County's unemployment rate was lower than the statewide average of 13.9% for June 2020.

The number of new service connections is partially impacted by the local economy and driven by the City of Scotts Valley economic development policies, especially its land use policy. The city has a population of 11,693 according to a May 2020 news release by the State Department of Finance, an increase of 1% from 11,580 per the 2010 census. The number of households grew from 4,426 in the 2010 census to an estimated 4,522 in 2020, an increase of 2.2%. As the city's remaining buildable space is limited, growth in population is likely to remain moderate.

The City's Planning Department approved several large commercial and residential developments. Development projects resulted in 54 new connections to the system in FY 2020 generating Capacity Buy-In fee revenue of approximately \$786,000. New units in The Grove development, The Cove development, and The Terrace development accounted for the majority of new connection revenue.

Major Planned Initiatives and Significant Projects

Water supply reliability, water quality enhancement, and infrastructure repair and replacement remain the focus of the District's capital improvement program. In FY 2020 the District completed the rehabilitation of its Sequoia Tank. The District's largest tank, Sequoia Tank has a storage capacity of 1.25 million gallons and serves as a critical component of the District's water supply infrastructure. The rehabilitation project included re-coating of the interior of the tank as well as structural repair of the roof support and upgrades to the piping configuration.

In FY 2020 the District continued a multi-year initiative to modernize its meter technology. Over 1,200 accounts received upgrades to their water meters through the District's Automated Metering Infrastructure (AMI) technology project. It is anticipated that the meter conversion project will be completed by the end of FY 2021.

Another major project that began in FY 2020 is the Orchard Run Water Treatment Plant Water Quality Improvements. The District completed engineering design and awarded contract for the construction, which is scheduled to begin in December 2020 and to be completed by the end of FY 2021.

FY 2020 Accomplishments

The activities of the District are driven by its Mission, Vision, and Strategic Goals. Notable accomplishments within each Strategic Goal area are presented below:

Water Resource Management:

1. Designed a roadmap to identify a reliable future source for recycled water and worked with consultants to perform Recycled Water Alternatives evaluation.
2. Led administrative support for the Santa Margarita Groundwater Agency (SMGWA), coordinating all governance, administrative, budgetary, and grant activities.
3. Processed 193 leak adjustments and improved the process for tracking and reporting the data.
4. Leveraged WaterSmart leak alert process to reduce the water lost due to leaks by 50% from the prior year
5. Promoted water use efficiency by issuing 118 rebates that generate water savings of approximately 900,000 gallons per year.
6. Streamlined the Service Application / Main Extension Agreement process; developed a template for reporting active and historical development projects.

Infrastructure Integrity:

1. Completed the rehabilitation of Sequoia Tank including interior recoating, re-piping, and structural repairs to the roof support system.
2. Performed assessment and completed repairs of Well 11B, the source water for the El Pueblo Water Treatment Plant.
3. Completed site preparation for the installation of maintenance tanks as part of the Bethany Tank Rehabilitation project.
4. Installed 1,200 meters as part of the District's annual meter replacement program; installed Automated Metering Infrastructure equipment on all new meters.
5. Replaced all pumps and motors at the Orchard Run Pump Station with new high-efficiency equipment.
6. Initiated work with consultants for the preliminary design of the new well and water treatment plant.

Financial Stewardship:

1. Reached nearly 20% registration rate on WaterSmart customer engagement portal.
2. Established a Rate Assistance Program that offers discounted water rates for qualified accounts and developed procedures for conducting annual re-evaluations.
3. Established new Delinquent Accounts Policy in compliance with California Senate Bill 998 and developed procedures for implementing revised shut-off policies.
4. Completed the FY 2019 Audited Financial Report, which included enhancements to the Statistical section to meet the required Government Finance Officers Association (GFOA) criteria for achieving the Excellence in Financial Reporting award.
5. Facilitated the budget development process to incorporate an elevated level of Board input into the production of a balanced FY 2021 recommended budget that resulted in increased operating expenditures of only 2.9% above the FY 2019 budget and a very strong debt service coverage ratio.
6. Installed touchless on-site payment processing devices.

Public Outreach:

1. Developed and implemented pilot programs for including members of the public in board activities.
2. Promoted and organized District participation in the Scotts Valley Art Wine and Beer Festival, focusing on the District's role as a community member and water provider.
3. Produced four short videos to highlight the District and its services to be used across multiple platforms.
4. Launched a pilot project for holding digital board meetings.
5. Coordinated Interagency Committee activities; completed and published an infographic that outlines the integrated process of community facility development.

Organizational Vitality:

1. Implemented tracking for regulatory and mandatory training utilizing ADP software.
2. Developed a draft records retention policy.
3. Coordinated the reconstruction and remodel of the Santa Margarita Community Room.
4. Identified relevant opportunities for each employee and Director to attend at minimum 1 training and/or professional event annually.

5. Optimized the use of volunteers and interns to complete office administrative activities and assist with recruitment outreach; participated in the Scotts Valley Chamber of Commerce Career Exploration Program.
6. Completed safety training schedule and all staff in the Operations division attended Defensive Driving and Silica Awareness classes.

Internal Control Structure

District management is responsible for the establishment and maintenance of an internal control structure that ensures that District assets 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

The Board of Directors approves an operating and capital budget annually, prior to each new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's activities. 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 and prudent money management. The objectives of the Investment Policy are safety, liquidity, and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund (LAIF) and checking accounts.

Reserve Policy

The Board of Directors has 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 targets for 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 the established criteria, the District's reserve target for this fiscal year was calculated to be \$4.47 million. As of June 30, 2020, the District's cash balance was \$4.4 million, or 98.4% of the target. The year-end balance was designated as follows:

Operating	\$	1,367,900
Rate Stabilization		896,200
Emergency		511,900
Capital		982,500
Debt Service		643,500
Total	\$	<u>4,402,000</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 Nigro & Nigro, PC has conducted the audit of the District's financial statements for FY 2020. Their unmodified Independent Auditor's Report appears in the Financial Section.

Risk Management

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

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.

Awards and Acknowledgement

This is the first year that the District is submitting its Comprehensive Annual Financial Report (CAFR) for the Government Finance Officers Association of the United States and Canada's (GFOA) *Certificate of Achievement for Excellence in Financial Reporting*. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. The report must satisfy the both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that this CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine our eligibility for the 2020 fiscal year.

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,

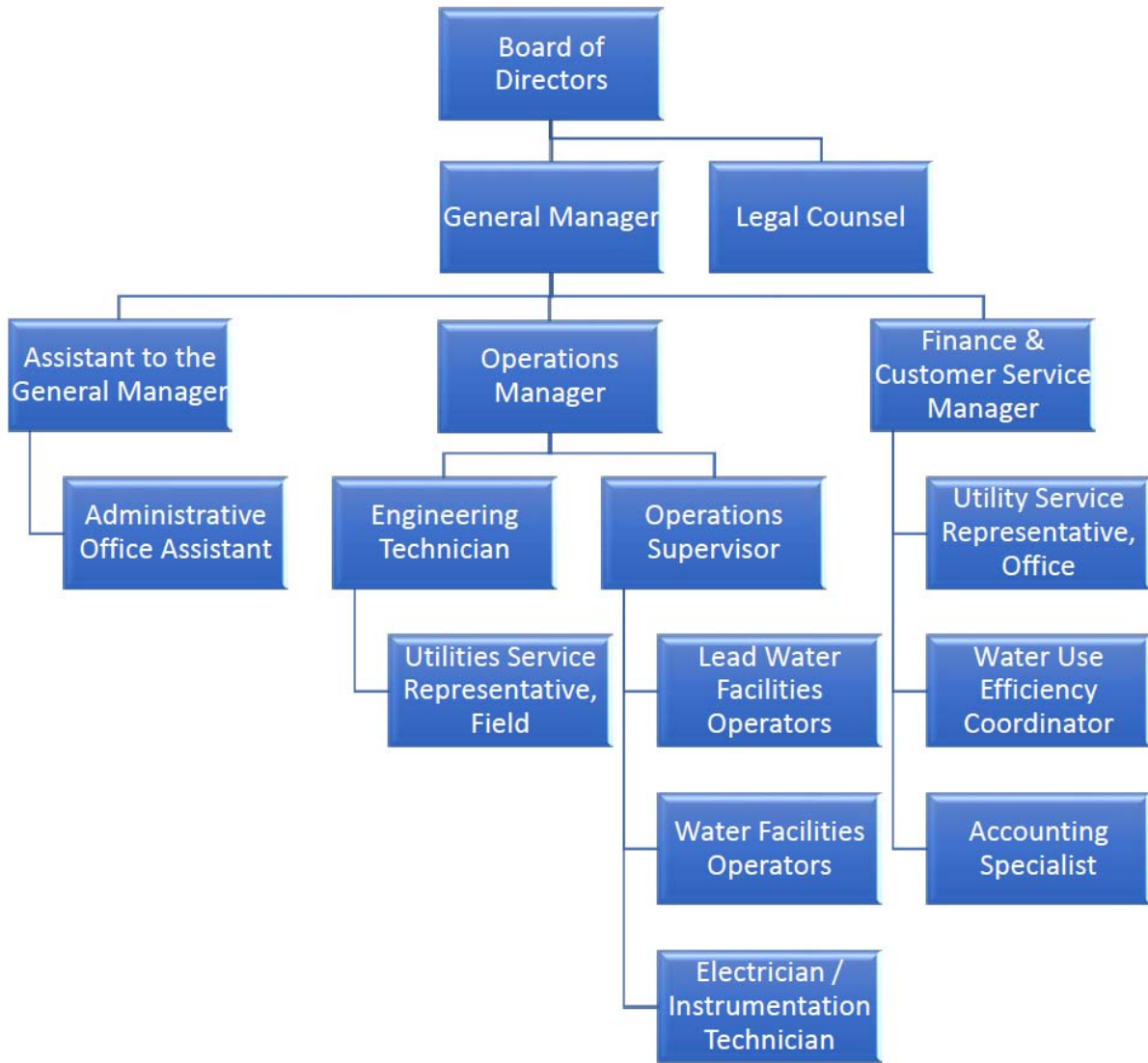


Piret Harmon
General Manager

SCOTTS VALLEY WATER DISTRICT

Organizational Chart

For the Year Ended June 30, 2020



Financial Section



INDEPENDENT AUDITORS' 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 comprise the balance sheets as of June 30, 2020 and 2019, the related statements of revenues, expenses and changes in net position and statements of cash flows for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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. 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 controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Plan's (PERF C) Net Pension Liability, Schedule of the District's Contributions to the Pension Plan, and Schedule of Changes in the District's Net OPEB Liability and Related Ratios be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Combining Balance Sheet and Combining Statement of Revenues, Expenses and Changes in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates 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 audit 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 10, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.



Walnut Creek, California
December 10, 2020

Management's Discussion and Analysis

SCOTTS VALLEY WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

Management's Discussion and Analysis (MD&A) offers readers of Scotts Valley Water District's financial statements a narrative overview of the District's financial activities for the years ended June 30, 2020 and 2019. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In 2020, the District's net position increased 13.1% or \$2,236,882 from \$17,090,559 to \$19,327,441, primarily due to a \$791,700 increase in total operating and non-operating revenues along with \$761,665 increase in capital contributions from capacity fees.
- In 2019, the District's net position increased 11.2% or \$1,723,972 from \$15,366,587 to \$17,090,559, primarily due to a \$906,223 increase in operating net income resulting from a \$378,505 increase in operating revenues and a \$527,718 decrease in operating expenses plus depreciation.
- In 2020, the District's total operating and non-operating revenues increased 11.1% or \$791,700 from \$7,099,553 to \$7,891,253, primarily from increases in water sales and water service charges due to the rate increase for the fiscal period.
- In 2019, the District's total operating and non-operating revenues increased 5.5% or \$370,438 from \$6,729,115 to \$7,099,553, primarily from increases in water sales and water service charges due to the rate increase for the fiscal period.
- In 2020, the District's total expenses increased 10.4% or \$605,819 from \$5,810,217 to \$6,416,036, primarily from an increase in meter and building maintenance costs and a \$240,719 change in investment in SMGA-JPA.
- In 2019, the District's total expenses decreased 9.8% or (\$630,782) from \$6,440,999 to \$5,810,217, primarily from a \$266,920 reduction in operating expenses and a \$260,798 decrease in depreciation expense.

REQUIRED FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District.

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

SCOTTS VALLEY WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes to it. The District's net position is the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources. Increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, non-financial factors such as changes in economic conditions, population growth, zoning and the regulatory landscape need to be taken into consideration when measuring the District's financial health.

Condensed Balance Sheets

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Change</u>	<u>June 30, 2018</u>	<u>Change</u>
Assets:					
Current assets	\$ 6,058,799	\$ 4,507,120	\$ 1,551,679	\$ 3,398,451	\$ 1,108,669
Non-current assets	1,095,922	1,115,847	(19,925)	944,984	170,863
Capital assets, net	21,785,200	21,642,425	142,775	21,800,708	(158,283)
Total assets	<u>28,939,921</u>	<u>27,265,392</u>	<u>1,674,529</u>	<u>26,144,143</u>	<u>1,121,249</u>
Deferred outflows of resources	<u>837,369</u>	<u>834,538</u>	<u>2,831</u>	<u>656,179</u>	<u>178,359</u>
Total assets and deferred outflows of resources	<u>\$ 29,777,290</u>	<u>\$ 28,099,930</u>	<u>\$ 1,677,360</u>	<u>\$ 26,800,322</u>	<u>\$ 1,299,608</u>
Liabilities:					
Current liabilities	\$ 1,461,151	\$ 1,208,084	\$ 253,067	\$ 1,081,468	\$ 126,616
Non-current liabilities	8,773,238	9,589,006	(815,768)	10,168,744	(579,738)
Total liabilities	<u>10,234,389</u>	<u>10,797,090</u>	<u>(562,701)</u>	<u>11,250,212</u>	<u>(453,122)</u>
Deferred inflows of resources	<u>215,460</u>	<u>212,281</u>	<u>3,179</u>	<u>183,523</u>	<u>28,758</u>
Net position:					
Net investment in capital assets	17,684,486	16,974,413	710,073	16,664,117	310,296
Unrestricted (Deficit)	1,642,955	116,146	1,526,809	(1,297,530)	1,413,676
Total net position	<u>19,327,441</u>	<u>17,090,559</u>	<u>2,236,882</u>	<u>15,366,587</u>	<u>1,723,972</u>
Total liabilities, deferred outflows of resources and net position	<u>\$ 29,777,290</u>	<u>\$ 28,099,930</u>	<u>\$ 1,677,360</u>	<u>\$ 26,800,322</u>	<u>\$ 1,299,608</u>

As noted earlier, net position may serve over time as a useful indicator of an agency'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 \$19,327,441 and \$17,090,559 as of June 30, 2020 and 2019, respectfully.

SCOTTS VALLEY WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Balance Sheets (continued)

By far the largest portion of the District's net position (99.3% as of June 30, 2020) 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 2020, the District showed a positive balance in its unrestricted net position of \$1,642,955.

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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Change</u>	<u>June 30, 2018</u>	<u>Change</u>
Total operating revenues	\$ 6,674,839	\$ 6,025,665	\$ 649,174	\$ 5,647,160	\$ 378,505
Total operating expenses	<u>(5,019,304)</u>	<u>(4,630,007)</u>	<u>(389,297)</u>	<u>(4,896,927)</u>	<u>266,920</u>
Operating income before depreciation	1,655,535	1,395,658	259,877	750,233	645,425
Depreciation expense	<u>(1,069,751)</u>	<u>(1,085,254)</u>	<u>15,503</u>	<u>(1,346,052)</u>	<u>260,798</u>
Operating income (loss)	585,784	310,404	275,380	(595,819)	906,223
Total non-operating revenues(expenses), net	889,433	978,932	(89,499)	883,935	94,997
Capital contributions	<u>761,665</u>	<u>434,636</u>	<u>327,029</u>	<u>515,963</u>	<u>(81,327)</u>
Change in net position	2,236,882	1,723,972	512,910	804,079	919,893
Net position:					
Beginning of year	<u>17,090,559</u>	<u>15,366,587</u>	<u>1,723,972</u>	<u>14,562,508</u>	<u>804,079</u>
End of year	<u>\$ 19,327,441</u>	<u>\$ 17,090,559</u>	<u>\$ 2,236,882</u>	<u>\$ 15,366,587</u>	<u>\$ 1,723,972</u>

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

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

In 2020, the District's net position increased 13.1% or \$2,236,882 from \$17,090,559 to \$19,327,441, primarily due to a \$791,700 in total operating and non-operating revenues along with \$761,665 in capital contributions from capacity fees.

In 2019, the District's net position increased 11.2% or \$1,723,972 from \$15,366,587 to \$17,090,559, primarily due to a \$906,223 increase in operating net income resulting from a \$378,505 increase in operating revenues and a \$527,718 decrease in operating expenses plus depreciation.

The following table presents the detailed breakdown of the information presented in the condensed summary.

SCOTTS VALLEY WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Total Revenues

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Increase (Decrease)</u>	<u>June 30, 2018</u>	<u>Increase (Decrease)</u>
Operating revenues:					
Water sales	\$ 4,566,923	\$ 4,052,051	\$ 514,872	\$ 3,933,192	\$ 118,859
Water service	2,076,643	1,927,303	149,340	1,671,070	256,233
Other fees and charges	31,273	46,311	(15,038)	42,898	3,413
Total operating revenues	<u>6,674,839</u>	<u>6,025,665</u>	<u>649,174</u>	<u>5,647,160</u>	<u>378,505</u>
Non-operating:					
Property taxes	1,030,321	975,085	55,236	923,894	51,191
Investment earnings	66,477	35,893	30,584	22,574	13,319
Other non-operating revenues	119,616	62,910	56,706	135,487	(72,577)
Total non-operating	<u>1,216,414</u>	<u>1,073,888</u>	<u>142,526</u>	<u>1,081,955</u>	<u>(8,067)</u>
Total revenues	<u>\$ 7,891,253</u>	<u>\$ 7,099,553</u>	<u>\$ 791,700</u>	<u>\$ 6,729,115</u>	<u>\$ 370,438</u>

In 2020, the District's total operating and non-operating revenues increased 11.1% or \$791,700 from \$7,099,553 to \$7,891,253, primarily from increases in water sales and water service charges due to the rate increase for the fiscal period.

In 2019, the District's total operating and non-operating revenues increased 5.5% or \$370,438 from \$6,729,115 to \$7,099,553, primarily from increases in water sales and water service charges due to the rate increase for the fiscal period.

Total Expenses

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Increase (Decrease)</u>	<u>June 30, 2018</u>	<u>Increase (Decrease)</u>
Operating expenses:					
Source of supply	182,735	99,307	83,428	163,709	(64,402)
Pumping	480,655	466,512	14,143	445,655	20,857
Water treatment	239,722	293,069	(53,347)	304,122	(11,053)
Recycled water	472,247	434,404	37,843	480,855	(46,451)
Transmission and distribution	1,990,814	1,849,596	141,218	1,917,154	(67,558)
Finance, customer service and conservation	659,450	649,335	10,115	713,891	(64,556)
General and administrative	993,681	837,784	155,897	871,541	(33,757)
Total operating expenses	<u>5,019,304</u>	<u>4,630,007</u>	<u>389,297</u>	<u>4,896,927</u>	<u>(266,920)</u>
Depreciation expense	1,069,751	1,085,254	(15,503)	1,346,052	(260,798)
Non-operating expenses:					
Change in investment in SMGA-JPA	240,719	-	240,719	54,246	(54,246)
Interest expense	86,262	94,956	(8,694)	143,774	(48,818)
Total non-operating	<u>326,981</u>	<u>94,956</u>	<u>232,025</u>	<u>198,020</u>	<u>(103,064)</u>
Total expenses	<u>\$ 6,416,036</u>	<u>\$ 5,810,217</u>	<u>\$ 605,819</u>	<u>\$ 6,440,999</u>	<u>\$ (630,782)</u>

In 2020, the District's total expenses increased 10.4% or \$605,819 from \$5,810,217 to \$6,416,036, primarily from an increase in meter and building maintenance costs and a \$240,719 change in investment in SMGA-JPA.

In 2019, the District's total expenses decreased 9.8% or (\$630,782) from \$6,440,999 to \$5,810,217, primarily from a \$266,920 reduction in operating expenses and a \$260,798 decrease in depreciation expense.

SCOTTS VALLEY WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2020 and 2019

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Capital Assets

The following provides a summary comparison of the District's capital assets at year end.

Capital assets:	Balance June 30, 2020	Balance June 30, 2019	Balance June 30, 2018
Non-depreciable assets	\$ 1,213,219	\$ 1,078,608	\$ 733,176
Depreciable assets	44,399,273	43,321,358	42,739,819
Accumulated depreciation	<u>(23,827,292)</u>	<u>(22,757,541)</u>	<u>(21,672,287)</u>
Total capital assets, net	<u>\$ 21,785,200</u>	<u>\$ 21,642,425</u>	<u>\$ 21,800,708</u>

At June 30, 2020 and 2019, the District's investment in capital assets amounted to \$21,785,200 and \$21,642,425, (net of accumulated depreciation), respectively. The District's investment in capital assets includes land, transmission and distribution systems, tanks, pumps, buildings, equipment, vehicles and construction-in-process. See Note 8 for further capital asset information.

Debt Administration

The following provides a summary comparison of the District's long-term debt at year end.

Long-term debt:	Balance June 30, 2020	Balance June 30, 2019	Balance June 30, 2018
Loan payable	<u>\$ 4,668,012</u>	<u>\$ 5,136,591</u>	<u>\$ 5,596,621</u>

For the years ended June 30, 2020 and 2019, long-term debt decreased by \$468,579 and \$460,030, respectively, due to regular principal payments on the District's loan payable. See Note 10 for further information.

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.

FACTORS AFFECTING CURRENT FINANCIAL POSITION

Global Pandemic

At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the District's operations and investment earnings for the remainder of calendar year 2020 and beyond. However, the potential impact to the District is unknown at this time.

CONTACTING THE DISTRICT

This financial report is designed to provide the District's customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Contact the District's General Manager, Piret Harmon (pharmon@svwd.org or 831-600-1902) with any questions.

Basic Financial Statements

SCOTTS VALLEY WATER DISTRICT

Balance Sheets

June 30, 2020 and 2019

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 3,791,756	\$ 2,519,128
Accrued interest receivable	14,245	7,098
Accounts receivable, net (Note 4)	1,645,176	1,404,967
Property taxes receivable	84,758	49,824
Other receivables	15,291	52,053
Notes receivable (Note 5)	169,412	173,019
Inventory – materials and supplies	271,380	232,601
Prepaid expenses	66,781	68,430
Total current assets	<u>6,058,799</u>	<u>4,507,120</u>
Non-current assets:		
Restricted – cash and cash equivalents (Note 2 and 3)	610,477	516,092
Notes receivable (Note 5)	98,333	267,745
Investment in Santa Margarita Groundwater Agency – JPA (Note 6)	91,291	40,754
Prepaid contribution to the Santa Margarita Groundwater Agency – JPA (Note 7)	295,821	291,256
Capital assets – not being depreciated (Note 8)	1,213,219	1,078,608
Capital assets – being depreciated, net (Note 8)	20,571,981	20,563,817
Total non-current assets	<u>22,881,122</u>	<u>22,758,272</u>
Total assets	<u>28,939,921</u>	<u>27,265,392</u>
Deferred outflows of resources:		
Deferred amounts related to net OPEB obligation (Note 12)	142,970	153,549
Deferred amounts related to net pension liability (Note 11)	694,399	680,989
Total deferred outflows of resources	<u>837,369</u>	<u>834,538</u>
Total assets and deferred outflows of resources	<u>\$ 29,777,290</u>	<u>\$ 28,099,930</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 683,344	\$ 494,579
Customer deposits for services	126,332	166,905
Accrued interest payable (Note 3)	43,179	47,513
Long-term liabilities – due within one year:		
Compensated absences (Note 9)	40,998	30,508
Loan payable (Note 3 and 10)	567,298	468,579
Total current liabilities	<u>1,461,151</u>	<u>1,208,084</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 9)	122,992	91,522
Loan payable (Note 10)	4,100,714	4,668,012
Net OPEB obligation (Note 12)	2,245,495	2,758,814
Net pension liability (Note 11)	2,304,037	2,070,658
Total non-current liabilities	<u>8,773,238</u>	<u>9,589,006</u>
Total liabilities	<u>10,234,389</u>	<u>10,797,090</u>
Deferred inflows of resources:		
Deferred amounts related to net pension liability (Note 11)	215,460	212,281
Total deferred inflows of resources	<u>215,460</u>	<u>212,281</u>
Net position:		
Net investment in capital assets (Note 13)	17,684,486	16,974,413
Unrestricted	1,642,955	116,146
Total net position	<u>19,327,441</u>	<u>17,090,559</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 29,777,290</u>	<u>\$ 28,099,930</u>

SCOTTS VALLEY WATER DISTRICT*Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019*

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Operating revenues:		
Water sales	\$ 4,566,923	\$ 4,052,051
Water service	2,076,643	1,927,303
Other fees and charges	31,273	46,311
Total operating revenues	<u>6,674,839</u>	<u>6,025,665</u>
Operating expenses:		
Source of supply	182,735	99,307
Pumping	480,655	466,512
Water treatment	239,722	293,069
Recycled water	472,247	434,404
Transmission and distribution	1,990,814	1,849,596
Finance, customer service and conservation	659,450	649,335
General and administrative	993,681	837,784
Total operating expenses	<u>5,019,304</u>	<u>4,630,007</u>
Operating income before depreciation	1,655,535	1,395,658
Depreciation expense	<u>(1,069,751)</u>	<u>(1,085,254)</u>
Operating income	<u>585,784</u>	<u>310,404</u>
Non-operating revenues(expenses):		
Property taxes	1,030,321	975,085
Change in investment in Santa Margarita Groundwater Agency-JPA (Note 6)	(240,719)	-
Investment earnings	66,477	35,893
Interest expense	(86,262)	(94,956)
Other non-operating revenues	119,616	62,910
Total non-operating income	<u>889,433</u>	<u>978,932</u>
Change in net position before capital contributions	<u>1,475,217</u>	<u>1,289,336</u>
Capital contributions:		
Capacity buy-in fee	783,284	669,772
Capacity buy-back	(21,619)	(235,856)
Local capital grant	-	720
Total capital contributions	<u>761,665</u>	<u>434,636</u>
Change in net position	<u>2,236,882</u>	<u>1,723,972</u>
Net position:		
Beginning of year	<u>17,090,559</u>	<u>15,366,587</u>
End of year	<u>\$ 19,327,441</u>	<u>\$ 17,090,559</u>

SCOTTS VALLEY WATER DISTRICT
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2020 and 2019

	June 30, 2020	June 30, 2019
Cash flows from operating activities:		
Cash receipts from customers and others	\$ 6,550,435	\$ 6,074,070
Cash paid to employees for salaries and wages	(1,726,184)	(1,834,410)
Cash paid to vendors and suppliers for materials and services	(3,379,117)	(2,997,297)
Net cash provided by operating activities	1,445,134	1,242,363
Cash flows from non-capital financing activities:		
Proceeds from property taxes	995,387	980,089
Net cash provided by non-capital financing activities	995,387	980,089
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,212,526)	(926,971)
Proceeds from capacity buy-in fee	783,284	669,772
Payments for capacity buy-back	(21,619)	(235,856)
Proceeds from local capital grant	-	720
Proceeds from notes receivable	173,019	113,306
Principal paid on long-term debt	(468,579)	(460,030)
Interest paid on long-term debt	(90,596)	(99,212)
Net cash (used in) capital and related financing activities	(837,017)	(938,271)
Cash flows from investing activities:		
Prepaid contribution to the Santa Margarita Groundwater Agency – JPA	(295,821)	(291,256)
Investment earnings	59,330	36,304
Net cash (used in) investing activities	(236,491)	(254,952)
Net increase in cash and cash equivalents	1,367,013	1,029,229
Cash and cash equivalents:		
Beginning of year	3,035,220	2,005,991
End of year	\$ 4,402,233	\$ 3,035,220
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 3,791,756	\$ 2,519,128
Restricted – cash and cash equivalents	610,477	516,092
Total cash and cash equivalents	\$ 4,402,233	\$ 3,035,220

SCOTTS VALLEY WATER DISTRICT
Statements of Cash Flows (continued)
For the Fiscal Years Ended June 30, 2020 and 2019

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 585,784	\$ 310,404
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,069,751	1,085,254
Other non-operating revenues	119,616	62,910
Change in assets - (increase)decrease:		
Accounts receivable, net	(240,209)	(90,304)
Other receivables	36,762	7,205
Inventory - materials and supplies	(38,779)	(20,774)
Prepaid expenses	1,649	26,105
Change in deferred outflows of resources - (increase)decrease		
Deferred amounts related to net OPEB obligation	10,579	(153,549)
Deferred amounts related to net pension liability	(13,410)	(24,810)
Change in liabilities - increase(decrease):		
Accounts payable and accrued expenses	188,765	49,083
Customer deposits for services	(40,573)	68,594
Compensated absences	41,960	18,583
Net OPEB obligation	(513,319)	(89,624)
Net pension liability	233,379	(35,472)
Change in deferred inflows of resources - increase(decrease)		
Deferred amounts related to net pension liability	3,179	28,758
Total adjustments	<u>859,350</u>	<u>931,959</u>
Net cash provided by operating activities	<u>\$ 1,445,134</u>	<u>\$ 1,242,363</u>

Notes to the Financial Statements

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

Scotts Valley Water District (District) was created in 1961 by a vote of the people within the proposed District. It was formed 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 Public Facilities Corporation was dissolved on June 8, 2019. As of June 30, 2019, the assets and liabilities of the Public Facilities Corporation were distributed properly, resulting in a zero balance.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Presentation, Basis of Accounting

The District reports its activities as an enterprise fund, where the intent of the District is that the costs of providing goods and services (including depreciation expense) on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

Operating revenues are those revenues that are generated from the primary operating activities of the District. The District reports the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operating activities of the District. All other expenses are reported as non-operating expenses.

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

For purposes of the balance sheet and statement of cash flows, the District considers all highly liquid investments with a maturity of 90 days or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

2. Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Investments recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

3. Receivables and Allowance for Doubtful Accounts

Accounts receivable consist of amounts owed by customers for goods provided and services rendered. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts.

4. Inventory – Materials and Supplies

These items consist of pipes, meters, and other items that are used for the repairs and maintenance of the District's transmission and distribution system. These items are stated at the lower of cost or net realizable value, using the first-in first-out method for inventory valuation.

5. Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

6. Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of contribution. It is the District's policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets.

7. Deferred Outflows/Inflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. Also, the statement of net position reports a separate section for deferred inflows of resources. This element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources until that time.

8. Compensated Absences

The District's employee benefits provide for accumulation of vacation and sick leave. Liabilities for vacation leave are recorded when benefits are earned. Full cash payment for all unused vacation leave is available to employees upon retirement or termination.

9. 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) plans and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

10. 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 Scotts Valley Water District Retiree Benefits Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the 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.

11. Net Position

Net position is classified into two components: net investment in capital assets and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Unrestricted** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

E. Grant Funding

Grants for operations and capital improvements are included in their respective non-operating and capital contribution sections of the statement of revenues, expenses and changes in net position. Grant funds are claimed on a reimbursement basis and receivables are recorded as the related obligations are incurred.

F. Capital Contributions

Capital contributions represent cash and/or capital asset additions contributed to the District by outside parties.

G. Reclassifications

Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

SCOTTS VALLEY WATER DISTRICT
Notes to Financial Statements
June 30, 2020 and 2019

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents were classified on the balance sheet as follows:

<u>Description</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Cash and cash equivalents	\$ 3,791,756	\$ 2,519,128
Restricted – cash and cash equivalents	610,477	516,092
Total cash and cash equivalents	\$ 4,402,233	\$ 3,035,220

Cash and cash equivalents as of June 30th consisted of the following:

<u>Description</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Petty cash	\$ 400	\$ 328
Demand deposits held with financial institutions	1,191,071	2,374,775
Local Agency Investment Fund (LAIF)	3,210,762	660,117
Total cash and cash equivalents	\$ 4,402,233	\$ 3,035,220

Demand Deposits with Financial Institutions

At June 30, 2020 and 2019, the carrying amount of the District’s demand deposits were \$1,191,071 and \$2,374,775, respectively, and the financial institution’s balances were 1,297,074 and \$2,447,733, respectively. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution’s balance and the District’s balance for each year.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secures deposits made by public agencies by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Local Agency Investment Fund (LAIF)

The California State Treasurer, through the Pooled Money Investment Account (PMIA), invests its funds to manage the State’s cash flow and strengthen the financial security of local public agencies. PMIA’s policy sets as primary investment objectives safety, liquidity and yield. Through the PMIA, the Investment Division manages the Local Agency Investment Fund (LAIF). LAIF allows cities, counties, and special districts to place money in a major portfolio and, at no additional costs, use the expertise of Investment Division staff. Participating agencies can withdraw their funds from LAIF at any time as LAIF is highly liquid and has a dollar-in dollar-out amortized cost methodology.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Local Agency Investment Fund (LAIF) (continued)

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount 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 the portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers funds in LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2020, and 2019, the District held \$3,210,762 and \$660,117 in LAIF, respectively.

NOTE 3 – RESTRICTED – CASH AND CASH EQUIVALENTS

Restricted – cash and cash equivalents as of June 30th consisted of the following:

<u>Description</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Restricted – cash and cash equivalents	\$ 610,477	\$ 516,092
Accrued interest payable	\$ (43,179)	\$ (47,513)
Loan payable – current portion	(567,298)	(468,579)
Total	<u>\$ -</u>	<u>\$ -</u>

The restricted – cash and cash equivalents balance on the balance sheet at June 30, 2020 and 2019 were cash holdings by the District's financial institution for the July 1, 2020 and 2019 loan payments, respectively.

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of an allowance for doubtful accounts consisted of the following:

<u>Description</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Accounts receivable	\$ 1,645,176	\$ 1,404,967
Allowance for doubtful accounts	-	-
Total accounts receivable, net	<u>\$ 1,645,176</u>	<u>\$ 1,404,967</u>

For the fiscal year ended June 30, 2019, the District changed its method of customer account write-off from the allowance method to the direct-write-off method.

SCOTTS VALLEY WATER DISTRICT
Notes to Financial Statements
June 30, 2020 and 2019

NOTE 5 – NOTES RECEIVABLE

Changes in notes receivable amounts for the fiscal year ended June 30, 2020, were as follows:

<u>Notes Receivable</u>	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2020</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
City of Scotts Valley – Recycled Water System	\$ 307,431	\$ -	\$ (153,019)	\$ 154,412	\$ 154,412	\$ -
City of Scotts Valley – Installment Note	85,000	-	(10,000)	75,000	5,000	70,000
Vineyards HOA – Installment Note	48,333	-	(10,000)	38,333	10,000	28,333
Total notes receivable	\$ 440,764	\$ -	\$ (173,019)	\$ 267,745	\$ 169,412	\$ 98,333

Changes in notes receivable amounts for the fiscal year ended June 30, 2019, were as follows:

<u>Notes Receivable</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2019</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
City of Scotts Valley – Recycled Water System	\$ 459,070	\$ -	\$ (151,639)	\$ 307,431	\$ 153,019	\$ 154,412
City of Scotts Valley – Installment Note	95,000	-	(10,000)	85,000	10,000	75,000
Vineyards HOA – Installment Note	-	50,000	(1,667)	48,333	10,000	38,333
Total notes receivable	\$ 554,070	\$ 50,000	\$ (163,306)	\$ 440,764	\$ 173,019	\$ 267,745

City of Scotts Valley – Recycled Water System

On September 4, 2013, the District entered into a Recycled Water Supply Use, Maintenance and Operation Agreement (Agreement) setting forth terms and conditions for the Recycled Water System in Scotts Valley. The Agreement was amended on April 20, 2016, reducing the District’s entitlement to recycled water produced by the City. In exchange, the City agreed to pay the District \$758,169 over five (5) annual payments with annual interest rate of 0.91% each year commencing on June 1, 2017. At June 30, 2020 and 2019, the balance of the City’s obligation to the District amounted to \$154,412 and \$307,431, respectively.

Future principal and interest payments on the note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 154,412	\$ 1,405	\$ 155,817

City of Scotts Valley – Installment Note

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 Assessment District (Project). Total cost of the extension amounted to \$277,000. The owner of the Project contributed \$112,000 and the City contributed, as a result of the District’s bond issuance, \$165,000.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 5 – NOTES RECEIVABLE (continued)

City of Scotts Valley – Installment Note (continued)

Terms of the installment note 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, 2020 and 2019, the balance of the note with the City regarding the Installment Note amounted to \$75,000 and \$85,000, respectively. Future principal and interest payments on the note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 5,000	\$ 4,350	\$ 9,350
2022	5,000	4,050	9,050
2023	10,000	3,600	13,600
2024	10,000	3,000	13,000
2025	10,000	2,400	12,400
2026	10,000	1,800	11,800
2027	10,000	1,200	11,200
2028	15,000	450	15,450
Total	75,000	\$ 20,850	\$ 95,850
Current	(5,000)		
Long-term	\$ 70,000		

Vineyards HOA – Installment Note

On May 15, 2020, the District entered into a Memorandum of Understanding with the Vineyards Homeowners Association (Association) where the District agreed to loan the Association \$50,000 for installation of backflow protection devices on the Association's premises. The Association will make 60 monthly payments of \$833.33 plus interest at the LAIF rate of return. At June 30, 2020 and 2019, the balance of the note with the Association amounted to \$38,333 and \$48,333, respectively. Future principal and estimated interest payments on the note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Estimated Interest</u>	<u>Total</u>
2021	\$ 10,000	\$ 750	\$ 10,750
2022	10,000	525	10,525
2023	10,000	275	10,275
2024	8,333	55	8,388
Total	38,333	\$ 1,605	\$ 39,938
Current	(10,000)		
Long-term	\$ 28,333		

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 6 – INVESTMENT IN SANTA MARGARITA GROUNDWATER AGENCY – JPA

On June 1, 2017, the Scotts Valley Water District, San Lorenzo Valley Water District, and the County of Santa Cruz (Members) entered into a joint powers agreement creating the Santa Margarita Groundwater Agency (Agency). The purpose of the Agency is to prepare a Groundwater Sustainability Plan (Plan) by January 31, 2022 and continue implementing the Plan over the next 20-year period.

The term of the agreement with the Members shall remain in effect until terminated by unanimous written consent of all Members, except during the outstanding term of any Agency indebtedness. Upon termination of the agreement, the assets shall be distributed in proportion to the contributions of each Member agency.

For the fiscal year ended June 30, 2019 and 2018, the District contributed \$291,256 and \$95,000, respectfully, to the Agency and held a \$91,291 and \$40,754, respectfully, net position investment in the Agency after operations concluded for those years.

A. Entity	Santa Margarita Groundwater Agency
B. Purpose	To pool member resources and realize the advantages of local groundwater sustainability through an agency
C. Participants	3 member agencies
D. Governing board	Eleven representatives appointed by members
E. District payments for FY 2019: Contribution	\$291,256
F. Condensed financial information Audit dated	June 30, 2019 December 11, 2019

	<u>June 30, 2019</u>	<u>District Share</u>
Statement of net position:		
Total assets	\$ 243,748	\$ 146,249
Total liabilities	91,596	54,958
Net position	<u>\$ 152,152</u>	<u>\$ 91,291</u>
Statement of revenues, expenses and changes in net position:		
Total revenues	\$ 485,426	\$ 291,256
Total expenses	<u>(410,493)</u>	<u>(240,719)</u>
Change in net position	74,933	50,537
Beginning - net position	<u>77,219</u>	<u>40,754</u>
Ending - net position	<u>\$ 152,152</u>	<u>\$ 91,291</u>
G. District's share of year-end financial position	<u>100.00%</u>	<u>60.00%</u>

NOTE 7 – PREPAID CONTRIBUTION TO THE SANTA MARGARITA GROUNDWATER AGENCY – JPA

For the fiscal years ended June 30, 2020 and 2019, the District contributed \$295,821 and \$291,256, respectfully, to the Agency; however, the annual audit of 2020 for the Agency had not been completed as of the date of this report. Therefore, the District is recording the contribution of \$295,821 as a prepaid contribution to the Agency on the balance sheet.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 8 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the fiscal year ended June 30, 2020, were as follows:

Description	Balance July 1, 2019	Additions	Deletions/ Transfers	Balance June 30, 2020
Non-depreciable assets:				
Land	\$ 650,697	\$ -	\$ -	\$ 650,697
Construction-in-process	427,911	1,212,526	(1,077,915)	562,522
Total non-depreciable assets	<u>1,078,608</u>	<u>1,212,526</u>	<u>(1,077,915)</u>	<u>1,213,219</u>
Depreciable assets:				
Water rights – recycled water	5,267,834	-	-	5,267,834
Water treatment	5,521,874	-	-	5,521,874
Recycled water system	2,654,867	-	-	2,654,867
Source of supply – wells	6,677,359	-	-	6,677,359
Transmission and distribution system	8,868,055	-	53,266	8,921,321
Reservoirs and tanks	6,358,503	-	907,841	7,266,344
Pumping	1,848,229	-	18,631	1,866,860
Buildings and improvements	1,608,060	-	(2,061)	1,605,999
Infrastructure	2,564,159	-	116,808	2,680,967
Equipment and tools	982,199	-	-	982,199
Office equipment	255,146	-	2,061	257,207
Transportation	715,073	-	(18,631)	696,442
Total depreciable assets	<u>43,321,358</u>	<u>-</u>	<u>1,077,915</u>	<u>44,399,273</u>
Accumulated depreciation:				
Water rights – recycled water	(1,802,619)	(102,004)	-	(1,904,623)
Water treatment	(4,691,546)	(63,197)	-	(4,754,743)
Recycled water system	(807,443)	(66,718)	-	(874,161)
Source of supply – wells	(3,290,977)	(155,061)	-	(3,446,038)
Transmission and distribution system	(5,786,586)	(182,688)	-	(5,969,274)
Reservoirs and tanks	(3,150,470)	(168,490)	-	(3,318,960)
Pumping	(1,031,394)	(84,360)	-	(1,115,754)
Buildings and improvements	(622,516)	(46,669)	-	(669,185)
Infrastructure	(188,226)	(109,389)	-	(297,615)
Equipment and tools	(807,644)	(16,820)	-	(824,464)
Office equipment	(150,804)	(37,673)	-	(188,477)
Transportation	(427,316)	(36,682)	-	(463,998)
Total accumulated depreciation	<u>(22,757,541)</u>	<u>(1,069,751)</u>	<u>-</u>	<u>(23,827,292)</u>
Total depreciable assets, net	<u>20,563,817</u>	<u>(1,069,751)</u>	<u>1,077,915</u>	<u>20,571,981</u>
Total capital assets, net	<u>\$ 21,642,425</u>	<u>\$ 142,775</u>	<u>\$ -</u>	<u>\$ 21,785,200</u>

In fiscal year 2020, major capital assets additions amounted to \$1,212,526, and depreciation expense amounted to \$1,069,751.

SCOTTS VALLEY WATER DISTRICT
Notes to Financial Statements
June 30, 2020 and 2019

NOTE 8 – CAPITAL ASSETS AND DEPRECIATION (continued)

Changes in capital assets for the fiscal year ended June 30, 2019, were as follows:

Description	Balance July 1, 2018	Additions	Deletions/ Transfers	Balance June 30, 2019
Non-depreciable assets:				
Land	\$ 650,697	\$ -	\$ -	\$ 650,697
Construction-in-process	82,479	926,971	(581,539)	427,911
Total non-depreciable assets	733,176	926,971	(581,539)	1,078,608
Depreciable assets:				
Water rights – recycled water	5,267,834	-	-	5,267,834
Water treatment	5,521,874	-	-	5,521,874
Recycled water system	2,468,076	-	186,791	2,654,867
Source of supply – wells	6,593,506	-	83,853	6,677,359
Transmission and distribution system	8,868,055	-	-	8,868,055
Reservoirs and tanks	6,358,503	-	-	6,358,503
Pumping	1,848,229	-	-	1,848,229
Buildings and improvements	1,605,999	-	2,061	1,608,060
Infrastructure	2,396,536	-	167,623	2,564,159
Equipment and tools	982,199	-	-	982,199
Office equipment	223,499	-	31,647	255,146
Transportation	605,509	-	109,564	715,073
Total depreciable assets	42,739,819	-	581,539	43,321,358
Accumulated depreciation:				
Water rights – recycled water	(1,700,615)	(102,004)	-	(1,802,619)
Water treatment	(4,625,719)	(65,827)	-	(4,691,546)
Recycled water system	(743,060)	(64,383)	-	(807,443)
Source of supply – wells	(3,136,265)	(154,712)	-	(3,290,977)
Transmission and distribution system	(5,602,154)	(184,432)	-	(5,786,586)
Reservoirs and tanks	(2,981,980)	(168,490)	-	(3,150,470)
Pumping	(944,717)	(86,677)	-	(1,031,394)
Buildings and improvements	(560,022)	(62,494)	-	(622,516)
Infrastructure	(94,761)	(93,465)	-	(188,226)
Equipment and tools	(780,617)	(27,027)	-	(807,644)
Office equipment	(116,782)	(34,022)	-	(150,804)
Transportation	(385,595)	(41,721)	-	(427,316)
Total accumulated depreciation	(21,672,287)	(1,085,254)	-	(22,757,541)
Total depreciable assets, net	21,067,532	(1,085,254)	581,539	20,563,817
Total capital assets, net	\$ 21,800,708	\$ (158,283)	\$ -	\$ 21,642,425

In fiscal year 2019, major capital assets additions amounted to \$926,971, and depreciation expense amounted to \$1,085,254.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 9 – COMPENSATED ABSENCES

Changes in compensated absences amounts for the fiscal year ended June 30, 2020, were as follows:

<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 122,030	\$ 153,824	\$ (111,864)	\$ 163,990	\$ 40,998	\$ 122,992

Changes in compensated absences amounts for the fiscal year ended June 30, 2019, were as follows:

<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 103,447	\$ 103,115	\$ (84,532)	\$ 122,030	\$ 30,508	\$ 91,522

NOTE 10 – LOAN PAYABLE

Changes in loan payable for the year ended June 30, 2020, were as follows:

<u>Loan Payable</u>	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
2016 Loan Payable	\$ 5,136,591	\$ -	\$ (468,579)	\$ 4,668,012	\$ 567,298	\$ 4,100,714

Changes in loan payable for the year ended June 30, 2019, were as follows:

<u>Loan Payable</u>	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
2016 Loan Payable	\$ 5,596,621	\$ -	\$ (460,030)	\$ 5,136,591	\$ 468,579	\$ 4,668,012

2016 – Loan Payable

In December 2016, the District entered into a loan payable agreement of \$6,049,548 with JPMorgan Chase Bank to provide funds to prepay the 2004 and 2011 outstanding debt balances. Terms of the agreement provide for principal payable semi-annually on January 1st and July 1st at the rate of 1.85% per annum.

SCOTTS VALLEY WATER DISTRICT*Notes to Financial Statements**June 30, 2020 and 2019***NOTE 10 – LOAN PAYABLE (continued)****2016 – Loan Payable (continued)**

Future principal and interest payments on the loan payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 567,298	\$ 81,111	\$ 648,409
2022	662,832	69,732	732,564
2023	671,991	57,385	729,376
2024	685,320	44,830	730,150
2025	697,811	32,036	729,847
2026	714,404	18,973	733,377
2027	467,752	8,038	475,790
2028	200,604	1,855	202,459
Total	4,668,012	<u>\$ 313,960</u>	<u>\$ 4,981,972</u>
Current	<u>(567,298)</u>		
Long-term	<u>\$ 4,100,714</u>		

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY**Summary**

The following balances on the balance sheet will be addressed in this footnote as follows:

<u>Description</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Pension related deferred outflows	\$ 694,399	\$ 680,989
Net pension liability	2,304,037	2,070,658
Pension related deferred inflows	215,460	212,281

Qualified employees of the District are covered under a multiple-employer defined benefit pension plan maintained by the California Public Employees' Retirement System (CalPERS), or "The Plan".

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY (continued)

A. General Information about the Pension Plan

The Plan

The District contracts with CalPERS to provide retirement benefits for its employees in the following Plans:

	Miscellaneous Plans		
	Classic Tier 1	Classic Tier 2	PEPRA Tier 3
Hire date	Prior to July 1, 2011	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life	monthly for life
Retirement age	50+	50+	52+
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	8.000%	7.000%	6.250%
Required employer contribution rates – FY 2019	12.556%	8.892%	6.842%
Required employer contribution rates – FY 2018	12.014%	8.418%	6.533%

Plan Description, Benefits Provided, and Employees Covered

The District participates in a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2018 and 2017 Annual Actuarial Valuation Reports. The Annual Actuarial Valuation Reports and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

At June 30, 2019 (measurement date), the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans			Total
	Classic Tier 1	Classic Tier 2	PEPRA Tier 3	
Active members	2	10	7	19
Transferred and terminated members	9	2	4	15
Retired members and beneficiaries	20	1	-	21
Total plan members	31	13	11	55

At June 30, 2018 (measurement date), the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans			Total
	Classic Tier 1	Classic Tier 2	PEPRA Tier 3	
Active members	2	9	7	18
Transferred and terminated members	9	2	3	14
Retired members and beneficiaries	20	1	-	21
Total plan members	31	12	10	53

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY (continued)

A. General Information about the Pension Plan (continued)

Plan Description, Benefits Provided, and Employees Covered (continued)

CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for retirement upon attainment of age 50 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for retirement upon attainment of age 52 with at least 5 years of service. The retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the highest average pay rate during any consecutive three-year period.

Members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service.

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.15% per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 3%.

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members. For the measurement period ending June 30, 2019 and 2018 (Measurement Dates), the active member contribution rate for the Classic Miscellaneous Plan and the PEPRA Miscellaneous Plan are based above in the Plans Description schedule.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY (continued)

A. General Information about the Pension Plan (continued)

Contribution Description (continued)

Contributions for the year ended June 30, 2020, were as follows:

Contribution Type	Miscellaneous Plans		PEPRA Tier 3	Total
	Classic Tier 1	Classic Tier 2		
Contributions – employer	\$ 159,225	\$ 116,268	\$ 37,899	\$ 313,392

Contributions for the year ended June 30, 2019, were as follows:

Contribution Type	Miscellaneous Plans		PEPRA Tier 3	Total
	Classic Tier 1	Classic Tier 2		
Contributions – employer	\$ 119,476	\$ 93,228	\$ 37,779	\$ 250,483

Employer contributions rates may change if Plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer paid member contributions or situations where members are paying a portion of the employer contribution.

Proportionate Share of Net Pension Liability and Pension Expense

The following tables show the District’s proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan:

Changes in the net pension liability for the fiscal year ended June 30, 2020, are as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2018 (Measurement Date)	\$ 9,715,791	\$ 7,645,134	\$ 2,070,657
Balance as of June 30, 2019 (Measurement Date)	\$ 10,429,031	\$ 8,124,994	\$ 2,304,037
Change in Plan Net Pension Liability	\$ 713,240	\$ 479,860	\$ 233,380

Changes in the net pension liability for the fiscal year ended June 30, 2019, are as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2017 (Measurement Date)	\$ 9,356,867	\$ 7,250,737	\$ 2,106,130
Balance as of June 30, 2018 (Measurement Date)	\$ 9,715,791	\$ 7,645,134	\$ 2,070,657
Change in Plan Net Pension Liability	\$ 358,924	\$ 394,397	\$ (35,473)

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Proportionate Share of Net Pension Liability and Pension Expense (continued)

For the years ended June 30, 2020 and 2019 pension expense was \$536,540 and \$284,805, respectively.

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2018 and 2017). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2019 and 2018). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2019 and 2018 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2019 fiscal year and the 2018 fiscal year).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

As of June 30, 2020 and 2019, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$2,304,037 and \$2,070,658, respectively.

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

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Proportionate Share of Net Pension Liability and Pension Expense (continued)

The District’s proportionate share percentage of the net pension liability for the June 30, 2019, measurement date was as follows:

	<u>Percentage Share of Risk Pool</u>		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2020	Fiscal Year Ending June 30, 2019	
Measurement Date	<u>June 30, 2019</u>	<u>June 30, 2018</u>	
Percentage of Risk Pool Net Pension Liability	0.057536%	0.054943%	0.002593%
Percentage of Plan (PERF C) Net Pension Liability	0.022485%	0.021488%	0.000997%

The District’s proportionate share percentage of the net pension liability for the June 30, 2018, measurement date was as follows:

	<u>Percentage Share of Risk Pool</u>		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	
Measurement Date	<u>June 30, 2018</u>	<u>June 30, 2017</u>	
Percentage of Risk Pool Net Pension Liability	0.054943%	0.053427%	0.001516%
Percentage of Plan (PERF C) Net Pension Liability	0.021488%	0.021237%	0.000251%

The total amount of \$313,392 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 313,392	\$ -
Difference between actual and proportionate share of employer contributions	-	(123,833)
Adjustment due to differences in proportions	111,115	-
Differences between expected and actual experience	160,025	(12,399)
Differences between projected and actual earnings on pension plan investments	-	(40,281)
Changes in assumptions	109,867	(38,947)
Total Deferred Outflows/(Inflows) of Resources	\$ 694,399	\$ (215,460)

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Proportionate Share of Net Pension Liability and Pension Expense (continued)

The total amount of \$250,483 reported as deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended June 30, 2019. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 250,483	\$ -
Difference between actual and proportionate share of employer contributions	-	(127,391)
Adjustment due to differences in proportions	104,761	-
Differences between expected and actual experience	79,447	(27,035)
Differences between projected and actual earnings on pension plan investments	10,237	-
Changes in assumptions	236,061	(57,855)
Total Deferred Outflows/(Inflows) of Resources	<u>\$ 680,989</u>	<u>\$ (212,281)</u>

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended June 30, 2020, will be amortized to pension expense in future periods as follows:

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2020	\$ 154,148
2021	(15,861)
2022	19,120
2023	8,140
Total	<u>\$ 165,547</u>

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Proportionate Share of Net Pension Liability and Pension Expense (continued)

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended June 30, 2019, will be amortized to pension expense in future periods as follows:

<u>Amortization Period</u> <u>Fiscal Year Ended June 30</u>	<u>Deferred</u> <u>Outflows/(Inflows)</u> <u>of Resources</u>
2020	\$ 193,698
2021	102,344
2022	(59,193)
2023	(18,624)
Total	<u>\$ 218,225</u>

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2019 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2018, total pension liability. The June 30, 2019, total pension liability and the June 30, 2018, total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement 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.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2018 and 2017, valuations were based on the results of an actuarial experience study for the years 1997 to 2011.

Discount Rate

The discount rate used to measure the total pension liability for PERF B was 7.15%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test 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 PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Discount Rate (continued)

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

The table below reflects 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. These geometric rates of return are net of administrative expenses.

Investment Type	New Strategic Allocation	Real Return Years 1 - 10¹	Real Return Years 11+²
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
	100.0%		

¹ An expected inflation of 2.5% is used for years 1-10.

² An expected inflation of 3.0% is used for years 11+.

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

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

Changes in the discount rate for the year ended June 30, 2020, was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate -	Current	Discount Rate +
	1%	Discount	1%
	6.15%	Rate 7.15%	8.15%
CalPERS – Miscellaneous Plan	3,706,773	\$ 2,304,037	\$ 1,146,177

Changes in the discount rate for the year ended June 30, 2019, was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate -	Current	Discount Rate +
	1%	Discount	1%
	6.15%	Rate 7.15%	8.15%
CalPERS – Miscellaneous Plan	3,384,924	\$ 2,070,658	\$ 985,752

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11 – PENSION PLAN AND NET PENSION LIABILITY (continued)

C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

D. Payable to the Pension Plans

At June 30, 2020 and 2019, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended June 30, 2020 or 2019, respectively.

NOTE 12 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY

Summary

The following balances on the balance sheet will be addressed in this footnote as follows:

<u>Description</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
OPEB related deferred outflows	\$ 142,970	\$ 153,549
Net other post-employment benefits obligation	2,245,495	2,758,814

A. General Information about the OPEB Plan

Plan description

The District's defined benefit Other Post-Employment Benefit (OPEB) Plan (Plan) provides benefits for all employees covered by the Plan as listed 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 GASB Statement No. 75.

Benefits provided

The District offers 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 pays 100% of the premiums for employee only or employee plus one coverage up to the non-Medicare rates for the High Deductible Health Plan (HDHP) 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 include medical, dental, and vision. The District pays 100% of the cost for dental and vision coverage.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 12 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY (continued)

A. General Information about the OPEB Plan (continued)

Employees covered by benefit terms

At June 30, 2019 and 2018 (Measurement Dates), the following employees were covered by the benefit terms:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Inactive plan members or spouses currently receiving benefits	18	18
Inactive plan members entitled to but not yet receiving benefits	-	-
Active plan members	<u>1</u>	<u>1</u>
Total	<u>19</u>	<u>19</u>

Total OPEB Liability

The District's total OPEB liability of \$2,245,495 and \$2,758,814 were measured as of June 30, 2019 and 2018, respectively, and were determined by an actuarial valuation as of that date. These amounts were reported as of June 30, 2020 and 2019, respectively.

Payable to the OPEB Plan

At June 30, 2019 and 2018, respectively, the District had no outstanding amount of contributions required to the OPEB plan.

B. Net OPEB Liability

Actuarial assumptions

The total OPEB liability in the June 30, 2019 and 2018 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation/Measurement Date	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Experience Study	N/A	N/A
Discount rate	3.50%	3.50%
Inflation	2.75%	2.75%
Salary increases	3.00%	3.00%
Investment rate of return	3.50%	3.50%
Healthcare cost trend rates	4.0 percent	4.0 percent

The mortality assumptions are based on the 2014 CalPERS Active and Retiree Mortality for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

The retirement assumptions are based on the 2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees table and the 2009 CalPERS 2.5%@55 Rates for Miscellaneous Employees.

SCOTTS VALLEY WATER DISTRICT
Notes to Financial Statements
June 30, 2020 and 2019

NOTE 12 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY (continued)

B. Net OPEB Liability (continued)

Actuarial assumptions (continued)

The turnover assumptions are based on the 2009 CalPERS Turnover for Miscellaneous Employees table. CalPERS periodically studies the mortality, retirement and turnover assumptions for participating agencies and establishes tables that are appropriate for each pool.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50% for the fiscal years ended June 30, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. Based on this assumption, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. The discount rate used historic 27-year real rates of return for each asset class along with an assumed long-term inflation assumption to set the discount rate. The expected investment return was offset by investment expenses of 25 basis points. The Bond Buyer 20 Bond Index was used.

C. Changes in the Net OPEB Liability

Changes in the Net OPEB Liability for June 30, 2020, were as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2019 (Measurement date July 1, 2018)	\$ 2,758,814	\$ -	\$ 2,758,814
Changes for the year:			
Service cost	19,190	-	19,190
Interest	94,207	-	94,207
Changes in assumptions	(257,933)	-	(257,933)
Changes in experience	(215,234)	-	(215,234)
Employer contributions	-	153,549	(153,549)
Benefit payments	(153,549)	(153,549)	-
Net changes	(513,319)	-	(513,319)
Balance at June 30, 2020 (Measurement date June 30, 2019)	\$ 2,245,495	\$ -	\$ 2,245,495

Changes in the Net OPEB Obligation for June 30, 2019, were as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2018 (Measurement date July 1, 2017)	\$ 2,848,438	\$ -	\$ 2,848,438
Changes for the year:			
Service cost	18,631	-	18,631
Interest	94,606	-	94,606
Changes in assumptions	(33,754)	-	(33,754)
Employer contributions	-	169,107	(169,107)
Benefit payments	(169,107)	(169,107)	-
Net changes	(89,624)	-	(89,624)
Balance at June 30, 2019 (Measurement date June 30, 2018)	\$ 2,758,814	\$ -	\$ 2,758,814

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY (continued)

C. Changes in the Net OPEB Liability (continued)

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 one percentage-point lower or one percentage-point higher than the current discount rate:

Sensitivity of the Net OPEB liability to changes in the discount rate for the fiscal year ended June 30, 2019:

Plan's Net OPEB Liability/(Asset)		
Discount Rate	Current	Discount Rate
1% Decrease	Discount Rate	1% Increase
2.5%	3.5%	4.5%
\$ 2,496,219	\$ 2,245,495	\$ 2,034,237

Sensitivity of the Net OPEB liability to changes in the discount rate for the fiscal year ended June 30, 2018:

Plan's Net OPEB Liability/(Asset)		
Discount Rate	Current	Discount Rate
1% Decrease	Discount Rate	1% Increase
2.5%	3.5%	4.5%
\$ 3,127,070	\$ 2,758,814	\$ 2,453,463

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 one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates for June 30, 2019:

Trend Rate	Healthcare Cost	Trend Rate
1% Decrease	Trend Rates	1% Increase
5.0%	6.0%	7.0%
\$ 2,026,089	\$ 2,245,495	\$ 2,503,424

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates for June 30, 2018:

Trend Rate	Healthcare Cost	Trend Rate
1% Decrease	Trend Rates	1% Increase
5.0%	6.0%	7.0%
\$ 2,432,756	\$ 2,758,814	\$ 3,148,234

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY (continued)

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

For the fiscal years ended June 30, 2020 and 2019, the District recognized OPEB expense of (\$359,770) and \$79,483, respectively. At June 30, 2020 and 2019, the District reported deferred outflows of resources related to OPEB for plan contributions subsequent to the measurement date of \$142,970 and \$153,549. The amount reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date of the net OPEB liability will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021 and 2020, respectively.

NOTE 13 – NET POSITION – NET INVESTMENT IN CAPITAL ASSETS

The net investment in capital assets component of net position was calculated at June 30th as follows:

<u>Description</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 1,213,219	\$ 1,078,608
Capital assets – being depreciated, net	20,571,981	20,563,817
Note payable – non-current portion	<u>(4,100,714)</u>	<u>(4,668,012)</u>
Total net investment in capital assets	<u>\$ 17,684,486</u>	<u>\$ 16,974,413</u>

NOTE 14 – DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in an Internal Revenue Code §457 Deferred Compensation Program. The purpose of this program is to provide deferred compensation for public employees that elect to participate in the program. Eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable 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. The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little involvement and does not perform the investing function for this program, the assets and related liabilities are not shown on the accompanying financial statements.

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 15 – RISK MANAGEMENT POOL

The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing pool that provides insurance coverage and related services.

A. Entity	ACWA-JPIA
B. Purpose	To pool member contributions and realize the advantages of self-insurance
C. Participants	As of June 30, 2019 – 445 member districts
D. Governance	Nine representatives employed by members
E. District payments for FY 2020:	
Property/Liability policy	\$61,773
Workers' compensation policy	\$32,102
F. Condensed financial information	September 30, 2019
Audit dated	May 14, 2020

Statement of financial position:		Sept 30, 2019
Total assets		<u>\$ 212,099,851</u>
Deferred outflows		<u>553,790</u>
Total liabilities		<u>112,046,920</u>
Deferred inflows		<u>1,672,219</u>
Net position		<u>\$ 98,934,502</u>
Statement of revenues, expenses and changes in net position:		
Total revenues		\$ 181,825,144
Total expenses		<u>(169,356,246)</u>
Change in net position		12,468,898
Beginning – net position		<u>86,465,604</u>
Ending – net position		<u>\$ 98,934,502</u>
G. Member agencies share of year-end financial position		Not Calculated

SCOTTS VALLEY WATER DISTRICT

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 15 – RISK MANAGEMENT POOL (continued)

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. At June 30, 2020, the District participated in the liability, property, and workers compensation programs of the ACWA/JPIA as follows:

- Property coverage of \$150 million, per occurrence, 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.
- Liability coverage of \$5 million, per occurrence, with self-insurance and additional excess coverage layers up to \$60 million.
- Crime coverage: Limit of coverage \$100,000 with a deductible of \$1,000.
- Workers Compensation of \$2 million each accident or each employee.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2020, 2019, and 2018. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2020, 2019, and 2018.

NOTE 16 – 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.

NOTE 17 – CURRENT AND SUBSEQUENT EVENTS

Global Pandemic

At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the District's operations and investment earnings for the remainder of calendar year 2020 and beyond. However, the potential impact to the District is unknown at this time.

Required Supplementary Information

SCOTTS VALLEY WATER DISTRICT

*Schedule of the District's Proportionate Share of the Plan's Net Pension Liability
For the Year Ended June 30, 2020 and 2019*

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date:	June 30, 2019¹	June 30, 2018¹	June 30, 2017¹	June 30, 2016¹	June 30, 2015¹	June 30, 2014¹
District's Proportion of the Net Pension Liability	0.022485%	0.021488%	0.021237%	0.020598%	0.017960%	0.021380%
District's Proportionate Share of the Net Pension Liability	\$ 2,304,037	\$ 2,070,657	\$ 2,106,130	\$ 1,782,379	\$ 1,233,015	\$ 1,329,971
District's Covered Payroll	\$ 1,703,662	\$ 1,591,177	\$ 1,458,545	\$ 1,272,122	\$ 1,332,329	\$ 817,020
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	135.24%	130.13%	144.40%	140.11%	92.55%	162.78%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	77.91%	78.69%	77.49%	79.61%	84.83%	83.03%

¹ Historical information is required only for measurement periods for which GASB No. 68 is applicable.

SCOTTS VALLEY WATER DISTRICT

*Schedule of the District's Contributions to the Pension Plan
For the Year Ended June 30, 2020 and 2019*

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year:	2019-20¹	2018-19¹	2017-18¹	2016-17¹	2015-16¹	2014-15¹	2013-14¹
Actuarially Determined Contribution ²	\$ 313,392	\$ 250,483	\$ 207,207	\$ 176,792	\$ 157,182	\$ 75,314	\$ 141,599
Contribution in Relation to the Actuarially Determined Contribution ²	<u>(313,392)</u>	<u>(250,483)</u>	<u>(207,207)</u>	<u>(176,792)</u>	<u>(157,182)</u>	<u>(575,314)</u>	<u>(141,599)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (500,000)</u>	<u>\$ -</u>
District's Covered Payroll ³	<u>\$ 1,726,184</u>	<u>\$ 1,703,662</u>	<u>\$ 1,591,177</u>	<u>\$ 1,458,545</u>	<u>\$ 1,272,122</u>	<u>\$ 1,332,329</u>	<u>\$ 817,020</u>
Contributions as a Percentage of Covered Payroll	<u>18.16%</u>	<u>14.70%</u>	<u>13.02%</u>	<u>12.12%</u>	<u>12.36%</u>	<u>43.18%</u>	<u>17.33%</u>

¹ Historical information is required only for measurement periods for which GASB No. 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to the Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes)

SCOTTS VALLEY WATER DISTRICT*Schedule of Changes in the District's Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2020 and 2019***Last Ten Fiscal Years**

Fiscal Year - Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017
Total OPEB liability			
Service cost	\$ 19,190	\$ 18,631	\$ 18,018
Interest	94,207	94,606	96,029
Changes of assumptions	(257,933)	(33,754)	-
Differences between expected and actual experience	(215,234)	-	-
Benefit payments	(153,549)	(169,107)	(143,918)
Net change in total OPEB liability	(513,319)	(89,624)	(29,871)
Total OPEB liability - beginning	2,758,814	2,848,438	2,878,309
Total OPEB liability - ending	\$ 2,245,495	\$ 2,758,814	\$ 2,848,438
Plan fiduciary net position			
Contributions - employer	\$ 153,549	\$ 169,107	\$ 143,918
Benefit payments	(153,549)	(169,107)	(143,918)
Net change in plan fiduciary net position	-	-	-
Plan fiduciary net position - beginning	-	-	-
Plan fiduciary net position - ending	\$ -	\$ -	\$ -
District's net OPEB liability	\$ 2,245,495	\$ 2,758,814	\$ 2,848,438
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%
Covered-employee payroll	\$ 1,703,662	\$ 1,591,177	\$ 1,458,545
District's net OPEB liability as a percentage of covered-employee payroll	131.80%	173.38%	195.29%

This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

Supplementary Information

SCOTTS VALLEY WATER DISTRICT
Combining Balance Sheets
For the Year Ended June 30, 2020

	Water Fund	Recycled Water Fund	Total
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>			
Current assets:			
Cash and cash equivalents	\$ 3,761,843	\$ 29,913	\$ 3,791,756
Accrued interest receivable	11,812	2,433	14,245
Accounts receivable, net	1,573,267	71,909	1,645,176
Property taxes receivable	84,758	-	84,758
Other receivables	14,458	833	15,291
Notes receivable	-	169,412	169,412
Inventory – materials and supplies	271,380	-	271,380
Prepaid expenses	66,781	-	66,781
Total current assets	5,784,299	274,500	6,058,799
Non-current assets:			
Restricted – cash and cash equivalents	370,437	240,040	610,477
Notes receivable	-	98,333	98,333
Interagency due (to)/from	888,040	(888,040)	-
Investment in SMGA – JPA	91,291	-	91,291
Prepaid contribution to the SMGA – JPA	295,821	-	295,821
Capital assets – not being depreciated	1,186,882	26,337	1,213,219
Capital assets – being depreciated, net	15,252,914	5,319,067	20,571,981
Total non-current assets	18,085,385	4,795,737	22,881,122
Total assets	23,869,684	5,070,237	28,939,921
Deferred outflows of resources:			
Deferred amounts related to net OPEB obligation	128,673	14,297	142,970
Deferred amounts related to net pension liability	624,959	69,440	694,399
Total deferred outflows of resources	753,632	83,737	837,369
Total assets and deferred outflows of resources	\$ 24,623,316	\$ 5,153,974	\$ 29,777,290

SCOTTS VALLEY WATER DISTRICT
Combining Balance Sheets (continued)
For the Year Ended June 30, 2020

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 630,030	\$ 53,314	\$ 683,344
Customer deposits for services	114,609	11,723	126,332
Accrued interest payable	26,201	16,978	43,179
Long-term liabilities – due within one year:			
Compensated absences	36,898	4,100	40,998
Loan payable	344,236	223,062	567,298
Total current liabilities	<u>1,151,974</u>	<u>309,177</u>	<u>1,461,151</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences	110,693	12,299	122,992
Loan payable	2,488,312	1,612,402	4,100,714
Net OPEB obligation	2,020,945	224,550	2,245,495
Net pension liability	2,073,633	230,404	2,304,037
Total non-current liabilities	<u>6,693,583</u>	<u>2,079,655</u>	<u>8,773,238</u>
Total liabilities	<u>7,845,557</u>	<u>2,388,832</u>	<u>10,234,389</u>
Deferred inflows of resources:			
Deferred amounts related to net pension liability	193,914	21,546	215,460
Total deferred inflows of resources	<u>193,914</u>	<u>21,546</u>	<u>215,460</u>
Net position:			
Net investment in capital assets	13,951,484	3,733,002	17,684,486
Unrestricted (Deficit)	2,632,361	(989,406)	1,642,955
Total net position	<u>16,583,845</u>	<u>2,743,596</u>	<u>19,327,441</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 24,623,316</u>	<u>\$ 5,153,974</u>	<u>\$ 29,777,290</u>

SCOTTS VALLEY WATER DISTRICT*Combining Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2020*

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
Operating revenues:			
Water sales	\$ 4,057,953	\$ 508,970	\$ 4,566,923
Water service	2,031,913	44,730	2,076,643
Other fees and charges	31,198	75	31,273
Total operating revenues	<u>6,121,064</u>	<u>553,775</u>	<u>6,674,839</u>
Operating expenses:			
Source of supply	182,735	-	182,735
Pumping	480,655	-	480,655
Water treatment	239,722	-	239,722
Recycled water	-	472,247	472,247
Transmission and distribution	1,990,814	-	1,990,814
Finance, customer service and conservation	659,450	-	659,450
General and administrative	993,681	-	993,681
Total operating expenses	<u>4,547,057</u>	<u>472,247</u>	<u>5,019,304</u>
Operating income before depreciation	1,574,007	81,528	1,655,535
Depreciation expense	<u>(878,629)</u>	<u>(191,122)</u>	<u>(1,069,751)</u>
Operating income (loss)	<u>695,378</u>	<u>(109,594)</u>	<u>585,784</u>
Non-operating revenues(expenses):			
Property taxes	1,030,321	-	1,030,321
Change in investment in SMGA-JPA	(240,719)	-	(240,719)
Investment earnings	58,268	8,209	66,477
Interest expense	(52,344)	(33,918)	(86,262)
Other non-operating revenues	119,616	-	119,616
Total non-operating income (loss)	<u>915,142</u>	<u>(25,709)</u>	<u>889,433</u>
Change in net position before capital contributions	<u>1,610,520</u>	<u>(135,303)</u>	<u>1,475,217</u>
Capital contributions:			
Capacity buy-in fee	739,305	43,979	783,284
Capacity buy-back	(21,619)	-	(21,619)
Local capital grant	-	-	-
Total capital contributions	<u>717,686</u>	<u>43,979</u>	<u>761,665</u>
Change in net position	2,328,206	(91,324)	2,236,882
Net position:			
Beginning of year	14,255,639	2,834,920	17,090,559
End of year	<u>\$ 16,583,845</u>	<u>\$ 2,743,596</u>	<u>\$ 19,327,441</u>

Other Independent Auditors' Reports



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
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 audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Scotts Valley Water District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Scotts Valley Water District's basic financial statements, and have issued our report thereon dated December 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Scotts Valley Water 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Scotts Valley Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Scotts Valley Water 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 District'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 Scotts Valley Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Walnut Creek, California
December 10, 2020

Statistical Section

SCOTTS VALLEY WATER DISTRICT
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years

	Fiscal Year				
	2011	2012	2013	2014	2015
Changes in net position:					
Operating revenues	\$4,250,660	\$4,259,848	\$4,938,212	\$5,144,598	\$4,499,859
Operating expenses	(4,788,593)	(4,988,127)	(5,631,438)	(6,468,628)	(5,067,252)
Operating income (loss)	(537,933)	(728,279)	(693,226)	(1,324,030)	(567,393)
Non-Operating revenues (expenses)					
Property Taxes Ad-Valorem	587,622	671,550	752,395	710,237	724,433
Investment earnings	32,644	23,755	27,119	13,336	24,848
Interest expense	(490,223)	(448,525)	(394,049)	(378,240)	(361,513)
Other non-operating revenues	6,407	61,262	0	20,025	40,610
Other non-operating expenses	(206,158)	0	(166,319)	0	0
Total non-operating revenues(expenses), net	(69,708)	308,042	219,146	365,358	428,378
Net income before capital contributions	(607,641)	(420,237)	(474,080)	(958,672)	(139,015)
Capital contributions	0	222,608	363,956	435,964	399,554
Changes in net position	(607,641)	(197,629)	(110,124)	(522,708)	260,539
Net position, beginning of period	16,626,644	16,019,003	15,129,914	15,165,840	13,001,865
Prior period adjustments	0	(691,460)	146,050	(1,641,267)	0
Net position, end of period	16,019,003	15,129,914	15,165,840	13,001,865	13,262,404
Net position by component					
Net investment in capital assets	12,680,808	12,417,790	12,539,862	11,822,421	12,154,452
Debt service (restricted):	1,035,458	923,723	924,515	918,709	932,329
Unrestricted	5,666,977	5,152,641	5,065,703	3,624,975	3,539,863
Total net position	19,383,243	18,494,154	18,530,080	16,366,105	16,626,644

	Fiscal Year				
	2016	2017	2018	2019	2020
Changes in net position:					
Operating revenues	\$4,048,964	\$4,549,738	\$5,647,160	\$6,025,665	\$6,674,839
Operating expenses	(5,692,368)	(5,613,137)	(6,242,979)	(5,715,261)	(6,089,055)
Operating income (loss)	(1,643,404)	(1,063,399)	(595,819)	310,404	585,784
Non-Operating revenues (expenses)					
Property Taxes Ad-Valorem	775,679	839,095	923,894	975,085	1,030,321
Investment earnings	39,106	25,159	22,574	35,893	66,477
Interest expense	(417,796)	(703,031)	(143,774)	(94,956)	(86,262)
Other non-operating revenues	498,070	8,468	81,241	62,910	119,616
Other non-operating expenses	0	0	0	0	(240,719)
Total non-operating revenues(expenses), net	895,059	169,691	883,935	978,932	889,433
Net income before capital contributions	(748,345)	(893,708)	288,116	1,289,336	1,475,217
Capital contributions	335,704	803,279	515,963	434,636	761,665
Changes in net position	(412,641)	(90,429)	804,079	1,723,972	2,236,882
Net position, beginning of period	16,626,644	16,214,003	14,562,508	15,366,587	17,090,559
Prior period adjustments	0	(1,561,066)	0	0	0
Net position, end of period	16,214,003	14,562,508	15,366,587	17,090,559	19,327,441
Net position by component					
Net investment in capital assets	13,665,884	14,790,579	16,664,117	16,974,413	17,684,486
Debt service (restricted):	749,404	0	0	0	0
Unrestricted	1,798,715	(228,071)	(1,297,530)	116,146	1,642,955
Total net position	16,214,003	14,562,508	15,366,587	17,090,559	19,327,441

SCOTTS VALLEY WATER DISTRICT
Operating Revenues by Sources
Last Ten Fiscal Years

Fiscal Year	Water Sales (Potable Water)	Water Sales (Recycled Water)	Service Charges (Potable & Recycled Water)	Other	Total Operating Revenue
2012	3,785,723	375,404	*	98,721	4,259,848
2013	4,014,392	496,296	*	427,524	4,938,212
2014	4,295,924	205,584	306,189	336,901	5,144,598
2015	2,350,163	317,926	1,566,851	264,919	4,499,859
2016	2,242,642	382,366	1,348,590	75,366	4,048,964
2017	2,646,488	352,298	1,497,782	53,170	4,549,738
2018	3,478,119	455,073	1,671,070	42,898	5,647,160
2019	3,605,178	446,873	1,927,303	46,311	6,025,665
2020	4,057,953	508,970	2,076,643	31,273	6,674,839

* FY 2011-2013 : Service Charges revenue included in Water Sales

SCOTTS VALLEY WATER DISTRICT*Non-Operating Revenues**Last Ten Fiscal Years*

Fiscal Year	Investment Income	Property Taxes	Interest Expense	Other Income & Expenses, net	Net Non- Operating Revenue / (Expense)
2011	32,644	587,622	(490,223)	(199,751)	(69,708)
2012	23,755	671,550	(448,525)	61,262	308,042
2013	27,119	752,395	(394,049)	(166,319)	219,146
2014	13,336	710,237	(378,240)	20,025	365,358
2015	24,848	724,433	(361,513)	40,610	428,378
2016	39,106	775,679	(417,796)	498,070	895,059
2017	25,159	839,095	(703,031)	8,468	169,691
2018	22,574	923,894	(143,774)	81,241	883,935
2019	35,893	975,085	(94,956)	62,910	978,932
2020	66,477	1,030,321	(86,262)	(121,103)	889,433

SCOTTS VALLEY WATER DISTRICT
Operating Expenses by Activity
Last Ten Fiscal Years

Fiscal Year	Source of Supply	Pumping	Water Treatment	Recycled Water	Transmission & Distribution	Water Use Efficiency	Finance & Customer Service*	General & Admin*	Total Operating Expenses
2011	49,954	468,721	290,566	173,896	394,669	103,478	101,673	2,100,075	3,683,032
2012	129,253	491,664	298,334	174,198	505,509	61,644	97,550	2,151,340	3,909,492
2013	121,208	430,450	276,543	194,924	457,427	79,150	92,089	2,811,993	4,463,784
2014	666,853	602,886	588,134	76,682	1,082,962	430,989	217,062	1,780,005	5,445,573
2015	1,638	478,911	558,991	102,152	1,129,053	202,521	188,335	1,522,036	4,183,637
2016	97,655	524,177	688,601	546,568	776,096	241,892	207,833	1,695,591	4,778,413
2017	150,614	536,653	660,704	472,105	797,494	158,507	192,925	1,706,288	4,675,290
2018	163,709	445,655	304,122	480,855	1,917,154	**	713,891	871,541	4,896,927
2019	99,307	466,512	293,069	434,404	1,849,596	**	649,335	837,784	4,630,007
2020	182,735	480,655	239,722	472,247	1,990,814	**	659,450	993,681	5,019,304

* Finance included in General & Admin for the period FY 2010 through FY 2017

** Water Use Efficiency included in Finance & Customer Service for the period FY 2018 through FY 2020

SCOTTS VALLEY WATER DISTRICT

Revenue Base

Last Ten Fiscal Years

Fiscal Year	Portable Water Consumption (Million Gallons)
2011	*
2012	*
2013	338
2014	363
2015	326
2016	312
2017	316
2018	344
2019	325
2020	329

*** Consumption data not available**

SCOTTS VALLEY WATER DISTRICT

Customers by Type

Last Ten Fiscal Years

As of June 30	Single Family Residential	Multi Family Residential	Commercial / Institutional	Fire Service	Landscape - Potable	Landscape - Recycled	Bulk Water	Total
2011	3,128	118	289	371	80	58	1	4,045
2012	3,177	118	289	381	82	60	1	4,108
2013	3,192	118	289	399	82	62	1	4,143
2014	3,193	118	289	400	82	62	1	4,145
2015	3,240	118	291	400	82	62	2	4,195
2016	3,239	117	284	403	81	62	6	4,192
2017	3,244	117	287	412	84	63	18	4,225
2018	3,262	117	290	419	84	64	20	4,256
2019	3,300	117	290	442	83	67	17	4,316
2020	3,333	117	287	453	82	65	12	4,349

SCOTTS VALLEY WATER DISTRICT*Outstanding Debt by Type**Last Ten Fiscal Years*

Fiscal Year	Refunding Bonds	Certificates of Participation	Notes Payable	Private Placement	Total Debt	Total Debt per Capita
2011	1,325,000	8,245,000	0	0	9,570,000	\$825.14
2012	1,195,000	3,125,000	5,120,000	0	9,440,000	\$807.04
2013	1,060,000	2,980,000	4,935,000	0	8,975,000	\$760.85
2014	925,000	2,830,000	4,740,000	0	8,495,000	\$711.24
2015	785,000	2,680,000	4,535,000	0	8,000,000	\$659.14
2016	0	2,520,000	4,325,000	0	6,845,000	\$561.30
2017	0	0	0	6,049,548	6,049,548	\$496.03
2018	0	0	0	5,596,621	5,596,621	\$458.93
2019	0	0	0	5,136,591	5,136,591	\$425.14
2020	0	0	0	4,668,012	4,668,012	\$399.21

SCOTTS VALLEY WATER DISTRICT
Debt Service Coverage
Last Ten Fiscal Years

Fiscal Year	Total Revenues	Operating Expenses	Net Available Revenues	Principal	Interest	Total Debt Service	Coverage Ratio
2011	4,877,333	3,683,032	1,194,301	268,897	490,223	759,120	1.57327
2012	5,016,415	3,909,492	1,106,923	477,025	448,525	925,550	1.19596
2013	5,717,726	4,463,784	1,253,942	480,000	394,049	874,049	1.43464
2014	5,888,196	5,445,573	442,623	480,000	378,240	858,240	0.51573
2015	5,289,750	4,183,637	1,106,113	495,000	361,513	856,513	1.29141
2016 *	5,361,819	4,778,413	583,406	788,351	268,352	1,056,703	0.55210
2017 *	5,422,460	4,675,290	747,170	445,881	175,881	621,762	1.20170
2018	6,674,869	4,896,927	1,777,942	452,927	143,774	596,701	2.97962
2019	7,099,553	4,630,007	2,469,546	460,030	94,956	554,986	4.44974
2020	7,891,253	5,019,304	2,871,949	468,579	86,262	554,841	5.17617

* Does not include principal and interest related to the defeasance of the 2004 Refunding Certificates of Participation and 2011 Wells Fargo Bank Loan.

SCOTTS VALLEY WATER DISTRICT
Population Estimates – City of Scotts Valley
2011-2020 with 2010 Benchmark

	Santa Cruz County Scotts Valley**
April 1, 2010	11,580
January 1, 2011	11,598
January 1, 2012	11,697
January 1, 2013	11,796
January 1, 2014	11,944
January 1, 2015	12,137
January 1, 2016	12,195
January 1, 2017	12,196
January 1, 2018	12,195
January 1, 2019	12,082
January 1, 2020	11,693

* Data source for 2010 is the 2010 U.S. Census, while data for 2011-2020 are from California Department of Finance.

** The District Service Area includes most of the incorporated area of the City of Scotts Valley as well as a portion of the unincorporated area north of the City.

SCOTTS VALLEY WATER DISTRICT
Full Time Equivalent Employees by Department
Last Ten Fiscal Years

Fiscal Year	Operations	General & Administrative	Finance & Customer Service	Engineering	Water Use Efficiency	Total
2011	9	7	0	0	0	16
2012	9	1	3	1	0	14
2013	9	2	4	1	0	16
2014	10	2	4	1	1	18
2015	10	2	4	1	1	18
2016	9	2	3	1	1	16
2017	10	2	3	1	1	17
2018	10	2.5	3	1	1	17.5
2019	11	2.5	3	1	1	18.5
2020	11	2.5	4	1	0	18.5

SCOTTS VALLEY WATER DISTRICT
Direct and Overlapping Debt
As of June 30, 2020

	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	\$ 114,961,609	5.256%	6,042,382
Scotts Valley Unified School District	39,770,000	56.471%	22,458,517
Scotts Valley Water District	-	100.000%	-
Santa Cruz Library Facilities Community Facilities District No. 2016-1	39,080,000	5.858%	2,289,306
City of Scotts Valley Community Facilities District No. 97-1	2,870,000	81.760%	2,346,512
Total Direct and Overlapping Tax and Assessment Debt			33,136,717
Overlapping General Fund Debt:			
Santa Cruz County General Fund Obligations	70,733,864	5.296%	3,746,065
Santa Cruz County Office of Education Certificates of Participation	8,158,808	5.296%	432,090
Scotts Valley Unified School District Certificates of Participation	9,760,000	56.471%	5,511,570
City of Scotts Valley Certificates of Participation	8,955,000	81.760%	7,321,608
City of Scotts Valley Pension Obligation Bonds	1,980,000	81.760%	1,618,848
Total Overlapping General Fund Debt			18,630,181
Overlapping Tax Increment Debt (Successor Agency)	11,530,000	99.630%	11,487,339
Total Direct Debt			-
Total Overlapping Debt			63,254,237
Combined Total Debt			63,254,237⁽²⁾
2019-20 Assessed Valuation:	2,553,583,656		
Ratios to 2019-20 Assessed Valuation:			
Total Overlapping Tax and Assessment Debt		1.30%	
Total Direct Debt		0.00%	
Combined Total Debt		2.48%	
Ratios to Redevelopment Successor Agency Incremental Valuation		825,229,699	
Total Overlapping Tax Increment Debt		1.39%	

(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
 2013-2020

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
2019	2,340,152,176	-	103,841,992	2,443,994,168
2020	2,453,773,705	-	99,809,951	2,553,583,656

2019-20 Total Local Secured Assessed Valuation Breakdown

Residential Property	Commercial Property	Industrial Property	Other Property	Total Local Secured Property
\$ 2,033,225,123	\$ 281,029,154	\$ 116,505,539	\$ 23,013,889	\$ 2,453,773,705

2019-20 Assessed Valuation of Redevelopment Agency Project Area Within the

Project Area	Total Assessed Valuation	Base Year Valuation	Incremental Valuation
Scotts Valley	1,241,641,853	416,412,154	825,229,699

SCOTTS VALLEY WATER DISTRICT

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
General	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
Scotts Valley Unified School District	0.048489	0.045875	0.041027	0.075224	0.051200	0.083657	0.068688	0.086437
Cabrillo Community College District	0.040482	0.040468	0.036941	0.036693	0.032597	0.024250	0.021023	0.021172
Total All Property	<u>1.088971</u>	<u>1.086343</u>	<u>1.077968</u>	<u>1.111917</u>	<u>1.083797</u>	<u>1.107907</u>	<u>1.089711</u>	<u>1.107609</u>