Scotts Valley Water District

Annual Financial Report

For the Fiscal Year Ended June 30, 2015

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, 2015

Name	Title	Elected/ Appointed	Current Term
Ken Kannegaard	President	Elected	11/14-11/18
Danny Reber	Vice President	Elected	11/12-11/16
Chris Perri	Director	Elected	11/12-11/16
David Hodgin	Director	Elected	11/14-11/18
Ruth Stiles	Director	Appointed	1/15-11/16

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

Scotts Valley Water District

Annual Financial Report

For the Fiscal Year Ended June 30, 2015

Scotts Valley Water District
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Introductory Section

SCOTTS VALLEY
WATER DISTRICT

December 9, 2015

The Honorable Board of Directors of
the Scotts Valley Water District

Introduction

It is my pleasure to submit the Annual Financial Report for the Scotts Valley Water District (District) for the fiscal year ending June 30, 2015 (FY 2015). The District staff prepared this financial report following guidelines set forth by the Governmental Accounting Standards Board (GASB). The District is ultimately responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures in this financial report. I believe that the data presented is accurate in all material respects. This report is designed in a manner that helps to enhance your understanding of the District's financial position and activities.

This report is organized into three sections: (1) Introductory, (2) Financial, and (3) Supplemental. The Introductory section offers general information about the District's organization and water system, the economic environment, current District activities, and presents a summary of significant financial results, as well as the major initiatives and accomplishments. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A) of the District's financial statements, and the District's audited financial statements with accompanying notes. The Supplemental section contains selected financial information in greater detail than presented in the District's financial statements.

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

District Structure and Leadership

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

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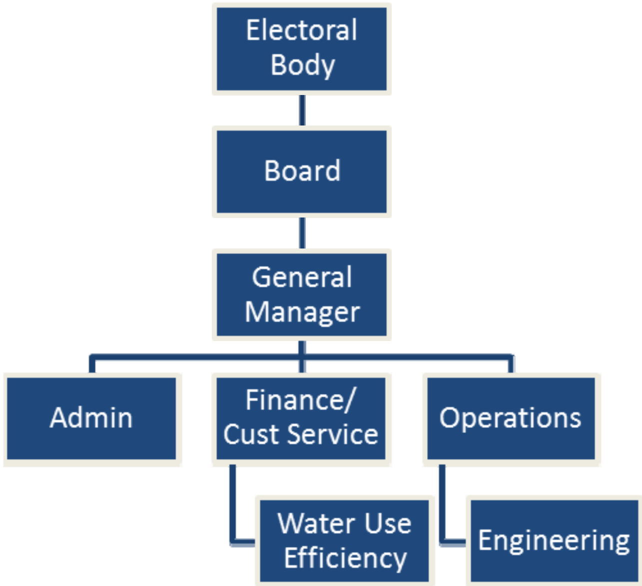


The District provides water service to approximately 3,800 connections, covering most of the City of Scotts Valley and several unincorporated neighborhoods. The City of Scotts Valley, which occupies approximately 6 square miles, is located 6 miles north of the City of Santa Cruz on Highway 17 in Santa Cruz County. There were no organizational changes in FY 2015.

District Services

Residential customers represent approximately 90% of the District's customer base and consume approximately 70% of the water produced annually by the District. The District currently has a total of 6 groundwater wells with a maximum production capacity of 1,400 gallons per minute. Additionally, the District is the permitted distributor of the recycled water from the Tertiary Treatment Plant of the City of Scotts Valley. As of June 30, 2014, there were 50 connections with an annual demand of 10 million gallons. During FY 2015, 4 new meters and 7 conversions were added for a year-end total of 61 connections and an annual demand of 14.5 million gallons.

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

Potable Water Connections

3,723 connections as of June 30, 2015:

	2015	2014	Incr/(Decr)
Residential	3,362	3,335	27
Commercial*	280	308	(28)
Landscape	81	73	8
	3,723	3,716	7

*Twenty seven (27) connections were deactivated temporarily during construction of a development project.

Potable Water Consumption
FY 2014

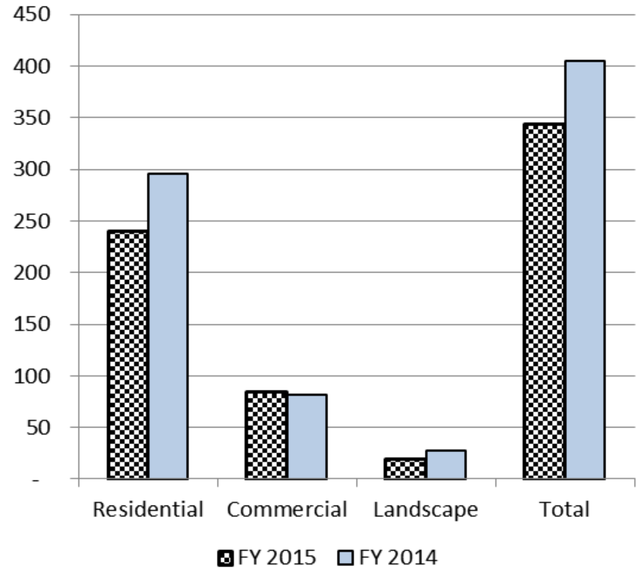
405 million gallons (MG):

- 296 MG Residential
- 82 MG Commercial
- 27 MG Landscape

FY 2015

343 million gallons (MG):

- 240 MG Residential
- 84 MG Commercial
- 19 MG Landscape



Total consumption decreased by 62 MG/15.3% in FY 2015 in response to drought initiatives and conditions. The decrease can be broken down to three categories: Residential decreased by 56 MG/18.9%, Landscape decreased by 8 MG/29.6% while Commercial increased by 2 MG/2.4%. Percentage wise, Landscape had the greatest decrease owing to elasticity in demand and also as the result of 11 conversions from potable water meters to recycled water meters. Residential decrease signified elasticity in demand and upgrades to water efficient appliances and fixtures.

Economic Condition and Outlook

Santa Cruz County's economy accelerated in 2015 with the unemployment rate decreasing from an average of 8.7% in 2014 to 6.2% in June 2015 per the statistics released by the State Employment Development Division. The unemployment rate was in line with that of California which also fell to 6.2% in June 2015.

The District's main office is located in the City of Scotts Valley in Santa Cruz County. The number of service connections is closely impacted by the local economy and by the City's economic development policies, especially the housing development policy. The City has a population of approximately 11,928 per the State Department of Finance for January 2015, an increase of 4.8% compared with 11,385 per the 2000 census. The number of households grew from 4,273 in the 2000 census to 4,426 in the 2010 census, a growth of 3.6%. As the City's remaining buildable space is limited, growth in population and the number of households are likely to remain moderate.

The City Planning Department has been facilitating several large commercial and residential developments. Woodside and the Manor projects were both completed in FY 2015 with the former adding a total of 105 meters in the span of two fiscal years and the latter adding a total of 17. Two multi-family projects are under development and once they are completed, both the number of connections and water usage are expected to increase.

The District's sole source of potable water is the Santa Margarita groundwater basin. The treated water meets or exceeds all State and Federal water quality standards.

The District's water supply continues to be a concern due to a prolonged statewide drought that began in 2012, and the need to address the District's aging water infrastructure. The severity of the drought, in its fourth year, prompted Governor Brown to mandate usage reductions in early 2015. The District's water reduction goal is set at 16%. As the District customers had achieved close to 20% of water reductions before the Governor's announcement, customers were not asked to achieve higher conservation levels.

Economic Condition and Outlook, continued

The District has implemented a multi-year effort to address the aging infrastructure, including the completion of the Water System Master Plan by June 30, 2016, and the inclusion of an appropriate capital budget to systematically upgrade or replace its aging infrastructure in subsequent years.

Major Accomplishments

The activities of the District are driven by its Mission Statement: "To deliver a sustainable, high quality water supply in an environmentally responsible and sound financial manner while providing outstanding customer service". The accomplishments in each of the Strategic Goal areas for FY 2015 included:

<u>Water Resource Management:</u>

1. Successfully completed 2014 Enhanced Rebate Program which generated 500 inquiries, replaced 267 toilets, and achieved savings of 38 gallons per dollar spent in the first year.
2. Achieved average 19% system-wide demand reduction in response to the voluntary cut back request.

   Projects currently under way to recharge groundwater, expand recycled water use and sales, and reduce water waste include:

   - Scotts Valley Transit Center Low Impact Development (LID) Retrofit Project – Will result in doubling the annual groundwater recharge volume and reduce the cost.
   - Hanson Quarry Recharge Project – Started a groundwater recharge feasibility study in April 2015 with expected completion in October 2015. The findings from the study will help to determine the viability and formulate the scope for groundwater recharge project at the site.
   - Recycle Water Fill Station – Expected launch of the fill station in August 2015.
   - Emergency Intertie Project – When completed in December 2015, this project can transmit water between agencies during emergencies.

<u>Infrastructure Integrity:</u>

1. Completed GIS map data conversion: GIS has been installed in all workstations of the Operations Division and two mobile devices to streamline infrastructure maintenance.
2. Completed installation of electronic security access door/gate to improve system security.
3. Completed manual read meter change-out program: pilot program was set to evaluate feasibilities of Advanced Metering Infrastructure in FY 2016 to further automate meter read process.

   Projects currently under way to expand or maintain the District's infrastructure include water tank rehabilitations, a new well for production redundancy, and development of Water System Master Plan.

<u>Financial Stewardship:</u>

1. Discontinued retiree medical benefit plan (a.k.a. OPEB) from active employees except for four who were grandfathered into the plan after meeting certain employment conditions. This action is estimated to save millions in future payouts.

   Projects currently underway to provide greater financial stewardship include implementation of the new integrated financial management system and updating of Rules and Regulations.

<u>Public Outreach:</u>

1. Established a collaborative review process involving the City, the Fire District and the Water District for development projects to improve efficiencies.
2. Partnered with private and public agencies in the County to implement drought related initiatives, emergency regulations and capital projects.
3. Launched a new website designed with the District's current vision and values to reach out to the public.

Public Outreach: (continued)

4. Conducted a total of 15 speaking engagements and presentations at various community events, workshops and meetings.
5. Engaged consultants to create and promote a District brand and to provide Community Outreach services on an ongoing basis.

Organizational Vitality:

1. Updated Employee Handbook to enhance the document and eliminate redundancies with the Memorandum of Understanding.
2. Administered a smooth transaction from PERS medical insurance program to ACWA/JPIA involving awareness building about HDHP (high deductible health plan), personalized training and assistance, enrollment and establishing new procedures.
3. Promoted technical and management/supervisory competency building trainings to all staff and directors who collectively achieved a record high attendance rate at conferences, webinars, workshops and advanced education.
4. Projects currently under way to promote greater organization vitality include office renovation construction project and updating the Standard Operating Procedures.

All programs and projects of the District were developed and performed to provide the highest level of services to its customers in a cost effective manner.

Recycled Water

Scotts Valley boasts the only recycled water treatment plant (Tertiary Treatment Plant) in the North Santa Cruz County area. The District's policy to use recycled water wherever feasible by installing recycled irrigation services at new development projects and converting existing potable landscape connections to recycled water, has resulted in the number of recycled water connections to reach a total of 61 since the inception of the Tertiary Treatment Plant in 2002.

Water Rates and District Revenues

On July 1, 2014, the Connection Charges and Water Replenishment Impact Fees were increased by 2.8% based on the Engineering News-Record construction cost index (April to April). Effective December 15, 2014 the meter service charges were increased by 1% and commodity charges ranging from 3.7% to 3.93% based on a five-year rate schedule approved in December 2012.

Water Conservation and Water Use Efficiency Programs

The District has always been committed to water use efficiency and conservation through rebates, educational workshops, home inspections and consultations. The summer direct installation toilet program replaced 267 toilets, saving 38 gallons per dollar spent. The program helped achieve an average 19% system-wide demand reduction in response to the voluntary cut-back request.

Internal Control Structure

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

Budgetary Control

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

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

Investment Policy

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

Independent Audit and Financial Reporting

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

Risk Management

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

Excellent Customer Service with a Strong Connection to the Community

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

Other References

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

Acknowledgement

Preparation of this report was accomplished by the combined efforts of the District staff. We appreciate the dedication and professionalism that our staff members bring to the District. We 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

Piret Harmon
General Manager

Financial Section

Fedak & Brown LLP
Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Scotts Valley Water District
Scotts Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Scotts Valley Water District (District), which comprises the statement of net position as of June 30, 2015, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of matter

As described in Note 1.C to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 1, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 and the required supplementary information on pages 41 through 43 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 6, and the supplemental information schedule on page 44, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section has 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 it.

Independent Auditor's Report, continued

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 45 and 46.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 9, 2015

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Scotts Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2015 (with comparative information for fiscal year ended June 30, 2014). We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2015, the District's net position decreased 7.67%, or $1,380,728 to $16,626,644, which is comprised of an increase from operations of $260,539, which was offset by decrease from prior period adjustment in the amount of $1,641,267. Please see note 3 of the basic financial statements for further discussion.
- In 2015, the District's operating revenues decreased 12.53% or $644,739 to $4,499,859, primarily due to a decrease of $711,281 in water sales revenues related to decreased water consumption and $71,982 in other revenue; which was offset by an increase of $138,524 in recycled water sales and service charges.
- In 2015, the District's non-operating revenues increased 6.23% or $46,293 to $789,891, primarily due to increases of $14,196 in property tax revenues, $11,512 in investment earnings, and $19,822 in the gain on disposal of fixed assets.
- In 2015, the District's operating expenses decreased 23.17% or $1,261,936 to $4,183,637, primarily due to decreases of $665,215 in source of supply, $257,969 in general and administrative expenses; $228,468 in conservation expenses; and $123,975 in pumping expenses. Decreases reflected cost reductions related to mandated water consumption reductions and one-time expenses of $420,000 in source of supply and $300,000 in conservation in FY 2014.
- In 2015, the District's non-operating expenses decreased 4.42% or $16,727 to $361,513, primarily due to a decrease of $16,727 in interest expense related to the District's long-term debt.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's 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 profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 20 through 40.

Statements of Net Position

Condensed Statements of Net Position

	2015	2014	Change
Assets:			
Current assets	$ 8,088,248	8,605,823	(517,575)
Non-current assets	110,000	115,000	(5,000)
Capital assets, net	19,521,856	19,622,309	(100,453)
Total assets	27,720,104	28,343,132	(623,028)
Deferred outflows of resources	1,223,345	663,598	559,747
Liabilities:			
Current liabilities	1,729,030	1,485,760	243,270
Non-current liabilities	10,140,843	9,513,598	627,245
Total liabilities	11,869,873	10,999,358	870,515
Deferred inflows of resources	446,932	-	446,932
Net position:			
Net investment in capital assets	12,154,452	11,822,421	332,031
Restricted	932,329	918,709	13,620
Unrestricted	3,539,863	5,266,242	(1,726,379)
Total net position	$ 16,626,644	18,007,372	(1,380,728)

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $16,626,644 as of June 30, 2015.

By far the largest portion of the District's net position (73.1% as of June 30, 2015) 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 years 2015, the District showed a positive balance in its unrestricted net position of $3,539,863, which may be utilized in future years. See note 10 for the amount of spendable net position that may be utilized in future years.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2015	2014	Change
Revenues:			
Operating revenues	$ 4,499,859	5,144,598	(644,739)
Non-operating revenues	789,891	743,598	46,293
Total revenues	5,289,750	5,888,196	(598,446)
Expenses:			-
Operating expenses	4,183,637	5,445,573	(1,261,936)
Depreciation and amortization	883,615	1,023,055	(139,440)
Non-operating expenses	361,513	378,240	(16,727)
Total expenses	5,428,765	6,846,868	(1,418,103)
Net loss before capital contributions	(139,015)	(958,672)	819,657
Capital contributions	399,554	435,964	(36,410)
Change in net position	260,539	(522,708)	783,247
Net position, beginning of period, as previously stated	18,007,372	18,384,030	(376,658)
Prior period adjustment (note 3)	(1,641,267)	146,050	(1,787,317)
Net position, beginning of period, as restated	16,366,105	18,530,080	(2,163,975)
Net position, end of period	$ 16,626,644	18,007,372	(1,380,728)

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

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

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

In 2015, the District's net position decreased 7.67%, or $1,380,728 to $16,626,644, which is comprised of an increase from operations of $260,539, which was offset by a decrease from prior period adjustment in the amount of $1,641,267. Please see note 11 of the basic financial statements for further discussion.

In 2015, the District's operating revenues decreased 12.53% or $644,739 to $4,499,859, primarily due to a decrease of $711,281 in water sales revenues related to decreased water consumption and $71,982 in other revenue; which was offset by an increase of $138,524 in recycled water sales and service charges.

In 2015, the District's non-operating revenues increased 6.23% or $46,293 to $789,891, primarily due to increases of $14,196 in property tax revenues, $11,512 in investment earnings, and $19,822 in the gain on disposal of fixed assets.

In 2015, the District's operating expenses decreased 23.17% or $1,261,936 to $4,183,637, primarily due to decreases of $665,215 in source of supply, $257,969 in general and administrative expenses; $228,468 in conservation expenses; and $123,975 in pumping expenses. Decreases reflected cost reductions related to mandated water consumption reductions and one-time expenses of $420,000 in source of supply and $300,000 in conservation in FY 2014.

In 2015, the District's non-operating expenses decreased 4.42% or $16,727 to $361,513, primarily due to a decrease of $16,727 in interest expense related to the District's long-term debt.

Capital Asset Administration

At the end of fiscal year 2015, the District's investment in capital assets amounted to $19,521,856 (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, tanks, pumps, buildings, equipment, vehicles and construction-in-process. Major capital assets additions during the year include improvements to portions the District's buildings.

Changes in capital assets amounts for 2015, were as follows:

		Balance 2014	Additions	Transfers/ Deletions	Balance 2015
Capital assets:					
Non-depreciable assets	$	1,310,905	791,501	(350,004)	1,752,402
Depreciable assets		37,201,917	367,869	(231,488)	37,338,298
Accumulated depreciation		(18,890,513)	(883,616)	205,285	(19,568,844)
Total capital assets, net	$	19,622,309	275,754	(376,207)	19,521,856

Debt Administration

Changes in long-term debt amounts for 2015 were as follows:

		Balance 2014	Additions	Transfers/ Deletions	Balance 2015
Long-term debt:					
2003 Refunding Bonds	$	925,000	-	(140,000)	785,000
2004 COP		2,830,000	-	(150,000)	2,680,000
2011 Note Payable		4,740,000	-	(205,000)	4,535,000
Total loans payable		8,495,000	-	(495,000)	8,000,000

See Note 8 for further long-term debt service information.

Debt Service Coverage Ratio

		2015
Total revenues	$	5,689,304
Less: capital contributions - grants		(399,554)
Operating revenue		5,289,750
Total expenses		5,428,765
Less: Non-cash expenses		(954,957)
Less: Interest expense on debt service		(298,989)
Total operating expenses	$	4,174,819
Net operating revenue	$	1,114,931
Debt service (due in fiscal year)	$	793,989
Debt service coverage ratio		1.40

Conditions Affecting Current Financial Position

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

Requests for Information

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

Basic Financial Statements

Scotts Valley Water District
Statement of Net Position
June 30, 2015

		2015
Current assets:		
Cash and cash equivalents (note 2)	$	5,251,395
Cash & cash equivalents – restricted (note 2)		932,329
Accrued interest receivable		6,221
Accounts receivable, net		763,700
Accounts receivable – property tax		17,905
Accounts receivable – other		860,100
Materials and supplies inventory		180,040
Prepaid expenses and deposits		76,558
Total current assets		8,088,248
Non-current assets:		
Note receivable		110,000
Capital assets – not being depreciated (note 5)		1,752,402
Capital assets – being depreciated (note 5)		17,769,454
Total non-current assets		19,631,856
Total assets		27,720,104
Deferred outflows of resources:		
Deferred pension outflows (note 4 and 9)		619,531
Loss on defeasance of debt (note 4)		603,814
Total deferred outflows of resources	$	1,223,345

Continued on next page

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Net Position, continued
June 30, 2015

		2015
Current liabilities:		
Accounts payable and accrued expense	$	988,052
Accrued wages and related payables		39,293
Accrued interest payable		147,430
Customer deposits		16,000
Long-term liabilities – due in one year:		
Compensated absences (note 6)		18,255
Note payable (note 8)		210,000
Certificates of Participation (note 8)		160,000
Bonds payable (note 8)		150,000
Total current liabilities		1,729,030
Non-current liabilities:		
Unearned revenue		93,010
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)		54,764
Other post-employment benefits payable (note 7)		1,211,880
Net pension liability (note 9)		1,329,971
Note payable (note 8)		4,325,000
Certificates of Participation (note 8)		2,495,449
Bonds payable (note 8)		630,769
Total non-current liabilities		10,140,843
Total liabilities		11,869,873
Deferred inflows of resources:		
Deferred pension inflows (note 9)		446,932
Total deferred inflows of resources		446,932
Net position: (note 10)		
Net investment in capital assets		12,154,452
Restricted for debt service		932,329
Unrestricted		3,539,863
Total net position	$	16,626,644

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended June 30, 2015

		2015
Operating revenues:		
Water sales	$	2,350,163
Service charges		1,566,851
Water sales – recycled		317,926
Other revenue		264,919
Total operating revenues		4,499,859
Operating expenses:		
Source of supply		1,638
Pumping		478,911
Water treatment		558,991
Recycled water		102,152
Transmission and distribution		1,129,053
Conservation		202,521
Customer accounts		188,335
General and administrative expense		1,522,036
Total operating expenses		4,183,637
Operating income before depreciation		316,222
Depreciation expense		(883,615)
Operating loss		(567,393)
Non-operating revenue (expense):		
Property tax revenues		724,433
Investment earnings		24,848
Interest expense		(361,513)
Gain on disposal of fixed assets		19,822
Other non-operating revenue, net		20,788
Total non-operating revenues, net		428,378
Net loss before capital contributions		(139,015)
Capital contributions:		
Capital grants – State		399,554
Total capital contributions		399,554
Change in net position		260,539
Net position, beginning of period, as restated (note 3)		16,366,105
Net position, end of period	$	16,626,644

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

		2015
Cash flows from operating activities:		
Cash received from customers	$	4,229,635
Cash paid to employees for salaries		(1,431,848)
Payments to vendors for materials and services		(3,037,960)
Net cash used in operating activities		(240,173)
Cash flows from non-capital financing activities:		
Proceeds from property taxes		737,989
Net cash provided by non-capital financing activities		737,989
Cash flows from capital and related financing activities:		
Cash paid to acquire capital assets		(809,364)
Proceeds from the sale of capital assets		46,024
Principal paid on long-term debt		(432,484)
Proceeds from capital grant		399,554
Interest paid		(369,990)
Principal payments received on note receivable		5,000
Net cash used in capital and related financing activities		(1,161,260)
Cash flows from investing activities:		
Interest on investments		24,921
Net cash provided by investing activities		24,921
Net decrease in cash and cash equivalents		(638,523)
Cash and cash equivalents – beginning of year		6,822,247
Cash and cash equivalents – end of year	$	6,183,724
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	$	5,251,395
Cash and cash equivalents – restricted		932,329
Total cash and cash equivalents	$	6,183,724

Continued on next page

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Cash Flows, continued
For the Fiscal Year Ended June 30, 2015

		2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(567,393)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Deprecation and amortization		883,615
Non-operating expenses, net		20,788
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources		
(Increase) decrease in assets:		
Customer accounts receivable		128,811
Accounts receivable – other		(256,279)
Materials and supplies inventory		(4,631)
Prepaid expenses and deposits		(2,478)
(Increase) in deferred outflows of resources:		
Deferred pension outflows		(443,581)
Increase (decrease) in liabilities		
Accounts payable and accrued expense		215,958
Accrued wages and related payables		9,294
Customer deposits		10,000
Compensated absences		(34,022)
Other post-employment benefits obligation		(7,185)
Net pension liability		(487,246)
Unearned revenue		(152,756)
Increase in deferred inflows of resources:		
Deferred pension inflows		446,932
Total adjustments		327,220
Net cash used in operating activities	$	(240,173)
Non-cash financing and investing, capital, and financing transaction:		
Change in fair-market value of funds deposited with LAIF	$	873

See accompanying notes to the basic financial statements

(1) Summary of Significant Accounting Policies

A. Reporting Entity and Component Unit

The financial statements of the Scotts Valley Water District (District) include the financial activities of the District as well as transactions made by (1) the fiscal agent under authority granted by the District in various resolutions authorizing the issuance of revenue bonds, and (2) the Scotts Valley Water District Public Facilities Corporation, a component unit (see below). The District is incorporated as a water district in the State of California and is exempt from federal income and state franchise taxes under Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions.

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

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

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

Government Accounting Standards Board Statement No. 68

For the fiscal year ended June 30, 2015, the District implemented Government Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*. The requirements of this statement are effective for the financial statement periods beginning after June 15, 2014.

GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision – useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

(1) Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

Government Accounting Standards Board Statement No. 68, continued

GASB 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Government Accounting Standards Board Statement No. 71

For the fiscal year ended June 30, 2015, the District implemented Government Accounting Standards Board Statement No. 71 (GASB 71), *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* The requirements of this statement are effective for the financial statement periods beginning after June 15, 2014. The provisions of this Statement are applied simultaneously with the provisions of GASB Statement No. 68.

GASB 71 improves accounting and financial reporting by addressing the issue in GASB 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation by employers and non-employer contributing entities. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

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

4. Accounts Receivable and Allowance for Uncollectible Accounts

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

(1) Summary of Significant Accounting Policies, continued

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

5. Property Taxes and Assessments

The Santa Cruz County Assessor's Office assesses all real and personal property within the County each year. The Santa Cruz County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The Auditor-Controller's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the Santa Cruz County which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

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

6. Supplies Inventory

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

7. Prepaid Expenses

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

8. Deferred Outflows of Resources

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

9. Compensated Absences

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

10. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) and addition to/deduction from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2013
- Measurement Date: June 30, 2014
- Measurement Period: July 1, 2013 to June 30, 2014

(1) Summary of Significant Accounting Policies, continued

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

11. Deferred Inflows of Resources

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

12. Water Sales

Water sales are billed on a bi-monthly cyclical basis.

13. Capital Contributions

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

14. Capital Assets

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

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

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

15. Depreciation and Amortization

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

16. Net Position

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

- ***Net Investment in Capital Assets*** – This component of net position consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those asserts.

- ***Restricted*** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- ***Unrestricted*** – This component of net position consists of net position that does not meet the definition of *“restricted”* or *“net investment in capital assets”*.

(1) Summary of Significant Accounting Policies, continued

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

17. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

(2) Cash and Investments

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

		2015
Cash and cash equivalents	$	5,251,395
Cash & cash equivalents – restricted		932,329
Total cash and cash equivalents	$	6,183,724

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

		2015
Petty cash	$	400
Deposits with financial institutions		3,861,603
Local Agency Investment Fund (LAIF)		2,321,721
Total cash and cash equivalents	$	6,183,724

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

	2015
Deposits held with California Local Agency Investment Fund (LAIF)	239 days

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

(2) Cash and Investments, continued

Custodial Credit Risk

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

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

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to $250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

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

Interest Rate Risk

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

Maturities of investments at June 30, 2015, consisted of the following:

Investment Type	Total	Remaining Maturity 12 Months or Less
Local Agency Investment Fund (LAIF)	$ 2,321,721	2,321,721

(2) Cash and Investments, continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings of investments as of June 30, 2015, were as follows:

Investment type		Total	Minimum Legal Rating	Not Rated
Local Agency Investment Fund (LAIF)	$	2,321,721	N/A	2,321,721

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments at June 30, 2015.

(3) Prior Period Adjustment

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability.

As a result of the implementation, the District recognized the pension liability and recorded a net prior period adjustment in the amount of $1,641,267 to decrease the proprietary activities' beginning net position as of July 1, 2014.

The adjustment to net position is as follows:

Net position at June 30, 2014, as previously stated	$	18,007,372
Effect of adjustment to record net pension liability		(1,817,217)
Effect of adjustment to deferred pension outflows		175,950
Total adjustments		(1,641,267)
Net position at July 1, 2014, as restated	$	16,366,105

(4) Deferred Outflows of Resources

The changes to deferred outflows of resources at June 30, were as follows:

		Balance 2014	Additions	Amortization	Balance 2015
Loss on defeasance of debt	$	663,598	-	(59,784)	603,814
Deferred pension outflows		175,950	619,531	(175,950)	619,531
Total deferred outflows	$	839,548	619,531	(235,734)	1,223,345

(5) Capital assets

Changes in capital assets for 2015, were as follows:

	Balance 2014	Additions/ Transfers	Deletions/ Transfers	Balance 2015
Non-depreciable assets:				
Land & land rights	$ 641,798	-	-	641,798
Construction-in-process	669,107	791,501	(350,004)	1,110,604
Total non-depreciable assets	1,310,905	791,501	(350,004)	1,752,402
Depreciable assets:				
Water rights – recycled water	5,629,279	-	-	5,629,279
Water treatment	5,539,378	-	-	5,539,378
Transmission and distribution	8,755,998	25,017	-	8,781,015
Resserviors and tanks	5,863,804	-	-	5,863,804
Source of supply - wells	5,609,973	-	-	5,609,973
Pumping	1,253,482	-	-	1,253,482
Buildings	646,872	231,095	-	877,967
Recycled water	2,455,616	-	-	2,455,616
Equipment and tools	825,653	-	(122,040)	703,613
Office equipment	199,104	-	(68,728)	130,376
Transportation	422,758	111,757	(40,720)	493,795
Total depreciable assets	37,201,917	367,869	(231,488)	37,338,298
Accumulated depreciation:				
Water rights – recycled water	(1,372,640)	(112,586)	-	(1,485,226)
Water treatment	(4,227,791)	(117,100)	-	(4,344,891)
Transmission and distribution	(4,866,867)	(182,422)	-	(5,049,289)
Resserviors and tanks	(2,384,764)	(138,871)	-	(2,523,635)
Source of supply - wells	(3,133,161)	(137,472)	-	(3,270,633)
Pumping	(884,252)	(45,667)	-	(929,919)
Buildings	(419,125)	(20,467)	-	(439,592)
Recycled water	(495,232)	(61,736)	-	(556,968)
Equipment and tools	(561,792)	(47,692)	95,837	(513,647)
Office equipment	(189,990)	(1,610)	68,728	(122,872)
Transportation	(354,899)	(17,993)	40,720	(332,172)
Total accumulated depreciation	(18,890,513)	(883,616)	205,285	(19,568,844)
Total depreciable assets, net	18,311,404	(515,747)	(26,203)	17,769,454
Total capital assets, net	$ 19,622,309			19,521,856

In 2015, major capital assets additions include upgrades as follows: transmission and distribution systems $25,017, buildings $231,095, and office equipment $111,757.

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. Additions to construction in process during the year amounted to $791,501 consisted of Intertie projects $526,984, Corporate Yard projects $127,982 and various miscellaneous projects $136,535 at June 30, 2015.

(6) Compensated Absences

Changes in compensated absences for 2015 were as follows:

Balance 2014	Additions	Deletions	Balance 2015	Due within One Year	Due in more than one year
$ 107,041	54,961	(88,983)	73,019	18,255	54,764

(7) Other Post-Employment Benefits Payable

Effective July 1, 2014, the District discontinued providing other post-employment medical benefits and currently active employees will receive a District contribution to the employee's Health Savings Account (HSA) or to their 457 Deferred Compensation Plan (457 Plan). Please see Note 12 for the details of the deferred compensation savings plan. As of June 30, 2015, only one (1) active employee remained in the other post-employment benefits program.

The reporting requirements for these benefit programs as they pertain to the District are set forth below:

Plan Description – Eligibility

The District pays a portion of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the District.

Membership in the OPEB plan consisted of the following members as of June 30:

	2015
Active plan members	1
Retirees and beneficiaries receiving benefits	18
Separated plan members entitled to but not yet receiving benefits	-
Total plan membership	19

Plan Description – Benefits

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District's Plan provider. The contribution requirements of Plan members and the District are established and may be amended by the District's Board.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 12.8% of the annual covered payroll.

The District will pay the percentage of the cost of the post-employment benefit plan based on the cost sharing ratio at the time the employee retires. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

(7) Other Post-Employment Benefits Payable, continued

Annual OPEB Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2015, the District's ARC cost is $180,580. The District's net OPEB payable obligation amounted to $1,211,880 for the fiscal year ended June 30, 2015. The District contributed $168,741 in age adjusted contributions for current retiree OPEB premiums for the fiscal year ended June 30, 2015.

The balance at June 30, consists of the following:

		2015
Annual OPEB expense:		
Annual required contribution (ARC)	$	180,580
Interest on net OPEB obligation		48,763
Adjustment to annual required contribution		(67,787)
Total annual OPEB expense		161,556
Change in net OPEB payable obligation:		
Age adjusted contributions made		(168,741)
Total change in net OPEB payable obligation		(7,185)
OPEB payable - beginning of year		1,219,065
OPEB payable - end of year	$	1,211,880

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2015 was as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2015	$ 161,556	168,741	104.45%	$ 1,211,880

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $2,939,783. There are no plan assets because the District funds on a pay-as-you-go basis. The covered payroll (annual payroll of active employees covered by the plan) for the fiscal year ended June 30, 2015 was $1,407,120. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 208.9%.

See Page 43 for the Schedule of Funding Status.

(7) Other Post-Employment Benefits Payable, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2015
Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar basis
Amoritzation period	Initial 30 years
Asset valuation method	N/A
Actuarial assumptions:	
Discount rate	4.00%
Projected salary increase	3.00% per annum, in aggregate
Inflation - discount rate	2.75%

(8) Long-Term Debt

Changes in long-term debt amounts for 2015 were as follows:

	Balance 2014	Additions	Transfers/ Deletions	Balance 2015
Long-term debt:				
2003 Refunding Bonds	$ 925,000	-	(140,000)	785,000
2004 COP	2,830,000	-	(150,000)	2,680,000
2011 Note Payable	4,740,000	-	(205,000)	4,535,000
Total loans payable	8,495,000	-	(495,000)	8,000,000
Less: current portion	(495,000)			(520,000)
Discount on debt	(31,514)			(28,782)
Long-term portion	$ 7,968,486			7,451,218

2003 Refunding Bonds

In 2003, the District issued revenue bonds of $2,240,000 to, among other things, refund all of the outstanding Scotts Valley Water District 1994 Water Revenue Refunding Bonds which were originally issued in the aggregate principal amount of $2,640,000. The debt service schedule provides for principal payable annually on January 1st of each year maturing in 2020. Interest is calculated at the rate between 2.0% and 4.1% payable semi-annually by January 1st and July 1st.

(8) Long-Term Debt, continued

2003 Refunding Bonds, continued

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

Fiscal Year		Principal	Interest	Total
2016	$	150,000	31,123	181,123
2017		150,000	25,498	175,498
2018		155,000	19,648	174,648
2019		165,000	13,448	178,448
2020		165,000	6,765	171,765
Total		785,000	96,482	881,482
Less: Current portion		(150,000)		
Discount on debt		(4,231)		
Total non-current	$	630,769		

2004 Refunding Certificates of Participation

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

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

Fiscal Year		Principal	Interest	Total
2016	$	160,000	113,413	273,413
2017		165,000	107,358	272,358
2018		175,000	100,810	275,810
2019		180,000	93,753	273,753
2020		185,000		
2021-2025		1,060,000	346,310	1,406,310
2026-2028		755,000	95,461	850,461
Total		2,680,000	857,104	3,352,104
Less: Current portion		(160,000)		
Discount on debt		(24,551)		
Total non-current	$	2,495,449		

(8) Long-Term Debt, continued

2011 Refunding Certificates of Participation

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

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

Fiscal Year		Principal	Interest	Total
2016	$	210,000	145,681	355,681
2017		215,000	138,856	353,856
2018		225,000	131,788	356,788
2019		230,000	124,394	354,394
2020		240,000	116,838	356,838
2021-2025		2,145,000	408,687	2,553,687
2026-2028		1,270,000	58,338	1,328,338
Total		4,535,000	1,124,582	5,659,582
Less: Current portion		(210,000)		
Total non-current	$	4,325,000		

(9) Defined Benefit Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

Benefits Provided

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

(9) Defined Benefit Pension Plan, continued

Benefits Provided, continued

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

		Miscellaneous Plan	
	Classic	**New Classic**	**PEPRA**
Hire date	Prior to January 1, 2011	On or after January 1, 2011 - December 31, 2012	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule		5 years of service	
Benefit payments		monthly for life	
Retirement age	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	6.25%
Required employer contribution rates	17.157%	11.032%	6.25%

Contributions

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

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan was as follows:

	Miscellaneous Plan
Contributions – employer	$ 570,843

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan	$ 1,329,971

(9) Defined Benefit Pension Plan, continued

Contributions, continued

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, 2014 (the measurement date), 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, 2013 (the valuation date), rolled forward to June 30, 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous Plan
Proportion – June 30, 2013	0.02254%
Proportion – June 30, 2014	0.02138%
Change – Increase (Decrease)	-0.00116%

For the year ended June 30, 2015, the District recognized pension expense of $86,948. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 570,843	-
Net differences between projected and actual earnings on plan investments	48,688	-
Adjustment due to differences in proportions of net pension liability	-	(446,932)
Total	$ 619,531	(446,932)

As of June 30, 2015, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of $570,843 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

As of the fiscal year ended June 30, 2015, the District reported deferred outflows of resources for June 30, 2014 related to pensions as part of its adjustment to the beginning net position as of July 1, 2014 (Note 3) from the following sources:

Fiscal Year Ending June 30,	Deferred Net Inflows of Resources
2016	$ 94,346
2017	94,346
2018	97,819
2019	111,732
2020	-
Thereafter	-

(9) Defined Benefit Pension Plan, continued

Contributions, continued

The total pension liabilities in the June 30, 2013, actuarial valuations were determined using the following actuarial assumptions:

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.50%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report. Further details of the Experience Study can be found on the CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013, valuation were based on the results of a January 2014, actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

(9) Defined Benefit Pension Plan, continued

Discount Rate, continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 -10(a)	Real Return Years 11+(b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

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

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

	Discount Rate - 1% 6.50%	Current Discount Rate 7.50%	Discount Rate + 1% 8.50%
District's Net Pension Liability	$ 2,369,596	1,329,971	467,180

(9) Defined Benefit Pension Plan, continued

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See pages 41 and 42 for the Required Supplementary Schedules.

(10) Net Position

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

		2015
Net investment in capital assets:		
Capital assets, net	$	19,521,856
Loss on defeasance of debt		603,814
Note payable – current		(210,000)
Note payable – long-term		(4,325,000)
Certificates of Participation – current		(160,000)
Certificates of Participation – long-term		(2,495,449)
Bonds payable – current		(150,000)
Bonds payable – long-term		(630,769)
Total net investment in capital assets		12,154,452
Restricted net position:		
Restricted for debt service		932,329
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory		180,040
Prepaid expenses and deposits		76,558
Total non-spendable net position		256,598
Spendable net position are designated as follows:		
Total spendable net position		3,283,265
Total unrestricted net position		3,539,863
Total net position	$	16,626,644

(11) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2015:

- Property coverage: Liability limits varying by property type with a $500-$5,000 deductible and a premium of $12,849.
- Liability coverage: $72,428 deposit premium.
- Crime coverage: Premium is included.
- Workers compensation: $2,000,000 each accident or each employee by disease.

(12) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program) administered by Nationwide Retirement Solutions through administrative service agreements. The purpose of this program is to provide deferred compensation for public employees that elect to participate in the Program. Employees with at least 10 years of service at June 30, 2014 were given a one-time election to continue their other post-employment medical benefits as described in Note 7 to the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseen emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by the District plan amounted to $241,995 in fiscal year 2015.

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

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 72

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 73

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68 for pension plans as pensions that are within their respective scopes.

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

Governmental Accounting Standards Board Statement No. 73, continued

The requirements of this statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after December 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 75

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

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

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

Governmental Accounting Standards Board Statement No. 76

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP.

This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

(14) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant. The District has received grant funding in the amount of $399,554 fiscal year ended June 30, 2015.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(15) Subsequent Events

Events occurring after June 30, 2015, have been evaluated for possible adjustment to the financial statements or disclosure as of December 9, 2015 which is the date the financial statements were available to be issued.

Required Supplementary Information

Scotts Valley Water District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2015
Last Ten Years*

		6/30/2014 (a)
District's proportion of the net pension liability (asset)		0.02138%
District's proportionate share of the net pension liability (asset)	$	1,329,971
District's covered-employee payroll (b)	$	817,020
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		162.78%
Plan's fiduciary net position as a percentage of the total pension liability		81.15%

Notes:

(a) Historical information is required only for measurement periods for which GASB 68 is applicable.

(b) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 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.

* Fiscal Year 2015 was the first year of implementation, therefore, only one year is shown.

Scotts Valley Water District
Schedule of Pension Plan Contributions
As of June 30, 2015
Last Ten Years*

Schedule of Pension Plan Contributions (a):		**2013-2014**
Actuarially determined contribution (b)	$	141,599
Contributions in relation to the actuarially determined contribution (b)		(141,599)
Contribution deficiency (excess)	$	-
District's covered payroll (c), (d)	$	817,020
Contribution's as a percentage of covered-employee payroll (c)		17.33%

Notes:

(a) Historical information is required only for measurement periods for which GASB 68 is applicable.

(b) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employer's may choose to make additional contributions towards their side fund or unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

(c) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 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.

(d) Payroll from prior year ($793,224) was assumed to increase by the 3.00 percent payroll growth assumption.

* Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

Scotts Valley Water District
Schedule of Funding Status – Other Post-Employment Benefits
As of June 30, 2015

Required Supplementary Information - Schedule of Funding Progress

Actuarial Valuation Date		Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2015	$	-	2,939,783	2,939,783	0.00%	$	1,407,120	208.9%
July 1, 2012	$	-	3,819,364	3,819,364	0.00%	$	1,173,791	325.4%
July 1, 2009	$	-	2,274,339	2,274,339	0.00%	$	1,270,665	179.0%

Funding progress is presented for the years that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2019 based on the year ending June 30, 2018.

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Supplemental Information

Scotts Valley Water District
Schedule of Customer Account and
General and Administrative Expense
For the Fiscal Year Ended June 30, 2015

		2015
Customer accounts:		
Collection	$	88,733
Customer service		99,602
Total customer accounts		188,335
General and administrative:		
Office		86,981
General maintenance		145,948
Salaries and benefits		902,354
Education		50,520
Management		4,254
Outside services		284,607
Other		47,372
Total general and administrative expense	$	1,522,036

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Report on Internal Controls and Compliance

Fedak & Brown LLP
Certified Public Accountants

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Independent Auditor's Report on Internal Controls 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 audit contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Scotts Valley Water District (District), as of and for the year-ended June 30, 2015, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 9, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, (continued)

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 9, 2015