



**SCOTTS VALLEY  
WATER DISTRICT**

**Scotts Valley Water District**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2017 and 2016**



Your money at work – Well 10A after rehabilitations

## **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, 2017**

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

**Scotts Valley Water District  
Piret Harmon, General Manager  
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Scotts Valley, California 95066  
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**Scotts Valley Water District**

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**Scotts Valley Water District  
Annual Financial Report  
For the Fiscal Years Ended June 30, 2017 and 2016**

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# **Introductory Section**





December 14, 2017

The Honorable Board of Directors of  
the Scotts Valley Water District

### **Introduction**

It is our pleasure to submit the Annual Financial Report for the Scotts Valley Water District (District) for the fiscal year ended June 30, 2017 (FY 2017). The District's staff prepared this financial report following guidelines set forth by the Governmental Accounting Standards Board (GASB). The District is ultimately responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that helps to enhance your understanding of the District's financial position and activities.

This report is organized into four sections: (1) Introductory, (2) Financial, (3) Required Supplementary (4) Supplemental information, and (5) Statistical. 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 Required Supplementary section, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board. The Supplemental section contains selected financial information in greater detail than presented in the District's financial statements. The Statistical section is presented in compliance with the 2016 Certificate of Participation's debt covenant requirements.

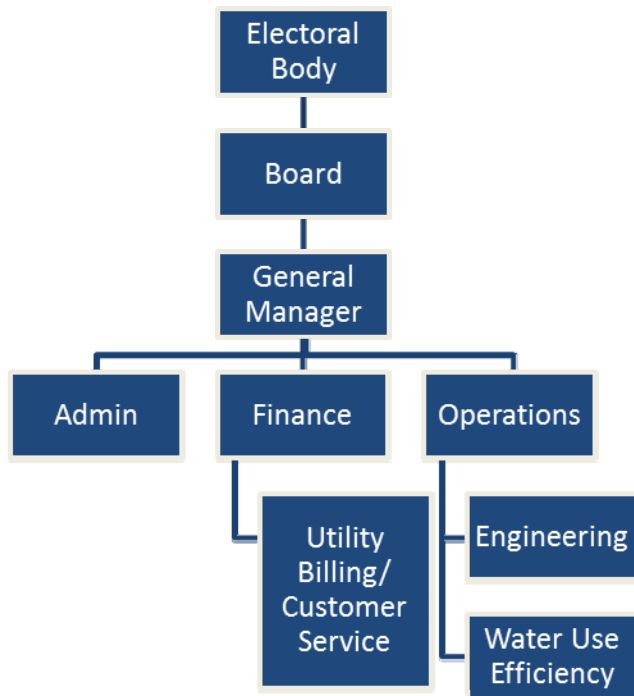
Generally Accepted Accounting Principles (GAAP) requires that the management provides a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis section. This letter of transmittal is designed to complement the MD&A and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

### **District Structure and Leadership**

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

**District Structure and Leadership, continued**

An organizational chart is presented below.



The District provides water service to approximately 4,200 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.

Water Use Efficiency was transferred to the Operations Division in FY 2016. There were no changes to the organizational chart in FY 2017.

**District Services**

Residential customers represent approximately 91% of the District’s customer base and consume approximately 71% of the potable water produced annually by the District. The District currently has a total of six groundwater wells with a maximum production capacity of 1,400 gallons per minute. Additionally, the District is the permitted distributor of the recycled water from the Tertiary Treatment Plant of the City of Scotts Valley. As of June 30, 2017, there were 61 recycled water connections with an annual demand of 52 million gallons, of which 41.1 million was billable consumption.

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

**Potable Domestic Water Connections (excludes Fire Service Connections)**

3,734 connections as of 6/30/2017:

	6/30/2017	6/30/2016	Incr/(Decr)
Residential	3,361	3,333	28
CII*	287	282	5
Landscape	86	79	7
	<u>3,734</u>	<u>3,694</u>	<u>40</u>

\* CII: Commercial, Industrial and Institutional



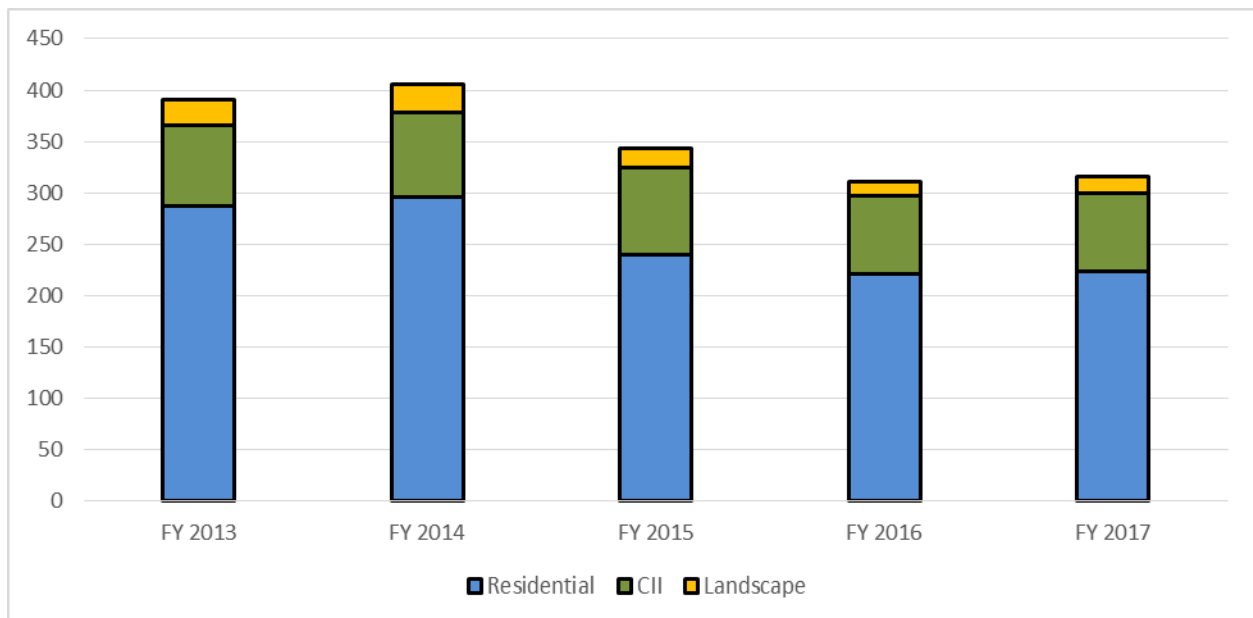
## Potable Water Consumption

Total consumption increased by 5 MG/1.6%, showing signs of stabilization after a three-year downward trend since FY 2014. Residential consumption increased by 3 MG/1.45%, and Landscape consumption increased by 2 MG/14.3%. Percentage wise, landscape demand had the greatest increase due to a higher elasticity in demand.

### District Services, continued

Five-year Consumption (in million gallons)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Residential	287	296	240	221	224
CII	79	82	84	76	76
Landscape	25	27	19	14	16
<b>Total</b>	<b>391</b>	<b>405</b>	<b>343</b>	<b>311</b>	<b>316</b>



### Local Economic Condition and Outlook

According to data from the State Employment Development Division, Santa Cruz County's average unemployment rate was 5.3% for June 2017, a .9% drop from the same period last year. The county's unemployment rate was slightly higher than the statewide average of 4.9% for June 2017.

The number of service connections is directly impacted by the local economy and by the City of Scotts Valley economic development policies, especially the land use policy. The City has a population of approximately 12,150 according to the January 2017 news release by the State Department of Finance, an increase of 5.0% from 11,580 per the 2010 census. The number of households grew from 4,273 in the 2000 census to 4,426 in the 2010 census, an increase of 3.6%. As the city's remaining buildable space is limited, growth in population and the number of households is likely to remain moderate.

The City's Planning Department has been approved several large commercial and residential developments. However, development projects had not progressed as anticipated and most projects slated to be completed in FY 2017 were delayed.

## **Major Planned Initiatives and Significant Projects**

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

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

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

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

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

## **FY 2017 Accomplishments**

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

### **Water Resource Management:**

1. Completed Scotts Valley Transit Center LID Recharge Project within the tight time frame given by the grant agreement despite the challenging weather patterns during the year.
2. Completed the Santa Margarita Groundwater Basin Recycled Water Ground Water Replenishment Program Facilities Planning Report. Decision was made to evaluate this supply option in comparison with the conjunctive use with neighboring agencies.
3. Added a bulk water station at the recycled water fill station to sell a small quantity of recycle water to customers outside the district.
4. Lead the efforts in support of the Sustainable Groundwater Management Act: completing the basin boundary modification, organizing the Groundwater Sustainability Agency (GSA) Formation Committee and coordinating the necessary steps for forming the Santa Margarita Groundwater Agency.
5. Facilitated the Collaborative Water Resources Group meetings with a focus on better understanding of regional water supply issues, evaluating solutions for regional water resource management, and finding a more resilient water supply. Subsequently, an MOA was drafted by City of Santa Cruz, San Lorenzo Valley Water District and Scotts Valley Water District on exploring potential projects for the conjunctive use of surface and groundwater resources in the Santa Margarita Basin.
6. Completed and submitted the State's conservation self-certification application, followed by monthly compliance reports to SWRCB. Modified the Think Twice Program to allow a three-day per week irrigation schedule and to align recycled water irrigation hours with those of potable irrigation.

## **FY 2017 Accomplishments, continued**

### **Infrastructure Integrity:**

1. Completed reconfiguration and replacement of El Pueblo pump station.
2. Completed construction on MacDorsa tank rehabilitation.
3. Conducted a comprehensive rehabilitation of Well 10, restoring its original pumping capacity.
4. Completed Well 10 treatment plant rehabilitations that included sump recoating, air tower media replacement, color coded painting of all plumbing, electrical conduit, and chemical lines, painting the pump building interior and exterior trim, and installing new doors.
5. Completed inspection and cleaning of all tanks.
6. Conducted assessment of all remote facilities sites, evaluated the existing electronic access system, and coordinated installations of security cameras and DVR equipment at Orchard Run, Well 10 and El Pueblo treatment facilities.

### **Financial Stewardship:**

1. Coordinated the comprehensive fee/rate study process adopting a new water rate and fee schedule in December 2016.
2. Successfully refunded the 2004 COPs and 2011 WFB loan with a fixed loan at 1.85%, saving a total of \$700,000 in interest.
3. Completed FY 2016 audit in a timely manner, and presented the final CAFR to Board in December. Coordinated the budget preparation process, facilitated Board input and review, and presented the final proposed budget to the Board for adoption in June 2017.
4. Revamped the District's Rates, Rules and Regulations for the Board to adopt into the new Administrative Code to modernize District operat.
5. Developed a Reserve Policy that was adopted by the Board in June 2017.
6. Developed Standard Operating Procedures for six administrative functions: Telephone System, Auto Attendant, Health Care Premium Reimbursements, Directors Fee Payments, Appraisal Process and COLA Implementation.
7. Increased paperless invoice delivery by 2.5% and automatic payments by 13.9%.

### **Public Outreach:**

1. Coordinated and/or hosted three joint meetings, including one on Robert's Rules of Order, with San Lorenzo Valley Water District (SLVWD) Board of Directors. Implemented Standard Operating Procedures for emergency intertie with SLVWD.
2. Played an active role in maximizing the benefits of the Regional Water Management Group for the District by utilizing them as the grant administrator and facilitator of collaborative regional initiatives. Lead the initiative of building a relationship with Danish Water Alliance with the goal of learning from their experience and potentially utilizing their expertise and solutions for effective utility management.
3. Water Use Efficiency Coordinator continued active involvement in the Santa Cruz County Water Conservation Coalition attending all scheduled meetings and serving on the video selection committee. Participated in the Conservation Speaker Series at the Scotts Valley Library.

## **FY 2017 Accomplishments, continued**

### **Public Outreach, continued:**

4. Maintained regular presence in various print and electronic media highlighting District activities (weekly Facebook posts, monthly e-newsletters and ads in local papers, bi-monthly bill-inserts). Added Nextdoor to electronic media toolbox, continued using MailChimp for broadcasting District news.
5. Oversaw implementation of the communications work plan ensuring that the District's priorities are being conveyed to the community following a strategic approach and alignment with District values.
6. Included volunteering as one of the encouraged and expected activities in the MOU for 2016-2019. General Manager serves on the Boards of several local non-profit organizations (Scotts Valley Chamber of Commerce and Bay Federal CU). Operations Manager was appointed as the Chair of Scotts Valley Chamber's Government Affairs Committee.
7. Coordinated and managed the Water Booth at Scotts Valley Art Wine Beer Festival highlighting the District as an active community member. Eight employees and all Board members volunteered at the event.

### **Organizational Vitality:**

1. Developed compensation adjustment matrix for proposed salary increases to exempt employees to accompany their performance evaluations. Conducted timely, relevant and substantial performance reviews for all District employees that included input from employees, supervisor, manager and General Manager.
2. Facilitated a smooth MOU implementation by processing compensation and benefit changes in a timely manner and by coordinating with ADP payroll platform.
3. Completed review/rewrite of existing employment policies and created two new employment policies - all approved by Board. Developed a new Cross Connection Control & Backflow Prevention Policy that was approved by the Board.
4. Coordinated two joint technical training sessions with SLVWD staff in 2017. Staff attended one training session with City of Scotts Valley and one with Santa Cruz Water Department.
5. Ensured that all employees and Directors were offered ample opportunities for professional development by funding and coordinating attendance for a wide variety of disciplines including: ACWA Conferences, ACWA Committee meetings, ACWA Region 5 Events, CUEMA Leadership Summit, ACWA JPIA trainings, CSMFO trainings, GFOA seminars, Springbrook/Accela trainings, Cabrillo Supervisor Training, American Water College effective utility management training.
6. Sponsored Operations Supervisor to Class 32 of the Leadership Santa Cruz County program, graduating in June 2017.
7. Hosted Harassment Prevention Training (conducted by ACWA/JPIA) for staff and other employees in the region. Conducted a presentation for staff on revised and new Employment Policies. Held AWWA safety topic meeting for operations staff twice a month.
8. Provided support to the Board: twelve regular board meetings, seven special board meetings, one SMGBAC meeting, one Board workshop, 22 Board committee meetings. Managed the processes for elections, conflict of interest code, required training, and travel.

## **FY 2017 Accomplishments, continued**

### **Organizational Vitality, continued:**

9. Reclassified Water Facilities Operator position to Electrician/Instrumentation Technician position in support of OSHA compliance, cost efficiencies and service level enhancement. Modified the accounting position by creating an alternately staffed classification. Filled both new positions by recruiting highly qualified and capable individuals.
10. Organized six Employee Lunch & Learn events offering relevant topics and speakers. Conducted a True Colors Workshop for all staff. Continued bi-weekly and/or weekly division meetings. Organized a holiday celebration event for District employees and directors.

### **Recycled Water**

Scotts Valley boasts the only recycled water treatment plant (Tertiary Treatment Plant) in the North Santa Cruz County area. The District's policy to use the recycled water wherever feasible by installing recycled irrigation services at new development projects and converting existing potable landscape connections to recycled water has resulted in the total number of recycled water connections reaching 61 since the inception of the Tertiary Treatment Plant in 2002. About 10-15% of the total annual system demand is fulfilled using recycled water.

The recycled water fill station operates from April to October every year. Scotts Valley residents and District customers can collect up to 250 gallons per day free of charge for irrigation purposes.

### **Water Rates and District Revenues**

In the Prop 218 public hearing on December 12, 2016, the Board established a new rate structure, setting rates and fees for potable and recycled water as well as fees for new connections for a five-year period (2016-2020). The new rate schedule included an increase of 25% in the water rates for the first year with implementation in February 2017. The Board also took action to make it an annual task to evaluate the need for subsequent rate increases prior to the scheduled implementation date.

### **Water Conservation and Water Use Efficiency Programs**

The District is committed to water use efficiency and conservation utilizing rebates, educational workshops, home inspections, and consultations. In FY 2017, the District submitted timely monthly demand reports to the State; completed self-certification assessment as required by the SWRCB; incentivized the retrofitting of 37,657 sqft of turf and 9,570 sqft of high volume spray irrigation; added a new landscape rebate for pressure regulating valves; promoted alternative water supply sources of greywater, rainwater and downspout diversion; and provided 87 house calls to help detect leaks, do preventative adjustment, and distribute water-saving devices.

### **Internal Control Structure**

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

## Budgetary Control

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

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

## Investment Policy

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

## Reserve Policy

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

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

Following the established criteria, the District's reserve target for this fiscal year was calculated to be \$4 million. As of June 30, 2017, the District's cash balance was \$2.3 million, or approximately 57.5% of the target. The year-end balance was designated as follows:

	<u><b>FYE 6/30/2017</b></u>
Operating	\$ 735,500
Rate Stabilization	462,465
Emergency	287,900
Capital	525,500
Debt Service	<u>320,000</u>
<b>Total</b>	<u><u>\$ 2,331,365</u></u>

### **Independent Audit and Financial Reporting**

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

### **Risk Management**

The District is a member of the Association of California Water Agencies Joint Power Insurance Authority (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. I appreciate the dedication and professionalism that our staff members bring to the District. I would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Scotts Valley Water District's fiscal policies.

Respectfully submitted,



Piret Harmon  
General Manager

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# **Financial Section**





Charles Z. Fedak, CPA, MBA  
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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 statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 opinions.

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Independent Auditor's Report, continued**

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 18 and the required supplementary information on pages 52 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 9, and the supplemental information schedule on pages 55 through 61, and the statistical section on pages 62 through 65 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

## Independent Auditor's Report, continued

### *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2017, 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 66 and 67.

*Fedak & Brown LLP*

**Fedak & Brown LLP**

Cypress, California

December 14, 2017

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**Scotts Valley Water District**  
*Management's Discussion and Analysis*  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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 years ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net position decreased 0.56% or \$90,429 to \$16,123,574 in 2017. In 2016, the District's net position decreased 2.48% or \$412,641 to \$16,214,003.
- The District's operating revenues increased 12.37% or \$500,774 to \$4,549,738 in 2017. In 2016, the District's operating revenues decreased 10.02% or \$450,895 to \$4,048,964.
- The District's non-operating revenues decreased 33.52% or \$440,133 to \$872,722 in 2017. In 2016, the District's non-operating revenues increased 66.21% or \$522,964 to \$1,312,855.
- The District's operating expenses decreased 2.16% or \$103,123 to \$4,675,290 in 2017. In 2016, the District's operating expenses increased 14.22% or \$594,777 to \$4,778,413.
- The District's non-operating expenses increased 68.27% or \$285,235 to \$703,031 in 2017. In 2016, the District's non-operating expenses increased 15.57% or \$56,283 to \$417,796.

**Required Financial Statements**

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

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

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

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

**Scotts Valley Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**Financial Analysis of the District**

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

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

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 24 through 51.

**Statements of Net Position**

	<b>Condensed Statements of Net Position</b>				
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
<b>Assets:</b>					
Current assets	\$ 4,104,871	5,080,585	(975,714)	8,080,225	(2,999,640)
Non-current assets	554,070	715,853	(161,783)	118,023	597,830
Capital assets, net	<u>20,799,937</u>	<u>20,027,733</u>	<u>772,204</u>	<u>19,521,856</u>	<u>505,877</u>
<b>Total assets</b>	<u>25,458,878</u>	<u>25,824,171</u>	<u>(365,293)</u>	<u>27,720,104</u>	<u>(1,895,933)</u>
<b>Deferred outflows of resources</b>	<u>497,011</u>	<u>669,858</u>	<u>(172,847)</u>	<u>1,223,345</u>	<u>(553,487)</u>
<b>Liabilities:</b>					
Current liabilities	978,876	940,689	38,187	1,818,498	(877,809)
Non-current liabilities	<u>8,640,809</u>	<u>8,927,869</u>	<u>(287,060)</u>	<u>10,051,375</u>	<u>(1,123,506)</u>
<b>Total liabilities</b>	<u>9,619,685</u>	<u>9,868,558</u>	<u>(248,873)</u>	<u>11,869,873</u>	<u>(2,001,315)</u>
<b>Deferred inflows of resources</b>	<u>212,630</u>	<u>411,468</u>	<u>(198,838)</u>	<u>446,932</u>	<u>(35,464)</u>
<b>Net position:</b>					
Net investment in capital assets	14,790,579	13,665,884	1,124,695	12,154,452	1,511,432
Restricted	-	749,404	(749,404)	932,329	(182,925)
Unrestricted	<u>1,332,995</u>	<u>1,798,715</u>	<u>(465,720)</u>	<u>3,539,863</u>	<u>(1,741,148)</u>
<b>Total net position</b>	<u>\$ 16,123,574</u>	<u>16,214,003</u>	<u>(90,429)</u>	<u>16,626,644</u>	<u>(412,641)</u>



**Scotts Valley Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**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 \$16,123,574 and \$16,214,003 as of June 30, 2017 and 2016, respectively.

By far the largest portion of the District's net position (91.73% and 84.28% as of June 30, 2017 and 2016, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$1,332,995 and \$1,798,715, respectively, which may be utilized in future years. See note 11 for the amount of spendable net position that may be utilized in future years.

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

<b>Condensed Statements of Revenues, Expenses and Changes in Net Position</b>					
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
<b>Revenues:</b>					
Operating revenues	\$ 4,549,738	4,048,964	500,774	4,499,859	(450,895)
Non-operating revenues	872,722	1,312,855	(440,133)	789,891	522,964
<b>Total revenues</b>	<u>5,422,460</u>	<u>5,361,819</u>	<u>60,641</u>	<u>5,289,750</u>	<u>72,069</u>
<b>Expenses:</b>					
Operating expenses	4,675,290	4,778,413	(103,123)	4,183,637	594,776
Depreciation and amortization	937,847	913,955	23,892	883,615	30,340
Non-operating expenses	703,031	417,796	285,235	361,513	56,283
<b>Total expenses</b>	<u>6,316,168</u>	<u>6,110,164</u>	<u>206,004</u>	<u>5,428,765</u>	<u>681,399</u>
Net loss before capital contributions	(893,708)	(748,345)	(145,363)	(139,015)	(609,330)
<b>Capital contributions</b>	<u>803,279</u>	<u>335,704</u>	<u>467,575</u>	<u>399,554</u>	<u>(63,850)</u>
<b>Change in net position</b>	<u>(90,429)</u>	<u>(412,641)</u>	<u>322,212</u>	<u>260,539</u>	<u>(673,180)</u>
<b>Net position, beginning of period, as previously stated</b>	16,214,003	16,626,644	(412,641)	18,007,372	(1,380,728)
<b>Prior period adjustment (note 12)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,641,267)</u>	<u>1,641,267</u>
<b>Net position, beginning of period, as restated</b>	<u>16,214,003</u>	<u>16,626,644</u>	<u>(412,641)</u>	<u>16,366,105</u>	<u>260,539</u>
<b>Net position, end of period</b>	<u>\$ 16,123,574</u>	<u>16,214,003</u>	<u>(90,429)</u>	<u>16,626,644</u>	<u>(412,641)</u>

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

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

The District's net position decreased 0.56% or \$90,429 to \$16,123,574 as a result of ongoing operations. In 2016, the District's net position decreased 2.48%, or \$412,641 to \$16,214,003 as a result of ongoing operations.

**Scotts Valley Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

The District's operating revenues increased 12.37%, or \$500,774 to \$4,549,738, primarily due to increases of \$403,846 in potable water sales, and \$149,192 in service charges; which was offset by decreases of \$30,068 in recycled water sales, and \$22,196 in other revenue. In 2016, the District's operating revenues decreased 10.02%, or \$450,895 to \$4,048,964, primarily due to decreases of \$107,521 in potable water sales, \$218,261 in service charges, and \$189,553 in other revenue; which was offset by an increase of \$64,440 in recycled water sales.

The District's non-operating revenues decreased 33.52%, or \$440,133 to \$872,722, primarily due to the recognition of \$487,735 one-time gain on disposal of capital assets in 2016. In 2016, the District's non-operating revenues increased 66.21%, or \$522,964 to \$1,312,855, primarily due to increases of \$467,913 in gain on disposal of capital assets, which includes a \$497,928 gain on sale of entitlement resulting from an agreement between the District and the City of Scotts Valley and \$51,246 in property tax revenue.

The District's operating expenses decreased 2.16%, or \$103,123 to \$4,675,290 primarily due to a decrease of \$83,385 in conservation. In 2016, the District's operating expenses increased 14.22%, or \$594,776 to \$4,778,413 primarily due to increases of \$103,554 in source of supply, \$85,721 in pumping, \$182,755 in water treatment, \$444,416 in recycled water, \$39,371 in conservation, \$19,498 in customer accounts, and \$28,072 in general and administrative expenses; which were offset by a decrease of \$308,610 in transmission and distribution expenses. Increases in source of supply, pumping, water treatment and recycled water were attributed to feasibility studies for new projects, electric utilities, and major maintenance programs. The 2016 increase of \$444,416 in recycled water was due to a separate fund established to track recycled water expenses including an allocation of 10% of general and administrative expenses.

The District's non-operating expenses increased 68.27%, or \$285,235 to \$703,031 primarily due to write off of deferred loss on amortization related to the defeasance of the District's 2004 Refunding Certificates of Participation and 2011 WFB Loan. In 2016, the District's non-operating expenses increased 15.57%, or \$56,283 to \$417,796 primarily due to a \$30,645 decrease in interest expense related to the District's long-term debt, which was offset by an \$86,928 increase of costs associated with the retirement of the 2003 refunding bonds during the year.

**Capital Asset Administration**

At the end of fiscal years 2017 and 2016, the District's investment in capital assets amounted to \$20,799,937 and \$20,027,733 (net of accumulated depreciation), respectively. The District's investment in capital assets includes land, transmission and distribution systems, tanks, pumps, buildings, equipment, vehicles and construction-in-process.

Changes in capital asset amounts for 2017 were as follows:

	<b>Balance</b>		<b>Transfers/</b>	<b>Balance</b>
	<b>2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>2017</b>
Capital assets:				
Non-depreciable assets	\$ 3,185,716	1,691,079	(4,025,625)	851,170
Depreciable assets	37,097,344	4,310,843	(266,246)	41,141,941
Accumulated depreciation	<u>(20,255,327)</u>	<u>(937,847)</u>	<u>-</u>	<u>(21,193,174)</u>
Total capital assets, net	<u>\$ 20,027,733</u>			<u>20,799,937</u>

**Scotts Valley Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**Capital Asset Administration, continued**

Changes in capital asset amounts for 2016 were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2016</u>
Capital assets				
Non-depreciable assets	\$ 1,752,402	1,554,922	(121,608)	3,185,716
Depreciable assets	37,338,298	260,450	(501,404)	37,097,344
Accumulated depreciation	<u>(19,568,844)</u>	<u>(913,955)</u>	<u>227,472</u>	<u>(20,255,327)</u>
Total capital assets, net	<u>\$ 19,521,856</u>			<u>20,027,733</u>

See note 5 for further capital asset information.

**Debt Administration**

Changes in long-term debt amounts for 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2017</u>
Long-term debt:				
2004 COP	\$ 2,520,000	-	(2,520,000)	-
Discount on debt	<u>(22,587)</u>	<u>-</u>	<u>22,587</u>	<u>-</u>
	<u>2,497,413</u>	<u>-</u>	<u>(2,497,413)</u>	<u>-</u>
2011 WFB Loan	4,325,000	-	(4,325,000)	-
2016 JP Morgan Loan	<u>-</u>	<u>6,049,548</u>	<u>-</u>	<u>6,049,548</u>
	<u>4,325,000</u>	<u>6,049,548</u>	<u>(4,325,000)</u>	<u>6,049,548</u>
Total loans payable	<u>\$ 6,822,413</u>	<u>6,049,548</u>	<u>(6,822,413)</u>	<u>6,049,548</u>

Changes in long-term debt amounts for 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2016</u>
Long-term debt:				
2003 Refunding Bonds	\$ 785,000	-	(785,000)	-
Discount on debt	<u>(4,231)</u>	<u>-</u>	<u>4,231</u>	<u>-</u>
	<u>780,769</u>	<u>-</u>	<u>(780,769)</u>	<u>-</u>
2004 COP	2,680,000	-	(160,000)	2,520,000
Discount on debt	<u>(24,551)</u>	<u>-</u>	<u>1,964</u>	<u>(22,587)</u>
	<u>2,655,449</u>	<u>-</u>	<u>(158,036)</u>	<u>2,497,413</u>
2011 WFB Loan	<u>4,535,000</u>	<u>-</u>	<u>(210,000)</u>	<u>4,325,000</u>
Total loans payable	<u>\$ 7,971,218</u>	<u>-</u>	<u>(1,148,805)</u>	<u>6,822,413</u>

In 2017, long-term debt decreased by \$772,865, primarily due to the defeasance of District's 2004 Refunding Certificates of Participation and 2011 WFB Loan totaling \$6,822,413 and the issuance of 2016 JPMorgan Loan. In 2016, long-term debt decreased by \$1,148,805, primarily due to principal payments, including the full payment of its 2003 refunding bonds of \$785,000. See further detailed information in Note 8.

**Scotts Valley Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**Debt Service Coverage Ratio**

	<b>2017</b>	<b>2016</b>
Total revenues	\$ 6,225,739	5,697,523
Less: capital contributions - grants	(803,279)	(335,704)
Operating revenue:	5,422,460	5,361,819
Total expenses	6,316,168	6,110,165
Less: Non- cash expenses	(1,423,007)	(1,329,039)
Less: Interest expense on debt service*	(175,881)	(268,352)
Total operating expenses	\$ 4,717,280	4,512,774
Net operating revenue	\$ 705,180	849,045
Debt service (due in fiscal year)	\$ 445,881	788,351
Debt service coverage ratio	1.58	1.08

\*Does not include interest expense related to the defeasance of the 2004 Refunding Certificates of Participation and 2011 WFB Loan.

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

The District was in compliance with the required debt service coverage ratio of 1.2 for the fiscal year ended June 30, 2017.

**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**  
**Statements of Net Position**  
**June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 2,331,365	2,924,816
Cash and cash equivalents – restricted (note 2)	-	749,404
Accrued interest receivable	6,649	6,467
Accounts receivable, net	1,105,970	848,798
Accounts receivable – property tax	61,524	42,991
Accounts receivable – other	183,620	53,734
Materials and supplies inventory	160,614	201,758
Prepaid expenses and deposits	93,345	92,278
Note receivable – due in one year (note 3)	161,784	160,339
<b>Total current assets</b>	<b>4,104,871</b>	<b>5,080,585</b>
<b>Non-current assets:</b>		
Note receivable – due in more than one year (note 3)	554,070	715,853
Capital assets – not being depreciated (note 5)	851,170	3,185,716
Capital assets – being depreciated (note 5)	19,948,767	16,842,017
<b>Total non-current assets</b>	<b>21,354,007</b>	<b>20,743,586</b>
<b>Total assets</b>	<b>25,458,878</b>	<b>25,824,171</b>
<b>Deferred outflows of resources:</b>		
Deferred pension outflows (note 4 and 10)	456,821	209,294
Loss on defeasance of debt (note 4)	40,190	460,564
<b>Total deferred outflows of resources</b>	<b>\$ 497,011</b>	<b>669,858</b>

Continued on next page

See accompanying notes to the basic financial statements

**Scotts Valley Water District**  
**Statements of Net Position, continued**  
**June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Current liabilities:</b>		
Accounts payable and accrued expense	\$ 265,933	325,292
Accrued wages and related payables	64,500	53,896
Accrued interest payable	59,067	125,557
Customer deposits	110,346	33,893
Long-term liabilities – due in one year:		
Compensated absences (note 6)	26,103	22,051
Certificates of Participation (note 8)	-	165,000
Loan payable (note 8)	452,927	215,000
<b>Total current liabilities</b>	<b>978,876</b>	<b>940,689</b>
<b>Non-current liabilities:</b>		
Unearned revenue	10,178	1,770
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	78,305	66,154
Other post-employment benefits payable (note 7)	1,173,326	1,184,517
Net pension liability (note 10)	1,782,379	1,233,015
Certificates of Participation (note 8)	-	2,332,413
Loan payable	5,596,621	4,110,000
<b>Total non-current liabilities</b>	<b>8,640,809</b>	<b>8,927,869</b>
<b>Total liabilities</b>	<b>9,619,685</b>	<b>9,868,558</b>
<b>Deferred inflows of resources:</b>		
Deferred pension inflows (note 9 and 10)	212,630	411,468
<b>Total deferred inflows of resources</b>	<b>212,630</b>	<b>411,468</b>
<b>Net position: (note 11)</b>		
Net investment in capital assets	14,790,579	13,665,884
Restricted for debt service	-	749,404
Unrestricted	1,332,995	1,798,715
<b>Total net position</b>	<b>\$ 16,123,574</b>	<b>16,214,003</b>

See accompanying notes to the basic financial statements

**Scotts Valley Water District**  
**Statements of Revenues, Expenses and Change in Net Position**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating revenues:</b>		
Water sales - potable	\$ 2,646,488	2,242,642
Service charges - potable and recycled	1,497,782	1,348,590
Water sales – recycled	352,298	382,366
Other revenue	53,170	75,366
Total operating revenues	4,549,738	4,048,964
<b>Operating expenses:</b>		
Source of supply	150,614	97,655
Pumping	536,653	524,177
Water treatment	660,704	688,601
Recycled water	472,105	546,568
Transmission and distribution	797,494	776,096
Conservation	158,507	241,892
Customer accounts	192,925	207,833
General and administrative expenses	1,706,288	1,695,591
Total operating expenses	4,675,290	4,778,413
Operating income before depreciation	(125,552)	(729,449)
Depreciation expense	(937,847)	(913,955)
<b>Operating loss</b>	(1,063,399)	(1,643,404)
<b>Non-operating revenue (expense):</b>		
Property tax revenues	839,095	775,679
Investment earnings	25,159	39,106
Interest expense	(703,031)	(417,796)
Gain on disposal of capital assets, net	-	487,735
Other non-operating revenue	8,468	10,335
Total non-operating revenues, net	169,691	895,059
Net loss before capital contributions	(893,708)	(748,345)
<b>Capital contributions:</b>		
Capital contributions	10,500	89,000
Capital grants – state	792,779	246,704
Total capital contributions	803,279	335,704
Change in net position	(90,429)	(412,641)
<b>Net position, beginning of period</b>	16,214,003	16,626,644
<b>Net position, end of period</b>	\$ 16,123,574	16,214,003

See accompanying notes to the basic financial statements



**Scotts Valley Water District**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 4,390,266	3,896,444
Cash paid to employees for salaries	(2,290,627)	(2,167,617)
Payments to vendors for materials and services	(2,140,777)	(2,437,388)
<b>Net cash used in operating activities</b>	<b>(41,138)</b>	<b>(708,561)</b>
<b>Cash flows from non-capital financing activities:</b>		
Proceeds from property taxes	820,562	750,593
Other non-operating revenue, net	3,653	11,317
<b>Net cash provided by non-capital financing activities</b>	<b>824,215</b>	<b>761,910</b>
<b>Cash flows from capital and related financing activities:</b>		
Cash paid to acquire capital assets	(1,708,270)	(1,614,732)
Proceeds from the sale of capital assets	-	3,500
Proceeds from issuance of long-term debt	6,049,548	-
Use of refunding proceeds for payment on long-term debt	(6,799,484)	-
Redemption of 2003 Bonds	-	(635,000)
Principal paid on long-term debt	(270,000)	(520,000)
Proceeds from capital grant	654,621	446,472
Interest paid	(242,370)	(290,225)
Principal payments received on note receivable	160,338	11,512
<b>Net cash used in capital and related financing activities</b>	<b>(2,155,617)</b>	<b>(2,598,473)</b>
<b>Cash flows from investing activities:</b>		
Investment earnings	29,685	35,620
<b>Net cash provided by investing activities</b>	<b>29,685</b>	<b>35,620</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,342,855)</b>	<b>(2,509,504)</b>
<b>Cash and cash equivalents – beginning of year</b>	<b>3,674,220</b>	<b>6,183,724</b>
<b>Cash and cash equivalents – end of year</b>	<b>\$ 2,331,365</b>	<b>3,674,220</b>
<b>Reconciliation of cash and cash equivalents to statements of net position:</b>		
Cash and cash equivalents	\$ 2,331,365	2,924,816
Cash and cash equivalents – restricted	-	749,404
<b>Total cash and cash equivalents</b>	<b>\$ 2,331,365</b>	<b>3,674,220</b>

Continued on next page

See accompanying notes to the basic financial statements

**Scotts Valley Water District**  
**Statements of Cash Flows, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (1,063,399)	(1,643,404)
<b>Adjustments to reconcile operating income to net cash used in operating activities:</b>		
Depreciation and amortization	937,847	913,955
Other non-cash expenses:		
Compensated absences	16,203	15,186
Unfunded OPEB liability	(11,191)	(27,363)
CalPERS GASB 68 Retirement Expenses	102,999	277,817
Bad Debt Expense	-	6,300
<b>Changes in assets and liabilities:</b>		
(Increase) decrease in assets:		
Customer accounts receivable	(246,104)	(80,944)
Accounts receivable – other	100,499	2,883
Materials and supplies inventory	41,144	(21,718)
Prepaid expenses and deposits	(1,068)	(15,720)
Increase (decrease) in liabilities:		
Accounts payable and accrued expense	(59,357)	(78,581)
Accrued wages and related payables	10,604	14,603
Customer deposits	130,685	(71,575)
<b>Total adjustments</b>	<b>1,022,261</b>	<b>934,843</b>
<b>Net cash used in operating activities</b>	<b>\$ (41,138)</b>	<b>(708,561)</b>

See accompanying notes to the basic financial statements

**Scotts Valley Water District**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Reporting Entity and Component Unit**

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

The financial statements of the District include the financial activities of the District as well as transactions made by (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.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(1) Summary of Significant Accounting Policies, continued**

**C. Financial Reporting, continued**

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

*Government Accounting Standards Board Statement No. 74*

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for financial statements for periods beginning after June 15, 2016.

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*.

*Government Accounting Standards Board Statement No. 77*

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015.

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.

*Government Accounting Standards Board Statement No. 78*

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for financial statements for periods beginning after December 15, 2015.

The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

*Government Accounting Standards Board Statement No. 80*

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, effective for financial statements for periods beginning after June 15, 2016.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(1) Summary of Significant Accounting Policies, continued**

**C. Financial Reporting, continued**

*Government Accounting Standards Board Statement No. 80, continued*

The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

*Government Accounting Standards Board Statement No. 82*

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for financial statements for periods beginning after June 15, 2016.

This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

**3. Investments and Investment Policy**

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

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

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(1) Summary of Significant Accounting Policies, continued**

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

**4. Fair Value Measurements**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

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

**5. Accounts Receivable and Allowance for Uncollectible Accounts**

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

**6. 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

**7. 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.

**8. 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.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(1) Summary of Significant Accounting Policies, continued**

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

**9. Capital Assets**

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

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

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

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

**10. Deferred Outflows of Resources**

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

**11. Compensated Absences**

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

**12. Deferred Inflows of Resources**

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

**13. Net Position**

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

- ***Net Investment in Capital Assets*** – This component of net position consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- ***Restricted*** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted*** – This component of net position consists of net position that does not meet the definition of “*restricted*” or “*net investment in capital assets*”.

**14. Water Sales**

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

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(1) Summary of Significant Accounting Policies, continued**

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

**15. 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.

**16. 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, 2015 and 2014
- Measurement Date: June 30, 2016 and 2015
- Measurement Period: July 1, 2015 to June 30, 2016, and July 1, 2014 to June 30, 2015

**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 follows:

	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 2,331,365	2,924,816
Cash and cash equivalents – restricted	-	749,404
Total cash and cash equivalents	\$ 2,331,365	3,674,220

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

	<b>2017</b>	<b>2016</b>
Petty cash	\$ 233	195
Deposits with financial institutions	1,694,960	1,546,489
Investments	636,172	2,127,536
Total cash and cash equivalents	\$ 2,331,365	3,674,220



**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(2) Cash and Investments, continued**

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

	2017	2016
Deposits held with California Local Agency Investment Fund (LAIF)	194 days	167 days

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

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

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

***Custodial Credit Risk***

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

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

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).

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(2) Cash and Investments, continued**

***Investment in State Investment Pool***

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

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

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

***Interest Rate Risk***

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

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

***Concentration of Credit Risk***

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments at June 30, 2017 and 2016.

**(3) Note Receivable**

Changes in note receivable amounts for 2017, were as follows:

	<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u> <u>2017</u>
Note receivable:				
City of Scotts Valley - RCW	\$ 758,169	-	(148,827)	609,342
City of Scotts Valley - 97-1 Bonds	105,000	-	(5,000)	100,000
Vineyards HOA MOU	13,023	-	(6,511)	6,512
Total note receivable	876,192	-	(160,338)	715,854
Less: current portion	(160,339)			(161,784)
Long-term portion	\$ <u>715,853</u>			<u>554,070</u>

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(3) Note Receivable, continued**

Changes in note receivable amounts for 2016, were as follows:

	<b>Balance 2015</b>	<b>Additions</b>	<b>Transfers/ Deletions</b>	<b>Balance 2016</b>
Note receivable:				
City of Scotts Valley - RCW	\$ -	758,169	-	758,169
City of Scotts Valley - 97-1 Bonds	110,000	-	(5,000)	105,000
Vineyards HOA MOU	19,535	-	(6,512)	13,023
Total note receivable	129,535	758,169	(11,512)	876,192
Less: current portion	(11,512)			(160,339)
Long-term portion	\$ 118,023			715,853

***Vineyards HOA MOU***

On October 15, 2008, the District entered into a Memorandum of Understanding with the Vineyards Homeowners Association (Association) where the Association agreed to pay the District for installation of backflow protective devices on the Association's premises totaling \$65,116. The Association will make 10 equal annual payments of \$6,512 on November 30<sup>th</sup> each year. At June 30, 2017 and 2016, the balance of the note with the Association amounted to \$6,512 and \$13,023, respectively.

***City of Scotts Valley - RCW***

On September 4, 2013, the District entered into a Recycled Water Supply Use, Maintenance and Operation Agreement (Agreement) setting forth terms and conditions between the parties concerning the relationship of the parties with respect to the City of Scotts Valley's (City) Waste Water Treatment Plant (WWTP) and the Tertiary Treatment Plant and Pump Station that was constructed at the City's Waste Water Facility by the District. The District and the City have agreed for the District to release a portion of its guaranteed entitlement in exchange for compensation from the City. The District agreed to reduce its entitlement to waste water for tertiary treatment to the City. In exchange, the City agrees to pay the District \$758,169 over five (5) equal annual payments of \$155,817 with annual interest rate of 0.91% each year commencing on June 1, 2017. At June 30, 2017 and 2016, the balance of the District's obligation to the City amounted to \$609,342 and \$758,169, respectively.

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

<b>Fiscal Year</b>	<b>Principal</b>	<b>Amortized Interest</b>	<b>Total</b>
2018	\$ 150,272	5,545	155,817
2019	151,639	4,178	155,817
2020	153,019	2,798	155,817
2021	154,412	1,405	155,817
Total	609,342	13,926	623,268
Less: current	(150,272)		
Non-current	\$ 459,070		

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(3) Note Receivable, continued**

*City of Scotts Valley - 97-1 bonds*

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

Terms of the agreement call for principal payable semi-annually on January 1<sup>st</sup> and July 1<sup>st</sup> of each year maturing in 2027, with variable annual interest rates ranging from 5.3% to 7%. At June 30, 2017 and 2016, the balance of the note with the City regarding the 97-1 Bonds amounted to \$100,000 and \$105,000, respectively.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Amortized Interest</u>	<u>Total</u>
2018	\$ 5,000	5,850	10,850
2019	10,000	5,400	15,400
2020	10,000	4,800	14,800
2021	5,000	4,350	9,350
2022	5,000	4,050	9,050
2023-2027	50,000	12,000	62,000
2028	15,000	450	15,450
Total	100,000	36,900	136,900
Less: current	(5,000)		
Non-current \$	<u>95,000</u>		

**(4) Deferred Outflows of Resources**

Changes in deferred outflows of resources for 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2017</u>
Loss on defeasance of debt	\$ 460,564	40,190	(460,564)	40,190
Deferred pension outflows	209,294	390,981	(143,454)	456,821
Total deferred outflows	<u>\$ 669,858</u>	<u>431,171</u>	<u>(604,018)</u>	<u>497,011</u>

Changes in deferred outflows of resources for 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2016</u>
Loss on defeasance of debt	\$ 603,814	-	(143,250)	460,564
Deferred pension outflows	619,531	245,214	(655,451)	209,294
Total deferred outflows	<u>\$ 1,223,345</u>	<u>245,214</u>	<u>(798,701)</u>	<u>669,858</u>

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(5) Capital Assets**

Changes in capital assets for 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets:				
Land & land rights	\$ 641,798	-	-	641,798
Construction-in-process	2,543,918	1,691,079	(4,025,625)	209,372
Total non-depreciable assets	<u>3,185,716</u>	<u>1,691,079</u>	<u>(4,025,625)</u>	<u>851,170</u>
Depreciable assets:				
Water rights – recycled water	5,267,834	-	-	5,267,834
Water treatment	5,539,378	-	(17,504)	5,521,874
Transmission and distribution	8,857,555	10,500	-	8,868,055
Reservoirs and tanks	5,863,804	501,350	(6,651)	6,358,503
Source of supply - wells	5,609,973	-	-	5,609,973
Pumping	1,299,859	359,307	(242,091)	1,417,075
Buildings	877,967	728,032	-	1,605,999
Recycled water	2,468,076	-	-	2,468,076
Equipment and tools	703,613	278,585	-	982,198
Office equipment	65,569	157,929	-	223,498
Infrastructure	-	2,249,690	-	2,249,690
Transportation	543,716	25,450	-	569,166
Total depreciable assets	<u>37,097,344</u>	<u>4,310,843</u>	<u>(266,246)</u>	<u>41,141,941</u>
Accumulated depreciation:				
Water rights – Recycled water	(1,496,606)	(102,005)	-	(1,598,611)
Water treatment	(4,479,813)	(69,888)	-	(4,549,701)
Transmission and distribution	(5,233,366)	(184,356)	-	(5,417,722)
Reservoirs and tanks	(2,667,223)	(146,267)	-	(2,813,490)
Source of supply - wells	(3,407,990)	(132,843)	-	(3,540,833)
Pumping	(949,805)	76,950	-	(872,855)
Buildings	(468,560)	(28,968)	-	(497,528)
Recycled water	(618,964)	(62,048)	-	(681,012)
Equipment and tools	(553,842)	(199,748)	-	(753,590)
Office equipment	(59,472)	(24,319)	-	(83,791)
Infrastructure	-	(34,082)	-	(34,082)
Transportation	(319,686)	(30,273)	-	(349,959)
Total accumulated depreciation	<u>(20,255,327)</u>	<u>(937,847)</u>	<u>-</u>	<u>(21,193,174)</u>
Total depreciable assets, net	<u>16,842,017</u>	<u>3,372,996</u>	<u>(266,246)</u>	<u>19,948,767</u>
Total capital assets, net	<u>\$ 20,027,733</u>			<u>20,799,937</u>

In fiscal year 2017, major capital assets additions include upgrades as follows: infrastructure \$2,249,690, buildings \$728,032, reservoirs and tanks \$501,350, pumping \$359,307, equipment and tools \$278,585, and office equipment \$157,929.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(5) Capital Assets, continued**

Changes in capital assets for 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2016</u>
Non-depreciable assets:				
Land & land rights	\$ 641,798	-	-	641,798
Construction-in-process	1,110,604	1,554,922	(121,608)	2,543,918
Total non-depreciable assets	<u>1,752,402</u>	<u>1,554,922</u>	<u>(121,608)</u>	<u>3,185,716</u>
Depreciable assets:				
Water rights – recycled water	5,629,279	-	(361,445)	5,267,834
Water treatment	5,539,378	-	-	5,539,378
Transmission and distribution	8,781,015	76,540	-	8,857,555
Reservoirs and tanks	5,863,804	-	-	5,863,804
Source of supply - wells	5,609,973	-	-	5,609,973
Pumping	1,253,482	84,374	(37,997)	1,299,859
Buildings	877,967	-	-	877,967
Recycled water	2,455,616	12,460	-	2,468,076
Equipment and tools	703,613	-	-	703,613
Office equipment	130,376	-	(64,807)	65,569
Transportation	493,795	87,076	(37,155)	543,716
Total depreciable assets	<u>37,338,298</u>	<u>260,450</u>	<u>(501,404)</u>	<u>37,097,344</u>
Accumulated depreciation:				
Water rights – Recycled water	(1,485,226)	(112,586)	101,206	(1,496,606)
Water treatment	(4,344,891)	(134,922)	-	(4,479,813)
Transmission and distribution	(5,049,289)	(184,077)	-	(5,233,366)
Reservoirs and tanks	(2,523,635)	(143,588)	-	(2,667,223)
Source of supply - wells	(3,270,633)	(137,357)	-	(3,407,990)
Pumping	(929,919)	(44,190)	24,304	(949,805)
Buildings	(439,592)	(28,968)	-	(468,560)
Recycled water	(556,968)	(61,996)	-	(618,964)
Equipment and tools	(513,647)	(40,195)	-	(553,842)
Office equipment	(122,872)	(1,407)	64,807	(59,472)
Transportation	(332,172)	(24,669)	37,155	(319,686)
Total accumulated depreciation	<u>(19,568,844)</u>	<u>(913,955)</u>	<u>227,472</u>	<u>(20,255,327)</u>
Total depreciable assets, net	<u>17,769,454</u>	<u>(653,505)</u>	<u>(273,932)</u>	<u>16,842,017</u>
Total capital assets, net	<u>\$ 19,521,856</u>			<u>20,027,733</u>

In fiscal year 2016, major capital assets additions include upgrades as follows: transmission and distribution system \$76,540, pumping system \$84,374, transportation equipment \$87,076 and recycled water system \$12,460.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(5) Capital Assets, continued**

***Construction-In-Process***

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. Additions to construction in process during the year amounted to \$1,691,079 consisted of Transit center Stormwater Retention System \$952,745, MacDorsa Tank Rehabilitation \$475,220, El Pueblo Pumps Reconfiguration \$102,649, Orchard Run Water Treatment Plant Water Quality Improvements \$51,670, and various miscellaneous projects \$108,795.

At June 30, 2016, additions to construction in process during the year amounted to \$1,554,922 consisted of Office Facility Upgrades \$659,968, Emergency Intertie with SLVWD \$460,026, Sandhill Booster Pump Expansion \$188,071, Transit center Stormwater Retention System \$58,125 and various miscellaneous projects \$188,732.

**(6) Compensated Absences**

Changes in compensated absences for 2017 were as follows:

<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2017</u>	<u>Due within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 88,205	97,424	(81,221)	104,408	26,103	78,305

Changes in compensated absences for 2016 were as follows:

<u>Balance</u> <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2016</u>	<u>Due within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 73,019	79,221	(64,035)	88,205	22,051	66,154

**(7) Other Post-Employment Benefits Payable**

Effective July 1, 2014, the District discontinued providing other post-employment medical benefits and in lieu offered active employees a District contribution to the employee's Health Savings Account (HSA) or to their 457 Deferred Compensation Plan (457 Plan). Please see Note 11 for the details of the deferred compensation savings plan. As of June 30, 2017 and 2016, 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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Active plan members	1	1	1
Retirees and beneficiaries receiving benefits	18	18	18
Separated plan members entitled to but not receiving benefits	-	-	-
Total plan membership	<u>19</u>	<u>19</u>	<u>19</u>

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(7) Other Post-Employment Benefits Payable, continued**

***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 in the Memorandum of Understanding with Scotts Valley Water District Employees Union AFSCME Local 101 AFL-CIO (Union)..

***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.

***Annual OPEB Cost and Net OPEB Obligation***

For the fiscal year ended June 30, 2017, the District’s ARC cost is \$181,977. The District’s net OPEB payable obligation amounted to \$1,173,326 for the fiscal year ended June 30, 2017. The District contributed \$174,683 in age adjusted contributions for current retiree OPEB premiums for the fiscal year ended June 30, 2017.

The balance at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 181,977	181,265	180,580
Interest on net OPEB obligation	47,381	48,475	48,763
Adjustment to annual required contribution	<u>(65,866)</u>	<u>(67,787)</u>	<u>(67,787)</u>
Total annual OPEB expense	163,492	161,953	161,556
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(174,683)</u>	<u>(189,316)</u>	<u>(168,741)</u>
Total change in net OPEB payable obligation	(11,191)	(27,363)	(7,185)
OPEB payable - beginning of year	<u>1,184,517</u>	<u>1,211,880</u>	<u>1,219,065</u>
OPEB payable - end of year	<u>\$ 1,173,326</u>	<u>1,184,517</u>	<u>1,211,880</u>



**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(7) Other Post-Employment Benefits Payable, continued**

*Annual OPEB Cost and Net OPEB Obligation, continued*

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 2017 and the two preceding years, were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2017	\$ 163,492	174,683	106.84%	\$ 1,173,326
2016	161,953	189,316	116.90%	1,184,517
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 54 for the Schedule of Funding Status.

***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
Amortization period	Initial 30 years on a closed basis
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% per annum

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(8) Long-Term Debt**

Changes in long-term debt amounts for 2017 were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2017</u>
Long-term debt:				
2004 Certificates of Participation \$	2,520,000	-	(2,520,000)	-
Discount on debt	(22,587)	-	22,587	-
	<u>2,497,413</u>	<u>-</u>	<u>(2,497,413)</u>	<u>-</u>
2011 WFB Loan	4,325,000	-	(4,325,000)	-
2016 JPMorgan Loan	-	6,049,548	-	6,049,548
	<u>4,325,000</u>	<u>6,049,548</u>	<u>(4,325,000)</u>	<u>6,049,548</u>
Total long-term debt	6,822,413	<u>6,049,548</u>	<u>(6,822,413)</u>	6,049,548
Less: current portion	<u>(380,000)</u>			<u>(452,927)</u>
Long-term portion \$	<u>6,442,413</u>			<u>5,596,621</u>

Changes in long-term debt amounts for 2016 were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2016</u>
Long-term debt:				
2003 Refunding Bonds \$	785,000	-	(785,000)	-
Discount on debt	(4,231)	-	4,231	-
	<u>780,769</u>	<u>-</u>	<u>(780,769)</u>	<u>-</u>
2004 Certificates of Participation	2,680,000	-	(160,000)	2,520,000
Discount on debt	(24,551)	-	1,964	(22,587)
	<u>2,655,449</u>	<u>-</u>	<u>(158,036)</u>	<u>2,497,413</u>
2011 WFB Loan	4,535,000	-	(210,000)	4,325,000
Total long-term debt	7,971,218	<u>-</u>	<u>(1,148,805)</u>	6,822,413
Less: current portion	<u>(520,000)</u>			<u>(380,000)</u>
Long-term portion \$	<u>7,451,218</u>			<u>6,442,413</u>

**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 1<sup>st</sup> of each year maturing in 2020. Interest is calculated at the rate between 2.0% and 4.1% payable semi-annually by January 1<sup>st</sup> and July 1<sup>st</sup>. In fiscal year 2016, the District paid off the bond in full.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(8) Long-Term Debt, continued**

***2004 Refunding Certificates of Participation***

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

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

***2011 WFB Loan***

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

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

***2016 JPMorgan Loan***

In December 2016, the District entered into an installment purchase agreement of \$6,049,548 with JPMorgan Chase Bank to provide funds to prepay \$2,520,000 of the 2004 Refunding Certificates of Participation and \$4,325,000 of the 2011 WFB Loan. The difference between the refunding debt and the refunded debt is being netted against the new debt and amortized over the life of the refunding debt. Terms of the agreement provide for principal payable semi-annually on January 1<sup>st</sup> and July 1<sup>st</sup> at the rate of 1.85% per annum. The defeased bond refunding amount recorded in deferred outflows of resources of \$40,190 (see Note 4) will be amortized over the remaining life of the 2016 JPMorgan Loan.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 452,927	110,836	563,763
2019	460,030	99,282	559,312
2020	468,579	90,693	559,272
2021	567,298	81,111	648,409
2022	662,832	69,732	732,564
2023-2027	3,237,278	161,261	3,398,539
2028	200,604	1,856	202,460
Total	6,049,548	614,771	6,664,319
Less: Current	(452,927)		
Non-current	\$ 5,596,621		

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(9) Deferred Inflows of Resources**

Changes in deferred inflows of resources for 2017 were as follows:

	<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>2017</u>
Deferred inflows of resources:				
Deferred pension inflows	411,468	25,260	(224,098)	212,630
Total deferred inflows	\$ 411,468	25,260	(224,098)	212,630

Changes in deferred inflows of resources for 2016 were as follows:

	<u>Balance</u> <u>2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>2016</u>
Deferred inflows of resources:				
Deferred pension inflows	446,932	179,396	(214,860)	411,468
Total deferred inflows	\$ 446,932	179,396	(214,860)	411,468

**(10) Defined Benefit Pension Plan**

***Plan Description***

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

***Benefits Provided***

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

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2012. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(10) Defined Benefit Pension Plans, continued**

***Benefits Provided***

The provisions and benefits for the Plan's miscellaneous pool in effect as June 30, 2017 and 2016, are summarized as follows:

	<b>Miscellaneous Risk Pool</b>		
	<b>Classic</b>	<b>New Classic</b>	<b>PEPRA</b>
		On or after January 1,	
	Prior to January 1, 2011	2011 - December 31, 2012	On or after January 1, 2013
Hire date			
Benefit formula	2.7% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 service years	5 service years	5 service years
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.1% to 2.0%	1.0% to 2.0%
Required employee contribution rates	8.00%	7.00%	6.25%
Required employer contribution rates	11.973%	8.377%	6.555%

***Contributions***

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

For the fiscal years ended June 30, 2017 and 2016, the contributions recognized as part of pension expense for the Plan was as follows:

	<u>2017</u>	<u>2016</u>
Contributions – employer	\$ <u>108,719</u>	<u>570,843</u>

***Net Pension Liability***

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

	<u>2017</u>	<u>2016</u>
Proportionate share of net pension liability	\$ <u>1,782,379</u>	<u>1,233,015</u>

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(10) Defined Benefit Pension Plans, continued**

*Net Pension Liability, continued*

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2017 and 2016, the net pension liability of the Plan is measured as of June 30, 2016 and 2015 (the measurement date), respectively. The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014 (the valuation date), rolled forward to June 30, 2016 and 2015, respectively, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2016 and 2015, were as follows:

	<b>Miscellaneous Plan</b>
Proportion – June 30, 2014	0.02137%
Decrease in proportion	-0.00341%
Proportion – June 30, 2015	0.01796%
Increase in proportion	0.00263%
Proportion – June 30, 2016	0.02060%

*Deferred Pension Outflows (Inflows) of Resources*

For the fiscal years ended June 30, 2017 and 2016, the District recognized pension expense of \$279,791 and \$386,536, respectively.

At June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Description</b>	<b>2017</b>		<b>2016</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions subsequent to measurement date	\$ 176,792	-	108,719	-
Differences between actual and expected experience	4,316	-	4,933	-
Changes in assumptions	-	(52,974)	-	(46,672)
Net differences between projected and actual earnings on plan investments	275,713	-	-	(23,398)
Differences between actual contribution and proportionate share of contribution	-	(48,268)	95,642	-
Net adjustment due to differences in proportions of net pension liability	-	(111,388)	-	(341,398)
Total	\$ 456,821	(212,630)	209,294	(411,468)

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(10) Defined Benefit Pension Plans, continued**

*Deferred Pension Outflows (Inflows) of Resources*

As of June 30, 2017 and 2016, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$176,792 and \$108,719 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018 and 2017, respectively.

At June 30, 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Fiscal Year</b>	<b>Deferred Net</b>
<b>Ending</b>	<b>Inflows of</b>
<b>June 30,</b>	<b>Resources</b>
2018	\$ (73,796)
2019	(64,938)
2020	139,801
2021	66,332
2022	-
Remaining	-

*Actuarial Assumptions*

The total pension liabilities were determined by actuarial valuations as of June 30, 2015, which were rolled forward to June 30, 2016, using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.65%
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 April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(10) Defined Benefit Pension Plans, continued**

*Discount Rate, continued*

The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

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.

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

As of June 30, 2017, the target allocation and the long-term expected real rate of return by asset class were as follows:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	<u>100.0%</u>		



**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(10) Defined Benefit Pension Plans, continued**

*Discount Rate, continued*

As of June 30, 2016, the target allocation and the long-term expected real rate of return by asset class were as follows:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100.0%</u>		

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

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

As of June 30, 2017, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, is as follows:

	<u>Discount Rate - 1%</u>	<u>Current Discount Rate</u>	<u>Discount Rate + 1%</u>
	<u>6.65%</u>	<u>7.65%</u>	<u>8.65%</u>
District's Net Pension Liability*	\$ <u>2,673,512</u>	<u>1,782,379</u>	<u>924,698</u>

As of June 30, 2016, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, is as follows:

	<u>Discount Rate - 1%</u>	<u>Current Discount Rate</u>	<u>Discount Rate + 1%</u>
	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
District's Net Pension Liability*	\$ <u>2,067,852</u>	<u>1,233,015</u>	<u>543,760</u>

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

*Payable to the Pension Plan*

At June 30, 2017 and 2016, the District reported no payables for the outstanding amount of contribution to the pension plan.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(10) Defined Benefit Pension Plans, continued**

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 52 through 53 for the Required Supplementary Schedules.

**(11) Net Position**

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

	<b>2017</b>	<b>2016</b>
<b>Net investment in capital assets:</b>		
Capital assets, net	\$ 20,799,937	20,027,733
Loss on defeasance of debt	40,190	460,564
Certificates of Participation – current	-	(165,000)
Certificates of Participation – long-term	-	(2,332,413)
Loan payable – current	(452,927)	(215,000)
Loan payable – long-term	(5,596,621)	(4,110,000)
Total net investment in capital assets	14,790,579	13,665,884
<b>Restricted net position:</b>		
Restricted for debt service	-	749,404
<b>Unrestricted net position:</b>		
Non-spendable net position:		
Materials and supplies inventory	160,614	201,758
Prepaid expenses and deposits	93,345	92,278
Total non-spendable net position	253,959	294,036
Spendable net position are designated as follows:		
Total spendable net position	1,079,036	1,504,679
Total unrestricted net position	1,332,995	1,798,715
<b>Total net position</b>	<b>\$ 16,123,574</b>	<b>16,214,003</b>

**(12) Prior Year Restatement of Net Position**

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 prior period adjustment, a decrease in net position, of \$1,817,217 at July 1, 2014.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(12) Prior Year Restatement of Net Position, continued**

The District recorded a prior period adjustment, an increase in net position, to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension contribution totaling \$175,950 at July 1, 2014.

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

**(13) Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide pooled, self-insured programs for potential exposures. At June 30, 2017, the District participated in the liability, property, and workers compensation programs of the ACWA/JPIA as follows:

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

**(14) Deferred Compensation Savings Plan**

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

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

**(14) Deferred Compensation Savings Plan, continued**

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 \$371,220 and \$295,914 in fiscal years 2017 and 2016, respectively.

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.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

***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.

***Governmental Accounting Standards Board Statement No. 81***

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

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

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

***Governmental Accounting Standards Board Statement No. 83***

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

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. 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. 84***

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

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

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

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. 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. 85***

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

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

**Scotts Valley Water District**  
**Notes to the Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2017 and 2016**

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

***Governmental Accounting Standards Board Statement No. 86***

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

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. 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. 87***

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

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

**(16) Commitments and Contingencies**

***Grant Awards***

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

***Litigation***

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

**(17) Subsequent Events**

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of December 14, 2017, which is the date the financial statements were available to be issued.

## **Required Supplementary Information**





**Scotts Valley Water District**  
**Schedules of the District's Proportionate Share of the Net Pension Liability**  
**As of June 30, 2017**  
**Last Ten Years\***

	<b>Measurement Dates</b>		
	<b>6/30/16</b>	<b>6/30/15</b>	<b>6/30/14</b>
District's Proportion of the Net Pension Liability	0.02060%	0.01796%	0.02137%
District's Proportionate Share of the Net Pension Liability	\$ 1,782,379	1,233,015	1,329,971
District's Covered-Employee Payroll	\$ 1,372,299	1,169,390	817,021
District's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	129.88%	105.44%	162.78%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	79.61%	84.83%	81.15%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 259,120	238,519	175,950

**Notes to the Schedule of the District's Proportionate Share of Net Pension Liability:**

***Changes in Benefit Terms*** – There were no changes in benefit terms for the measurement date June 30, 2017.

***Changes of Assumptions*** – There were no changes of assumptions for the measurement date June 30, 2017.

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

**Scotts Valley Water District**  
**Schedules of Pension Plan Contributions**  
**As of June 30, 2017**  
**Last Ten Years\***

<u>Description</u>	<b>Measurement Dates</b>		
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
Actuarially Determined Contribution	\$ 199,381	179,072	141,599
Contributions in Relation to the Actuarially Determined Contribution	<u>(108,719)</u>	<u>(570,843)</u>	<u>(141,599)</u>
Contribution Deficiency (Excess)	\$ <u>90,662</u>	<u>(391,771)</u>	<u>-</u>
Covered Payroll	\$ <u>1,372,299</u>	<u>1,169,390</u>	<u>817,021</u>
Contribution's as a percentage of Covered-employee Payroll	<u>7.92%</u>	<u>48.82%</u>	<u>17.33%</u>

**Note to the Schedule of Pension Plan Contributions:**

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

**Scotts Valley Water District**  
**Schedule of Funding Status – Other Post-Employment Benefits**  
**As of June 30, 2017**

*Required Supplementary Information - Schedule of Funding Progress*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
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.

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## **Supplemental Information**



**Scotts Valley Water District**  
**Combining Schedule of Net Position**  
**June 30, 2017**

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 2,293,300	38,065	2,331,365
Accrued interest receivable	3,187	3,462	6,649
Accounts receivable, net	1,035,212	70,758	1,105,970
Accounts receivable – property tax	61,524	-	61,524
Accounts receivable – other	150,551	33,069	183,620
Materials and supplies inventory	160,045	569	160,614
Prepaid expenses and deposits	93,345	-	93,345
Note receivable – due in one year	-	161,784	161,784
<b>Total current assets</b>	<u>3,797,164</u>	<u>307,707</u>	<u>4,104,871</u>
<b>Non-current assets:</b>			
Note receivable – due in more than one year	-	554,070	554,070
Capital assets – not being depreciated	834,947	16,223	851,170
Capital assets – being depreciated	14,313,289	5,635,478	19,948,767
<b>Total non-current assets</b>	<u>15,148,236</u>	<u>6,205,771</u>	<u>21,354,007</u>
<b>Total assets</b>	<u>18,945,400</u>	<u>6,513,478</u>	<u>25,458,878</u>
<b>Deferred outflows of resources:</b>			
Deferred pension outflows	411,139	45,682	456,821
Loss on defeasance of debt	40,190	-	40,190
<b>Total deferred outflows of resources</b>	<u>\$ 451,329</u>	<u>45,682</u>	<u>497,011</u>

Continued on next page

See accompanying notes to the basic financial statements

**Scotts Valley Water District**  
**Combining Schedule of Net Position, continued**  
**June 30, 2017**

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
<b>Current liabilities:</b>			
Accounts payable and accrued expense	\$ 224,575	41,358	265,933
Accrued wages and related payables	64,500	-	64,500
Accrued interest payable	35,842	23,225	59,067
Due to (from) funds	(293,413)	293,413	-
Customer deposits	94,946	15,400	110,346
Long-term liabilities – due in one year:			
Compensated absences	23,559	2,544	26,103
Loan payable	274,836	178,091	452,927
<b>Total current liabilities</b>	<u>424,845</u>	<u>554,031</u>	<u>978,876</u>
<b>Non-current liabilities:</b>			
Unearned revenue	10,178	-	10,178
Long-term liabilities – due in more than one year:			
Compensated absences	70,675	7,630	78,305
Other post-employment benefits payable	1,055,993	117,333	1,173,326
Net pension liability	1,604,141	178,238	1,782,379
Loan payable	3,396,028	2,200,593	5,596,621
<b>Total non-current liabilities</b>	<u>6,137,015</u>	<u>2,503,794</u>	<u>8,640,809</u>
<b>Total liabilities</b>	<u>6,561,860</u>	<u>3,057,825</u>	<u>9,619,685</u>
<b>Deferred inflows of resources:</b>			
Deferred pension inflows	191,369	21,261	212,630
<b>Total deferred inflows of resources</b>	<u>191,369</u>	<u>21,261</u>	<u>212,630</u>
<b>Net position:</b>			
Net investment in capital assets	11,517,562	3,273,017	14,790,579
Unrestricted	1,125,938	207,057	1,332,995
<b>Total net position</b>	<u>\$ 12,643,500</u>	<u>3,480,074</u>	<u>16,123,574</u>



**Scotts Valley Water District**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2017**

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
<b>Operating revenues:</b>			
Water sales	\$ 2,646,488	-	2,646,488
Service charges	1,493,112	4,670	1,497,782
Water sales – recycled	-	352,298	352,298
Other revenue	41,604	11,566	53,170
Total operating revenues	<u>4,181,204</u>	<u>368,534</u>	<u>4,549,738</u>
<b>Operating expenses:</b>			
Source of supply	150,614	-	150,614
Pumping	536,653	-	536,653
Water treatment	660,704	-	660,704
Recycled water	-	472,105	472,105
Transmission and distribution	797,494	-	797,494
Conservation	158,507	-	158,507
Customer accounts	192,925	-	192,925
General and administrative expenses	1,706,288	-	1,706,288
Total operating expenses	<u>4,203,185</u>	<u>472,105</u>	<u>4,675,290</u>
Operating loss before depreciation	(21,981)	(103,571)	(125,552)
Depreciation expense	(764,082)	(173,765)	(937,847)
<b>Operating loss</b>	<u>(786,063)</u>	<u>(277,336)</u>	<u>(1,063,399)</u>
<b>Non-operating revenue (expense):</b>			
Property tax revenues	839,095	-	839,095
Investment earnings	12,343	12,816	25,159
Interest expense	(372,921)	(330,110)	(703,031)
Other non-operating revenue (expense), net	6,061	2,407	8,468
Total non-operating revenues, net	<u>484,578</u>	<u>(314,887)</u>	<u>169,691</u>
Net loss before capital contributions	<u>(301,485)</u>	<u>(592,223)</u>	<u>(893,708)</u>
<b>Capital contributions:</b>			
Capital contributions	10,500	-	10,500
Capital grants – State	759,710	33,069	792,779
Total capital contributions	<u>770,210</u>	<u>33,069</u>	<u>803,279</u>
Change in net position	468,725	(559,154)	(90,429)
<b>Net position, beginning of period</b>	<u>12,174,775</u>	<u>4,039,228</u>	<u>16,214,003</u>
<b>Net position, end of period</b>	<u>\$ 12,643,500</u>	<u>3,480,074</u>	<u>16,123,574</u>

**Scotts Valley Water District**  
**Combining Schedule of Net Position**  
**June 30, 2016**

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 2,924,816	-	2,924,816
Cash and cash equivalents – restricted	529,156	220,248	749,404
Accrued interest receivable	3,317	3,150	6,467
Accounts receivable, net	781,762	67,036	848,798
Accounts receivable – property tax	42,991	-	42,991
Accounts receivable – other	16,234	37,500	53,734
Materials and supplies inventory	201,075	683	201,758
Prepaid expenses and deposits	92,278	-	92,278
Note receivable – due in one year	-	160,339	160,339
<b>Total current assets</b>	<u>4,591,629</u>	<u>488,956</u>	<u>5,080,585</u>
<b>Non-current assets:</b>			
Note receivable – due in more than one year	-	715,853	715,853
Capital assets – not being depreciated	3,044,466	141,250	3,185,716
Capital assets – being depreciated	<u>11,221,678</u>	<u>5,620,339</u>	<u>16,842,017</u>
<b>Total non-current assets</b>	<u>14,266,144</u>	<u>6,477,442</u>	<u>20,743,586</u>
<b>Total assets</b>	<u>18,857,773</u>	<u>6,966,398</u>	<u>25,824,171</u>
<b>Deferred outflows of resources:</b>			
Deferred pension outflows	188,364	20,930	209,294
Loss on defeasance of debt	<u>228,377</u>	<u>232,187</u>	<u>460,564</u>
<b>Total deferred outflows of resources</b>	<u>\$ 416,741</u>	<u>253,117</u>	<u>669,858</u>

Continued on next page

**Scotts Valley Water District**  
**Combining Schedule of Net Position, continued**  
**June 30, 2016**

	<b>Water Fund</b>	<b>Recycled Water Fund</b>	<b>Total</b>
<b>Current liabilities:</b>			
Accounts payable and accrued expense	\$ 285,798	39,494	325,292
Accrued wages and related payables	53,896	-	53,896
Accrued interest payable	70,310	55,247	125,557
Due to (from) funds	(293,413)	293,413	-
Customer deposits	30,893	3,000	33,893
Long-term liabilities – due in one year:			
Compensated absences	19,846	2,205	22,051
Certificates of Participation	-	165,000	165,000
Loan payable	215,000	-	215,000
<b>Total current liabilities</b>	<b>382,330</b>	<b>558,359</b>	<b>940,689</b>
<b>Non-current liabilities:</b>			
Unearned revenue	1,770	-	1,770
Long-term liabilities – due in more than one year:			
Compensated absences	59,538	6,616	66,154
Other post-employment benefits payable	1,066,065	118,452	1,184,517
Net pension liability	1,109,713	123,302	1,233,015
Certificates of Participation	-	2,332,413	2,332,413
Loan payable	4,110,000	-	4,110,000
<b>Total non-current liabilities</b>	<b>6,347,086</b>	<b>2,580,783</b>	<b>8,927,869</b>
<b>Total liabilities</b>	<b>6,729,416</b>	<b>3,139,142</b>	<b>9,868,558</b>
<b>Deferred inflows of resources:</b>			
Deferred pension inflows	370,323	41,145	411,468
<b>Total deferred inflows of resources</b>	<b>370,323</b>	<b>41,145</b>	<b>411,468</b>
<b>Net position:</b>			
Net investment in capital assets	14,279,521	3,496,363	17,775,884
Restricted for debt service	529,156	220,248	749,404
Unrestricted	(2,633,902)	322,617	(2,311,285)
<b>Total net position</b>	<b>\$ 12,174,775</b>	<b>4,039,228</b>	<b>16,214,003</b>

**Scotts Valley Water District**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position, continued**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total</u>
<b>Operating revenues:</b>			
Water sales	\$ 2,242,642	-	2,242,642
Service charges	1,348,590	-	1,348,590
Water sales – recycled	-	382,366	382,366
Other revenue	18,270	57,096	75,366
Total operating revenues	<u>3,609,502</u>	<u>439,462</u>	<u>4,048,964</u>
<b>Operating expenses:</b>			
Source of supply	97,655	-	97,655
Pumping	524,177	-	524,177
Water treatment	688,601	-	688,601
Recycled water	-	546,568	546,568
Transmission and distribution	776,096	-	776,096
Conservation	241,892	-	241,892
Customer accounts	207,833	-	207,833
General and administrative expenses	1,695,591	-	1,695,591
Total operating expenses	<u>4,231,845</u>	<u>546,568</u>	<u>4,778,413</u>
Operating loss before depreciation	(622,343)	(107,106)	(729,449)
Depreciation expense	<u>(739,373)</u>	<u>(174,582)</u>	<u>(913,955)</u>
<b>Operating loss</b>	<u>(1,361,716)</u>	<u>(281,688)</u>	<u>(1,643,404)</u>
<b>Non-operating revenue (expense):</b>			
Property tax revenues	775,679	-	775,679
Investment earnings	32,137	6,969	39,106
Interest expense	(285,859)	(131,937)	(417,796)
Gain on disposal of fixed assets	(10,193)	497,928	487,735
Other non-operating revenue (expense), net	11,146	(811)	10,335
Total non-operating revenues, net	<u>522,910</u>	<u>372,149</u>	<u>895,059</u>
Net loss before capital contributions	<u>(838,806)</u>	<u>90,461</u>	<u>(748,345)</u>
<b>Capital contributions:</b>			
Capital contributions	76,540	12,460	89,000
Capital grants – State	209,204	37,500	246,704
Total capital contributions	<u>285,744</u>	<u>49,960</u>	<u>335,704</u>
Change in net position	(553,062)	140,421	(412,641)
<b>Net position, beginning of period</b>	<u>12,727,837</u>	<u>3,898,807</u>	<u>16,626,644</u>
<b>Net position, end of period</b>	<u>\$ 12,174,775</u>	<u>4,039,228</u>	<u>16,214,003</u>

**Scotts Valley Water District  
Schedules of Customer Account and  
General and Administrative Expense  
For the Fiscal Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Customer accounts:</b>		
Collection	\$ 31,447	25,626
Customer service	<u>161,478</u>	<u>182,207</u>
Total customer accounts	<u>\$ 192,925</u>	<u>207,833</u>
 <b>General and administrative:</b>		
Office	\$ 182,677	170,853
General maintenance	149,201	104,705
Salaries and benefits	926,758	940,863
Education	42,581	40,780
Outside services	350,404	416,032
Other	<u>54,667</u>	<u>22,358</u>
Total general and administrative expense	<u>\$ 1,706,288</u>	<u>1,695,591</u>

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# **Statistical Section**





**Scotts Valley Water District  
Statistical Section**

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

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**Scotts Valley Water District  
Population Estimates - City of Scotts Valley  
2011-2017 with 2010 Benchmark**

<u>City</u>	<u>April 1 2010</u>	<u>January 1, 2011</u>	<u>January 1, 2012</u>	<u>January 1, 2013</u>	<u>January 1, 2014</u>	<u>January 1, 2015</u>	<u>January 1, 2016</u>	<u>January 1, 2017</u>
<b>Santa Cruz County</b>								
Scotts Valley	11,580	11,617	11,678	11,778	11,919	12,090	12,129	12,163

**Source:** The 2010 figure reflects the census data while 2011-2017 estimates are from California Department of Finance.

**Scotts Valley Water District  
Direct and Overlapping Debt  
As of June 30, 2017**

	<b>Debt Outstanding</b>	<b>Estimated Percentage Applicable<sup>(1)</sup></b>	<b>Estimated Share of Direct and Overlapping Debt</b>
<b>Direct and Overlapping Tax and Assessment Debt:</b>			
Cabrillo Joint Community College District	\$ 115,229,915	5.263%	6,064,550
Scotts Valley Unified School District	26,020,000	56.491%	14,698,958
Scotts Valley Water District	-	100.000%	-
Santa Cruz Library Facilities Community Facilities District No. 2016-1	21,170,000	5.916%	1,252,417
City of Scotts Valley Community Facilities District No. 97-1	3,640,000	81.655%	2,972,242
<b>Total Direct and Overlapping Tax and Assessment Debt</b>			<b>24,988,167</b>
<b>Overlapping General Fund Debt:</b>			
Santa Cruz County General Fund Obligations	68,805,620	5.302%	3,648,074
Santa Cruz County Office of Education Certificates of Participation	9,197,479	5.302%	487,650
Scotts Valley Unified School District Certificates of Participation	3,325,000	56.491%	1,878,326
City of Scotts Valley Certificates of Participation	5,450,588	81.655%	4,450,678
City of Scotts Valley Pension Obligation Bonds	3,010,000	81.655%	2,457,816
<b>Total Overlapping General Fund Debt</b>			<b>12,922,544</b>
<b>Overlapping Tax Increment Debt (Successor Agency)</b>	13,955,000	99.722%	13,916,205
<b>Total Direct Debt</b>			-
<b>Total Overlapping Debt</b>			<b>51,826,916</b>
<b>Combined Total Debt</b>			<b>51,826,916</b> <sup>(2)</sup>
<b>2016-17 Assessed Valuation:</b>	2,162,784,334		
<b>Ratios to 2016-17 Assessed Valuation:</b>			
Total Overlapping Tax and Assessment Debt		1.16%	
Total Direct Debt		0.00%	
Combined Total Debt		2.40%	
<b>Ratios to Redevelopment Successor Agency Incremental Valuation</b>		620,938,972	
Total Overlapping Tax Increment Debt		2.24%	

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

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

**Scotts Valley Water District  
Assessed Valuations – Santa Cruz County  
2013 - 2017**

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

**2016-17 Total Local Secured Assessed Valuation Breakdown**

<u>Residential Property</u>	<u>Commercial Property</u>	<u>Industrial Property</u>	<u>Other Property</u>	<u>Total Local Secured Property</u>
\$ 1,689,592,325	\$ 248,409,603	\$ 107,292,419	\$ 32,857,961	\$ 2,078,152,308

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General	1.000000	1.000000	1.000000	1.000000	1.000000
Scotts Valley	0.048489	0.045875	0.041027	0.075224	0.051200
Cabrillo Community College District	0.040482	0.040468	0.036941	0.036693	0.032597
<b>Total All Property</b>	<u>1.088971</u>	<u>1.086343</u>	<u>1.077968</u>	<u>1.111917</u>	<u>1.083797</u>

**2016-17 Assessed Valuation of Redevelopment Agency Project Area  
Within the District**

<u>Residential Property</u>	<u>Commercial Property</u>	<u>Industrial Property</u>	<u>Other Property</u>
Scotts Valley	1,037,351,126	416,412,154	620,938,972

# **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 Audits of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Scotts Valley Water District  
Scotts Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Scotts Valley Water District (District), as of and for the years ended June 30, 2017 and 2016, 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 14, 2017.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

**Purpose of this Report**

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

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
December 14, 2017