Scotts Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

Service to the Valley Since 1961

Scotts Valley Water District

Board of Directors as of June 30, 2013

Name	Title	Elected/ Appointed	Current Term
Jay Mosley	President	Elected	11/10-11/14
Ken Kannegaard	Vice President	Elected	11/10-11/14
Chris Perri	Director	Elected	11/12-11/16
David Hodgin	Director	Elected	10/10-11/14
Danny Reber	Director	Appointed	12/12-11/14

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

Scotts Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

Scotts Valley Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012

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Financial Section

Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

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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) as of and for the year ended June 30, 2013. The comparative financial information as of June 30, 2012, was audited by other auditors whose report dated September 18, 2012, expressed an unmodified opinion on those basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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, 2013, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

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 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2013, 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 35 and 36.

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation
Cypress, California
January 16, 2014

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, 2013 and 2012. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position decreased 4.18%, or $801,584 to $18,384,030, in fiscal year 2013, as a result of current year operations in the amount of $110,124, and a one-time prior period adjustment in the amount of $691,460. In 2012, the District's net position decreased 1.0% or $197,629 to $19,185,614 as a result of current year operations.
- The District's operating revenues increased 15.92% or $678,364 in 2013, primarily due a $334,080 increase in water sales revenues resulting from higher water consumption and rate increases. Additionally, service charge revenues increased $166,955, reflecting improved development activities; impact fees were charged along with higher meter sales resulting in an increase in impact fees of $123,470. In 2012, the District's operating revenues increased 5.5% or $74,784, primarily due an increase in recycled water sales.
- The District's non-operating revenues increased 3.03% or $22,947 primarily due to an $80,845 increase in property tax revenues. In 2012, non-operating revenues increase by $129,894 primarily due to an $83,928 increase in property tax revenues.
- The District's operating expenses increased 14.18% or $554,292 in 2013, due to an increase of $660,653 in general and administrative expenditures largely due to consulting and personnel expenses associated with the District-wide reorganization efforts. In 2012, the District's operating expenses increased 6.1% or $226,460 primarily due to increases in source of supply expenses and transmission and distribution expenses.
- The District's non-operating expenses increased 24.94% or $111,843 primarily due to a $219,147 write-down of deferred charges related to the implementation of GASB 65 that was partially offset by a $54,475 decrease in interest expense. In 2012, non-operating expenses decreased 35.59% or $247,856 primarily due to an $186,230 property tax repayment in 2011.

Required Financial Statements

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

The Statement of Net Position includes all of the District's investments in resources – assets, and deferred outflows and the obligations to creditors – liabilities, and deferred inflows. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

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

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

Financial Analysis of the District

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

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 29.

Statements of Net Position

Condensed Statements of Net Position

	2013	2012	Change
Assets:			
Current assets	$ 8,181,121	7,580,169	600,952
Non-current assets	120,000	782,162	(662,162)
Capital assets, net	20,757,234	21,037,649	(280,415)
Total assets	29,058,355	29,399,980	(341,625)
Deferred outflows of resources	757,628	820,141	(62,513)
Liabilities:			
Current liabilities	1,539,674	1,158,883	380,791
Non-current liabilities	9,892,279	10,094,771	(202,492)
Total liabilities	11,431,953	11,253,654	178,299
Net position:			
Net investment in capital assets	12,539,862	12,417,790	122,072
Restricted	924,515	923,723	792
Unrestricted	4,919,653	5,844,101	(924,448)
Total net position	$ 18,384,030	19,185,614	(801,584)

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 of the District exceeded liabilities by $18,384,030 and $19,185,614 as of June 30, 2013 and 2012, respectively.

By far the largest portion of the District's net position (68% as of June 30, 2013 and 65% as of June 30, 2012) 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 2013 and 2012, the District showed a positive balance in its unrestricted net position of $4,919,653 and $5,844,101, respectively, which may be utilized in future years. See note 10 for further discussion.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	Change
Revenues:			
Operating revenues	$ 4,938,212	4,259,848	678,364
Non-operating revenues	779,514	756,567	22,947
Total revenues	5,717,726	5,016,415	701,311
Expenses:			
Operating expenses	4,463,784	3,909,492	554,292
Depreciation and amortization	1,167,654	1,078,635	89,019
Non-operating expenses	560,368	448,525	111,843
Total expenses	6,191,806	5,436,652	755,154
Net loss before capital contributions	(474,080)	(420,237)	(53,843)
Capital contributions:	363,956	222,608	141,348
Change in net position	(110,124)	(197,629)	87,505
Net position – beginning of year	19,185,614	19,383,243	(197,629)
Prior period adjustment (note 11)	(691,460)	-	(691,460)
Net position – end of year	$ 18,384,030	19,185,614	(110,124)

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position decreased by $110,124 and $197,629 for the fiscal years ended June 30, 2013 and 2012, respectively.

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

The District's net position decreased 4.18%, or $801,584 to $18,384,030, in fiscal year 2013, as a result of current year operations in the amount of $110,124, and a one-time prior period adjustment in the amount of $691,460. See note 13 for further discussion.

In 2012, the District's net position decreased 1.0% or $197,629 to $19,185,614 as a result of current year operations.

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

The District's operating revenues increased 15.92% or $678,364 in 2013, primarily due a $334,080 increase in water sales revenues resulting from higher water consumption than in 2012, coupled with a water consumption and service rate increase. Additionally, service charge revenues increased $166,955, and other revenues increased $177,329 primarily due to an increase in impact fees in the amount of $123,470.

In 2012, the District's operating revenues increased 5.5% or $74,784, primarily due an increase in recycled water sales increased grant revenue.

The District's non-operating revenues increased 3.03% or $22,947 primarily due to an $80,845 increase in property tax revenues.

In 2012, non-operating revenues increase by $129,894 primarily due to an $83,928 increase in property tax revenues.

The District's operating expenses increased 14.18% or $554,292 in 2013, primarily due to a $660,653 increase in general and administrative costs that included: $223,187 in personnel related expenses, $155,483 in outside consulting and engineering services, $111,590 for well disposal expenses, and an $85,986 increase in other post-employment benefit expenses.

In 2012, the District's operating expenses increased 6.1% or $226,460 primarily due to increases in source of supply expenses and transmission and distribution expenses.

The District's non-operating expenses increased 24.94% or $111,843 primarily due to a $219,147 write-down of deferred charges related to the implementation of GASB 65 that was partially offset by a $54,475 decrease in interest expense.

In 2012, non-operating expenses decreased 35.59% or $247,856 primarily due to an $186,230 property tax repayment in 2011.

Capital Asset Administration

At the end of fiscal year 2013 and 2012, the District's investment in capital assets amounted to $20,757,234 and $21,037,649 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, tanks, pumps, buildings, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year include improvements to portions the District's transmission and distribution system.

Changes in capital assets amounts for 2013 were as follows:

	Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Capital assets:				
Non-depreciable assets	$ 1,218,717	829,873	(26,140)	2,022,450
Depreciable assets	37,084,539	83,506	-	37,168,045
Accumulated depreciation	(17,265,607)	(1,167,654)	-	(18,433,261)
Total capital assets, net	$ 21,037,649	(254,275)	(26,140)	20,757,234

Capital Asset Administration, continued

Changes in capital assets amounts for 2012 were as follows:

	Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Capital assets:				
Non-depreciable assets	$ 882,657	405,812	(69,752)	1,218,717
Depreciable assets	36,932,006	152,533	-	37,084,539
Accumulated depreciation	(16,186,972)	(1,078,635)	-	(17,265,607)
Total capital assets, net	$ 21,627,691	(520,290)	(69,752)	21,037,649

Debt Administration

Changes in long-term debt amounts for 2013 were as follows:

	Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Long-term debt:				
2003 Refunding Bonds	$ 1,195,000	-	(135,000)	1,060,000
2004 COP	3,125,000	-	(145,000)	2,980,000
2011 Note Payable	5,120,000	-	(185,000)	4,935,000
Total loans payable	9,440,000	-	(465,000)	8,975,000
Less: current portion	(465,000)			(480,000)
Long-term portion	$ 8,975,000			8,495,000

Changes in long-term debt amounts for 2012 were as follows:

	Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Long-term debt:				
2002-1 COP	$ 4,980,000	-	(4,980,000)	-
2003 Refunding Bonds	1,325,000	-	(130,000)	1,195,000
2004 COP	3,265,000	-	(140,000)	3,125,000
2011 Note Payable	-	5,120,000	-	5,120,000
Total loans payable	9,570,000	5,120,000	(5,250,000)	9,440,000
Less: current portion	(315,000)			(465,000)
Long-term portion	$ 9,255,000			8,975,000

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 at 2 Civic Center Drive, Scotts Valley, CA 95066.

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Basic Financial Statements

Scotts Valley Water District
Statements of Net Position
June 30, 2013 *(and 2012 for Comparative Purposes)*

	2013	2012
Current assets:		
Cash and cash equivalents (note 2)	$ 5,796,144	5,518,377
Cash & cash equivalents – restricted (note 2)	924,515	923,723
Accrued interest receivable	16,887	4,433
Accounts receivable, net	1,030,935	831,681
Accounts receivable – property tax	49,409	49,409
Accounts receivable – other	239,375	104,000
Materials and supplies inventory	73,044	91,202
Prepaid expenses and deposits	50,812	57,344
Total current assets	8,181,121	7,580,169
Non-current assets:		
Pension asset	-	662,162
Note receivable	120,000	120,000
Cost of debt issuance (note 4)	-	219,147
Capital assets – not being depreciated (note 3)	2,022,450	1,218,717
Capital assets – being depreciated (note 3)	18,734,784	19,818,932
Total non-current assets	20,877,234	22,038,958
Total assets	29,058,355	29,619,127
Deferred outflows of resources:		
Discount on issued debt (note 5)	34,246	36,978
Loss on defeasance of debt (note 5)	723,382	783,163
Total deferred outflows of resources	$ 757,628	820,141

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statements of Net Position
June 30, 2013 *(and 2012 for Comparative Purposes)*

		2013	2012
Current liabilities:			
Accounts payable and accrued expense		875,852	380,794
Accrued wages and related payables		21,873	17,110
Property tax payable		38,239	38,239
Accrued interest payable		83,680	175,587
Customer deposits		12,000	10,500
Long-term liabilities – due in one year:			
Compensated absences (note 6)		28,030	71,653
Note payable (note 7)		195,000	185,000
Certificates of Participation (note 7)		150,000	145,000
Bonds payable (note 7)		135,000	135,000
Total current liabilities		1,539,674	1,158,883
Non-current liabilities:			
Unearned revenue		401,558	417,004
Long-term liabilities – due in more than one year:			
Compensated absences (note 6)		84,088	87,576
Other post-employment benefits payable (note 9)		911,633	615,191
Note payable (note 7)		4,740,000	4,935,000
Certificates of Participation (note 7)		2,830,000	2,980,000
Bonds payable (note 7)		925,000	1,060,000
Total non-current liabilities		9,892,279	10,094,771
Total liabilities		11,431,953	11,253,654
Net position: (note 10)			
Net investment in capital assets		12,539,862	12,417,790
Restricted for debt service		924,515	923,723
Unrestricted		4,919,653	5,844,101
Total net position	$	18,384,030	19,185,614

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, *2013 (and 2012 for Comparative Purposes)*

		2013	2012
Operating revenues:			
Water sales	$	4,429,163	4,095,083
Service charges		259,544	92,589
Other revenue		249,505	72,176
Total operating revenues		4,938,212	4,259,848
Operating expenses:			
Cost of sales		1,480,552	1,598,958
Customer expense		171,239	159,194
General and administrative expense		2,811,993	2,151,340
Total operating expenses		4,463,784	3,909,492
Operating income before depreciation and amortization		474,428	350,356
Depreciation expense		(1,167,654)	(1,078,635)
Operating loss		(693,226)	(728,279)
Non-operating revenue (expense)			
Property tax revenues		752,395	671,550
Investment earnings		27,119	23,755
Interest expense		(394,049)	(448,525)
Other non-operating revenue (expense), net		(166,319)	61,262
Total non-operating revenues, net		219,146	308,042
Net loss before capital contributions		(474,080)	(420,237)
Capital contributions:			
Capital contributions		156,961	212,943
Capital grant		206,995	9,665
Total capital contributions		363,956	222,608
Change in net position		(110,124)	(197,629)
Net position – beginning of year		19,185,614	19,383,243
Prior period adjustment (note 13)		(691,460)	-
Net position – end of year	$	18,384,030	19,185,614

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 *(and 2012 for Comparative Purposes)*

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 4,603,583	4,503,238
Cash paid to employees for salaries	(1,270,665)	(1,173,791)
Payments to vendors for materials and services	(2,303,220)	(2,289,995)
Net cash provided by operating activities	1,029,698	1,039,452
Cash flows from non-capital financing activities:		
Proceeds from property taxes	752,395	672,541
Cash paid on property tax repayments	-	(123,791)
Proceeds from other non-capital financing activities	-	89,040
Net cash provided by non-capital financing activities	752,395	637,790
Cash flows from capital and related financing activities:		
Cash paid to acquire capital assets	(579,238)	(488,593)
Principal paid on long-term debt	(660,000)	(5,250,000)
Proceeds from capital grant	206,995	-
Proceeds from loan	-	5,120,000
Cash paid on loan issuance/bond payment	-	(177,588)
Interest paid	(485,956)	(437,346)
Principal payments received on note receivable	-	5,000
Net cash used in capital and related financing activities	(1,518,199)	(1,228,527)
Cash flows from investing activities:		
Interest on investments	14,665	30,944
Net cash provided by investing activities	14,665	30,944
Net increase (decrease) in cash and cash equivalents	278,559	479,659
Cash and cash equivalents – beginning of year	6,442,100	5,962,441
Cash and cash equivalents – end of year	$ 6,720,659	6,442,100

Reconciliation of cash and cash equivalents to statements of financial position:

	2013	2012
Cash and cash equivalents	$ 5,796,144	5,518,377
Cash and cash equivalents – restricted	924,515	923,723
Total cash and cash equivalents	$ 6,720,659	6,442,100

Continued on next page

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 *(and 2012 for Comparative Purposes)*

		2013	2012
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	$	(693,226)	(505,671)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Net pension asset amortization		-	73,574
Deprecation and amortization		1,167,654	1,078,635
Non-operating, net		166,319	-
Changes in assets and liabilities:			
(Increase) Decrease in assets:			
Customer Accounts receivable		(199,254)	(125,565)
Miscellaneous Receivables		(135,375)	89,835
Supplies Inventory		(18,158)	605
Other Prepaid Expenses		6,532	(7,902)
Increase (Decrease) in liabilities:			
Accounts payable		495,058	133,508
Accrued liabilities		4,763	35,464
Compensated absences		(47,111)	-
Other post-employment benefits obligation		296,442	210,456
Unearned revenue		(13,946)	56,513
Total adjustments		1,722,924	1,545,123
Net cash provided by operating activities	$	1,029,698	1,039,452
Non-cash financing and investing, capital, and financing transaction:			
Change in fair-market value of funds deposited with LAIF	$	604	-

See accompanying notes to the basic financial statements

Note 1 –Summary of Significant Accounting Policies

Reporting Entity

The financial statements of Scotts Valley Water 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.

Component Unit

The Scotts Valley Water District 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 these financial statements.

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.

Accounting Pronouncements

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including:

Governmental Accounting Standards Board Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangement*s. This Statement addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into.

Governmental Accounting Standards Board Statement No. 61 – *The Financial Reporting Entity, Omnibus.* This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*.

Note 1 – Summary of Significant Accounting Policies, (continued)

Governmental Accounting Standards Board Statement No. 62 *– Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Governmental Accounting Standards Board Statement No. 63 *– Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Governmental Accounting Standards Board Statement No. 65 *– Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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.

Cash and Cash Equivalents

For purposed 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.

Investments

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.

Note 1 – Summary of Significant Accounting Policies, (continued)

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.

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

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.

Prepaid Expenses

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

Compensated Absences

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

Water Sales

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

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.

Note 1 – Summary of Significant Accounting Policies, (continued)

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 $10,000 or more, 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 and Amortization

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

Discounts and loss on refunding of bonds are included on the balance sheets as a reduction of revenue bonds payable and are being amortized on a straight-line basis over the lesser of the life of the debt retired or the life of the new debt acquired. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Restricted – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.

Unrestricted – Unrestricted consists of any remaining balance of the District's net position that do not meet the definition of "restricted" or "net investment in capital assets".

Budgetary Policies

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

Note 2 – Cash and Investments

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

		2013	2012
Cash and cash equivalents	$	5,796,144	5,518,377
Cash & cash equivalents – restricted		924,515	923,723
Total cash and cash equivalents	$	6,720,659	6,442,100

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

		2013	2012
Petty cash	$	400	400
Deposits with financial institutions		4,410,774	4,139,795
Local Agency Investment Fund (LAIF)		2,309,485	2,301,905
Total cash and cash equivalents	$	6,720,659	6,442,100

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

	2013	2012
Deposits held with California Local Agency Investment Fund (LAIF)	278 days	268 days

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

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

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

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).

Note 2 – Cash and Investments, continued

Custodial Credit Risk, continued

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

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

Investment in State Investment Pool

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

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

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, 2013 and 2012, respectively.

Note 3 – Capital Assets

Changes in capital assets for 2013 were as follows:

	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
Non-depreciable assets:				
Land & land rights	$ 641,797	-	-	641,797
Construction-in-process	576,920	829,873	(26,140)	1,380,653
Total non-depreciable assets	1,218,717	829,873	(26,140)	2,022,450
Depreciable assets:				
Water rights	5,629,279	-	-	5,629,279
Plant and equipment in service	31,455,260	83,506	-	31,538,766
Total depreciable assets	37,084,539	83,506	-	37,168,045
Accumulated depreciation and amortization	(17,265,607)	(1,167,654)	-	(18,433,261)
Total depreciable assets, net	19,818,932	(1,084,148)	-	18,734,784
Total capital assets, net	$ 21,037,649			20,757,234

In 2013, major capital assets additions include additions to constriction-in-process and plant and equipment in service.

Changes in capital assets for 2012 were as follows:

	Balance 2011	Additions/ Transfers	Deletions/ Transfers	Balance 2012
Non-depreciable assets:				
Land & land rights	$ 641,797	-	-	641,797
Construction-in-process	240,860	405,812	(69,752)	576,920
Total non-depreciable assets	882,657	405,812	(69,752)	1,218,717
Depreciable assets:				
Water rights	5,629,279	-	-	5,629,279
Plant and equipment in service	31,302,727	152,533	-	31,455,260
Total depreciable assets	36,932,006	152,533	-	37,084,539
Accumulated depreciation and amortization	(16,186,972)	(1,078,635)	-	(17,265,607)
Total depreciable assets, net	20,745,034	(926,102)	-	19,818,932
Total capital assets, net	$ 21,627,691			21,037,649

In 2012, major capital assets additions include additions to constriction-in-process and plant and equipment in service.

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. The balance of construction-in-process was $1,380,653 and $576,920 at June 30, 2013 and 2012, respectively.

Note 4 – Cost of Issuance of Debt

Debt issuance costs are capitalized and amortized over the term of the debt using the straight-line method. At June 30, 2013, the District implemented GASB Statement No. 65. Per the provisions of the Statement, the remaining unamortized balance has been amortized on an accelerated basis and is included in non-operating expense.

The balance at June 30, consists of the following:

		2013	2012
Cost of issuance of debt	$	324,349	324,349
Accumulated amortization		(324,349)	(105,202)
Cost of issuance of debt total	$	-	219,147

Note 5 – Deferred Outflows of Resources

Discounts upon issuance of debt have been capitalized and are amortized to as a component of interest expense through the term of the associated debt using the straight-line method. Losses on the defeasance of debt has been capitalized and amortized as a component of interest expense through the term of the associated refinancing debt obligation.

In fiscal year 2013, the District adopted *Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and *Governmental Accounting Standards Board Statement No. 65 – Items Previously Reported as Assets and Liabilities*. In accordance with GASB No. 63, and GASB No. 65, discounts on the issuance of debt, and loss on the defeasance of debt have been categorized as deferred outflows of resources on the Statement of Net Position.

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

		Balance 2012	Additions	Amortization	Balance 2013
Deferred outflows of resources:					
Discount on issued debt, net	$	36,978	-	(2,732)	34,246
Loss on defeasance of debt		783,163	-	(59,781)	723,382
	$	820,141	-	(62,513)	757,628

Note 6 – Compensated Absences

	Balance 2012	Additions	Deletions	Balance 2013	Current Portion	Long-Term Portion
$	159,229	56,301	(103,412)	112,118	28,030	84,088

Note 7 – Long-Term Debt

Changes in long-term debt amounts for 2013 were as follows:

	Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Long-term debt:				
2003 Refunding Bonds	$ 1,195,000	-	(135,000)	1,060,000
2004 COP	3,125,000	-	(145,000)	2,980,000
2011 Note Payable	5,120,000	-	(185,000)	4,935,000
Total loans payable	9,440,000	-	(465,000)	8,975,000
Less: current portion	(465,000)			(480,000)
Long-term portion	$ 8,975,000			8,495,000

Changes in long-term debt amounts for 2012 were as follows:

	Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Long-term debt:				
2002-1 COP	$ 4,980,000	-	(4,980,000)	-
2003 Refunding Bonds	1,325,000	-	(130,000)	1,195,000
2004 COP	3,265,000	-	(140,000)	3,125,000
2011 Note Payable	-	5,120,000	-	5,120,000
Total loans payable	9,570,000	5,120,000	(5,250,000)	9,440,000
Less: current portion	(315,000)			(465,000)
Long-term portion	$ 9,255,000			8,975,000

2003 Refunding Bonds

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

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

Fiscal Year	Principal	Interest	Total
2014	$ 135,000	40,753	175,753
2015	140,000	36,163	176,163
2016	150,000	31,123	181,123
2017	150,000	25,498	175,498
2018	155,000	19,648	174,648
2019-2020	330,000	20,213	350,213
Total	1,060,000	173,395	1,233,395
Less: Current portion	(135,000)		
Total non-current	$ 925,000		

Note 7 – 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.

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

Fiscal Year	Principal	Interest	Total
2014	$ 150,000	124,095	274,095
2015	150,000	118,958	268,958
2016	160,000	113,413	273,413
2017	165,000	107,358	272,358
2018	175,000	100,810	275,810
2019-2023	970,000	388,923	1,358,923
2024-2028	1,210,000	146,601	1,356,601
Total	2,980,000	1,100,156	4,080,156
Less: Current portion	(150,000)		
Total non-current	$ 2,830,000		

2011 Refunding Certificates of Participation

In December 2011, the District entered into a loan agreement of $5,120,000 with Wells Fargo Bank, National Association to, among other things; refinance all of the outstanding 2002 certificates which were originally issued for an aggregate principal amount of $5,475,000. Terms of the agreement provide for principal payable semi-annually on January 1st and July 1st of each year maturing in 2027. Interest is calculated at a rate the higher of 1) the then current variable interest rate borne by other Parity Obligations plus 3%; and 2) the highest variable rate borne over the preceding twenty-four (24) months by outstanding variable rate debt issued by the District or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index comparable to that to be utilized in determining the interest rate for the Parity Obligation then proposed to be issued plus 3%. Interest is payable semi-annually by January 1st and July 1st.

Note 7 – Long-Term Debt, (continued)

2011 Refunding Certificates of Participation, (continued)

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

Fiscal Year	Principal	Interest	Total
2014	$ 195,000	158,844	353,844
2015	205,000	152,344	357,344
2016	210,000	145,681	355,681
2017	215,000	138,856	353,856
2018	225,000	131,788	356,788
2019-2023	1,685,000	529,181	2,214,181
2024-2028	2,200,000	179,075	2,379,075
Total	4,935,000	1,435,769	6,370,769
Less: Current portion	(195,000)		
Total non-current	$ 4,740,000		

Note 8 – Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

Employees hired before August 23, 2011, participate in the CalPERS 2.7% at 55 Risk Pool Retirement Plan with a contribution rate of 8% of their annual covered salary. Employees hired between August 23, 2011 and January 1, 2013, participate in the 2.0% at 55 Risk Pool Retirement Plan with a contribution rate of 7% of their annual covered salary. Except for the General Manager who paid 50% of the employee share, the District pays for both the employer’s and the employees’ contribution to PERS, under the current MOU. The contribution rate is established annually and may be amended by PERS. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2013, 2012 and 2011 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Note 8 – Defined Benefit Pension Plan, (continued)

California Public Employees Pension Reform Act of 2013

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 key components of the legislation are that it established a new retirement tier and benefit structure for new public employees, prohibits certain cash payments from being counted as compensation, prohibits the purchase of additional retirement service credit, requires a three-year final compensation period, and increases the retirement age for all new public employees. Pursuant to PEPRA, the District established a second-tier for new employees hired on or after January 1, 2013 with a benefit formula of 2.0% at 62 years of age.

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. District employees hired after January 1, 2013, would contribute 6.25% of their annual covered wages to their account if they became members of a public retirement system for the first time on or after January 1, 2013, and they were not members of another public retirement system prior to that date, and not subject to reciprocity with another public retirement system. However, due to contract impairment, the District contributes the employee share for new members until the expiration, and renegotiation of the current employee MOU expected by June 30, 2014. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. For Fiscal years 2013, 2012 and 2011, the District's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll for 2.7 @ 55	APC Percentage of Payroll for 2.0 @ 55	APC Percentage of Payroll for 2.0 @ 62
2010-2011	$ 326,907	100%	-	20.901%	N/A	N/A
2011-2012	327,020	100%	-	15.226%	9.539%	N/A
2012-2013	232,986	100%	-	15.645%	9.716%	6.250%

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

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Average remaining amortization period	20 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of emplyment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

See Page 30 for the Schedule of Funding Status.

Note 9 – Post Employment Benefits Payable

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements. The reporting requirements for these benefit programs as they pertain to the District are set forth below:

Note 9 – Post Employment Benefits Payable, (continued)

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:

	2013	2012	2011
Active plan members	12	14	16
Retirees and beneficiaries receiving benefits	16	14	11
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	28	28	27

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 CalPERS medical. The contribution requirements of Plan members and the District are established and may be amended by the District's Board.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 33.8% 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, 2013, the District's ARC cost is $429,977. The District's net OPEB payable obligation amounted to $911,633 for the fiscal year ended June 30, 2013. The District contributed $131,485 in age adjusted contributions for current retiree OPEB premiums for the fiscal year ended June 30, 2013.

The balance at June 30, consists of the following:	2013	2012	2011
Annual OPEB expense:			
Annual required contribution (ARC)	$ 429,977	278,424	278,424
Interest on net OPEB obligation	18,456	20,237	10,139
Adjustment to annual required contribution	(20,506)	-	-
Total annual OPEB expense	427,927	298,661	288,563
Change in net OPEB payable obligation:			
Age adjusted contributions made	(131,485)	(88,205)	(86,609)
Total change in net OPEB payable obligation	296,442	210,456	201,954
OPEB payable - beginning of year	615,191	404,735	202,781
OPEB payable - end of year	$ 911,633	615,191	404,735

Note 9 – Post Employment Benefits Payable, (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 2013 and the two preceding fiscal years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2013	$ 427,927	131,485	30.73%	$ 911,633
2012	298,661	88,205	29.53%	615,191
2011	288,563	86,609	30.01%	404,735

The most recent valuation (dated July 1, 2012) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $3,819,364. 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, 2012 was $1,173,791. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 325.4%.

See Page 30 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, 2012
Actuarial cost method	Projected unit credit
Amortization method	Open period method
Remaining amoritzation period	30 years as of the valuation date
Asset valuation method	N/A
Actuarial assumptions:	
Discount rate	4.00%
Projected salary increase	N/A
Inflation - discount rate	3.00%

Note 10 – Net Position

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

		2013	2012
Net investment in capital assets:			
Capital assets, net	$	20,757,234	21,037,649
Discount on issued debt		34,246	36,978
Loss on defeasance of debt		723,382	783,163
Note payable – current		(195,000)	(185,000)
Note payable – long-term		(4,740,000)	(4,935,000)
Certificates of Participation – current		(150,000)	(145,000)
Certificates of Participation – long-term		(2,830,000)	(2,980,000)
Bonds payable – current		(135,000)	(135,000)
Bonds payable – long-term		(925,000)	(1,060,000)
Total net investment in capital assets		12,539,862	12,417,790
Restricted net position:			
Restricted for debt service		924,515	923,723
Unrestricted net position:			
Non-spendable net position:			
Materials and supplies inventory		73,044	91,202
Prepaid expenses and deposits		50,812	57,344
Total non-spendable net position		123,856	148,546
Spendable net position are designated as follows:			
Total spendable net position		4,795,797	5,695,555
Total unrestricted net position		4,919,653	5,844,101
Total net position	$	18,384,030	19,185,614

Note 11 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2013:

- Property coverage: Liability limits varying by property type with a $500-$5,000 deductible and a premium of $13,364.
- Liability coverage: $67,059 deposit premium.
- Crime coverage: Premium is included.
- Workers compensation: $2,000,000 each accident or each employee by disease.

Note 12 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. 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. 68

In June 2012, the GASB issued Statement No. 68 – Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. 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. 69

In January 2013, the GASB issued Statement No. 69 – Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. 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. 70

In April 2013, the GASB issued Statement No. 70 – Accounting and Financial Reporting for Non-exchange Guarantees. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

Note 13 – Prior Period Adjustment

During 2013, the District determined that amounts related to the payoff of the District's CalPERS Side-Fund balance was improperly recorded as an asset. As a result, the District has recorded a prior period adjustment to net position in the amount $662,162.

During 2013, the District determined to change the methodology for accounting for bad debt and has recorded an allowance for potential bad debt. As a result, the District has recorded a prior period adjustment to net position in the amount of $29,298.

The adjustment to net position is as follows:

Net position at July 1 2012, as previously stated	$	19,185,614
Effect of adjustment to write off pension asset		(662,162)
Effect of change in accounting principle		(29,298)
Net position at July 1, 2012		18,494,154
Change in net position at June 30, 2013		(110,124)
Net position at June 30, 2013	$	18,384,030

Note 14 – Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant. The District has received grant funding in the amount of $363,956 and $222,608 fiscal years ended June 30, 2013 and 2012, respectively.

Litigation

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

Note 15 – Subsequent Events

Events occurring after June 30, 2013 have been evaluated for possible adjustment to the financial statements or disclosure as of January 16, 2014, which is the date the financial statements were available to be issued.

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Required Supplementary Information

Scotts Valley Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Defined Benefit Pension Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool

The District is part of the CalPERS Miscellaneous 2.7% at 55 yrs. Risk Pool	June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	$ 6,420,804	-	-
2. Plan's side fund	-	-	-
3. Pool's accrued liability	2,486,708,579	-	-
4. Pool's side fund	(160,864,546)	-	-
5. Pool's actuarial value of assets (AVA) including receivables	1,981,073,089	-	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	5,469,018	-	-
7. Pool's market value of assets (MVA) including receivables	1,786,913,296	-	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	4,933,014	-	-

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date		Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA) (c)	Funded Ratio AVA (b/a)	MVA (c/a)		Annual Covered Payroll
June 30, 2011	$	6,420,804	5,469,018	4,933,014	85.2%	76.8%	$	1,090,348
June 30, 2012	*	-	-	-	0.00%	0.00%		-
June 30, 2013	*	-	-	-	0.00%	0.00%		-

* CalPERS has not provided the information for these periods as of the date of the audit report.

(2) Other Post-Employment Benefits Payable

Actuarial Valuation Date		Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$	-	2,274,339	2,274,339	0.00%	$	1,173,791	193.8%
July 1, 2012	$	-	3,819,364	3,819,364	0.00%	$	1,270,665	300.6%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2016 based on the year ending June 30, 2015.

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Supplemental Information

Scotts Valley Water District
Schedule I – Operating Revenue and Expense
For the Fiscal Year Ended June 30, 2013

		2013
Operating revenues:		
Water sales, including fixed monthly charge		
and meter based charge	$	3,910,071
Meter connection fees		199,676
Water sales, recycled		496,296
Sales of bulk water, including hydrant and		
fire protection charges		104,321
Impact fee income		173,880
Other		53,968
Total operating revenue		4,938,212
Operating expenses:		
Cost of sales, excluding depreciation:		
Source of supply		121,208
Pumping		430,450
Water treatment		276,543
Recycled water		194,924
Transmission and distribution		457,427
Total cost of sales, excluded depreciation		1,480,552
Customer expense:		
Stores		264
Meter reading		27,138
Collection		15,062
Billing		40,511
Community information		9,114
Conservation expense		79,150
Total customer expense	$	171,239

Scotts Valley Water District
Schedule I – Operating Revenue and Expense, Continued
For the Fiscal Year Ended June 30, 2013

		2013
Operating expenses (continued):		
General and administrative:		
Office		219,733
General maintenance		326,541
Insurance, payroll tax, employee benefits		1,112,250
Education		7,460
Management		548,594
Board expenses		160,582
Outside services:		
Legal		21,010
Miscellaneous		2,000
Audit		28,377
Engineering costs		59,252
Destruction of wells		111,590
Ground water management		158,906
Other		55,698
Total general and administrative expense		2,811,993
Total operating expenses		4,463,784
Non-operating revenue:		
Interest income		27,119
Property tax revenue		752,395
Other		52,828
Total non-operating revenue		832,342
Non-operating expense:		
Interest expense		394,049
Amortization of bond issue costs		219,147
Total non-operating expense		613,196
Capital contributions:	$	363,956

Scotts Valley Water District
Schedule II – Operating Revenue and Expense
For the Fiscal Year Ended June 30, 2012

		2012
Operating revenues:		
Water sales, including fixedmonthly charge		
and meter based charge	$	3,700,522
Meter connection fees		36,180
Water sales, recycled		375,404
Sales of bulk water, including hydrant and		
fire protection charges		85,201
Impact fee income		50,410
Other		12,131
Total operating revenue		4,259,848
Operating expenses:		
Cost of sales, excluding depreciation:		
Source of supply		129,253
Pumping		491,664
Water treatment		298,334
Recycled water		174,198
Transmission and distribution		505,509
Total cost of sales, excluded depreciation		1,598,958
Customer expense:		
Stores		605
Meter reading		20,652
Collection		22,191
Billing		44,417
Community information		9,685
Conservation expense		61,644
Total customer expense	$	159,194

Scotts Valley Water District
Schedule II – Operating Revenue and Expense, Continued
For the Fiscal Year Ended June 30, 2012

		2012
Operating expenses (continued):		
General and administrative:		
Office	$	178,550
General maintenance		261,065
Insurance, payroll tax, employee benefits		1,017,166
Education		8,281
Management		383,443
Board expenses		96,651
Outside services:		
Legal		21,000
Miscellaneous		38,745
Audit		28,033
Engineering costs		1,200
Destruction of wells		-
Ground water management		61,475
Other		55,731
Total general and administrative expense		2,151,340
Total operating expenses		3,909,492
Non-operating revenue:		
Interest income		23,755
Property tax revenue		671,550
Other		26,426
Total non-operating revenue		721,731
Other non-operating expense:		
Interest expense		448,525
Amortization of bond issue costs		15,290
Total non-operating expense		463,815
Capital contributions:	$	222,608

Report on Internal Controls and Compliance

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

Board of Directors
Scotts Valley Water District
Scotts Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Scotts Valley Water District (District), as of and for the year-ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 16, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

Charles Z Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
January 16, 2014