

Scotts Valley Water District

Annual Financial Report

For the Fiscal Year Ended June 30, 2014



Service to the Valley Since 1961

Scotts Valley Water District Board of Directors as of June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
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
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Scotts Valley, California 95066
(831) 438-2363 – www.svwd.org**

Scotts Valley Water District

Annual Financial Report

For the Fiscal Year Ended June 30, 2014

**Scotts Valley Water District
Annual Financial Report
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Table of Contents

	<u>Page No.</u>
Table of Contents	i
Introductory Section	
Letter of Transmittal	1-6
Financial Section	
Independent Auditor's Report	7-8
Management's Discussion and Analysis	9-12
Basic Financial Statements:	
Statement of Net Position	13-14
Statement of Revenues, Expenses and Change in Net Position	15
Statement of Cash Flow	16-17
Notes to the Basic Financial Statements	18-33
Required Supplementary Information Section	
Schedule of Funding Status	34
Supplemental Information Section	
Schedule I – Schedule of Operating Income (Loss)	35
Schedule II – Schedule of Customer Account and General and Administrative Expense	36
Report on Internal Controls and Compliance	
Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37-38

Introductory Section



Scotts Valley Water District

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contact@svwd.org

November 1, 2014

The Honorable Board of Directors of
the Scotts Valley Water District

Introduction

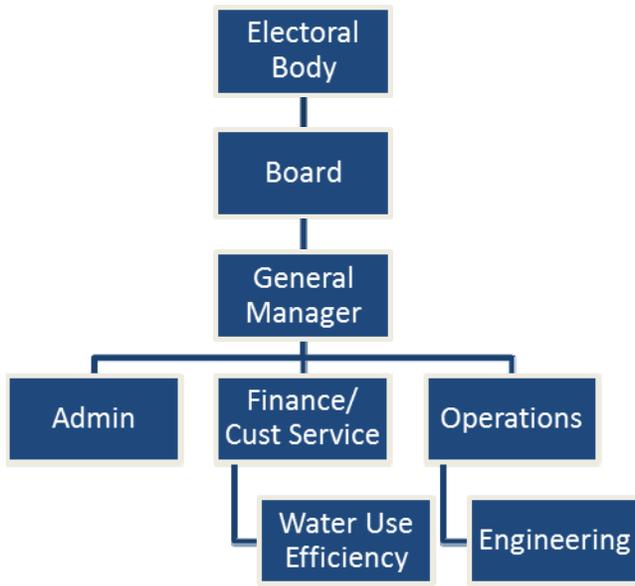
It is my pleasure to submit the Annual Financial Report for the Scotts Valley Water District (District) for the fiscal year ending June 30, 2014. The District staff prepared this financial report following guidelines set forth by the Governmental Accounting Standards Board (GASB). The District is ultimately responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures in this financial report. I believe that the data presented is accurate in all material respects. This report is designed in a manner that helps to enhance your understanding of the District's financial position and activities.

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

Generally Accepted Accounting Principles (GAAP) requires that 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/Customer Service. The District's Board of Directors meets on the second Thursday of each month. Meetings are publicly noticed and the public is encouraged to attend. An organizational chart is presented below.



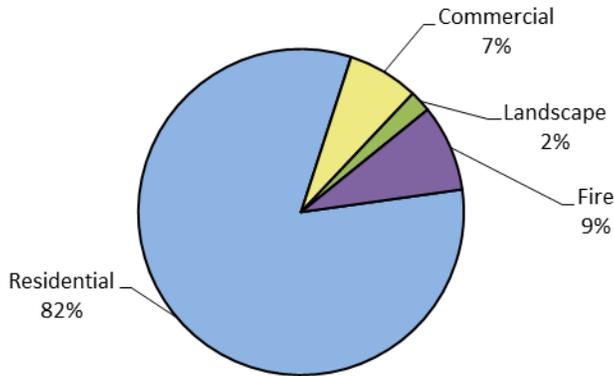
The District provides water service to approximately 3,800 connections, covering most of the City of Scotts Valley and several unincorporated neighborhoods. The City of Scotts Valley, which occupies approximately 6 square miles, is located 6 miles north of the City of Santa Cruz on Highway 17 in Santa Cruz

District Services

Residential connections represent approximately 82% of the District’s total connections and consume approximately 56% of the water produced annually by the District. The District currently has a total of 6 groundwater wells with a maximum production capacity of 1,400 gallons per minute. Additionally, the District is the permitted distributor of the recycled water from the Tertiary Treatment Plant of the City of Scotts Valley. As of June 30, 2014, there were 50 connections with an annual demand of 70 million gallons.

Potable water connections and billable potable water consumption by customer type are presented below:

Potable Water Connections
6/30/2014



4,063 connections:

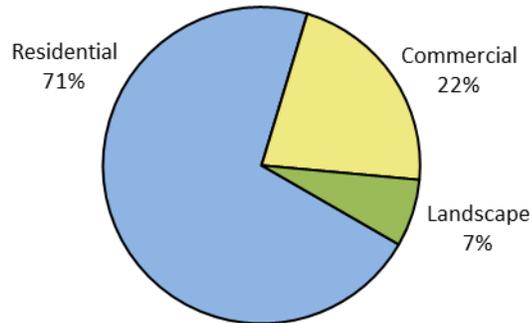
- Residential: 3,340
- Commercial: 287
- Landscape: 87
- Fire: 349

Potable Water Consumption (based on billable usage)

FY 2013-14

404.6 million gallons (MG):

- 288.6 MG Residential
- 88.2 MG Commercial
- 27.8 MG Landscape.



Economic Condition and Outlook

Santa Cruz County's economy, though lagging behind California average and national average in several key economic indicators, continues to recover from the Great Recession. According to a recent local newspaper article, the local economy is showing signs of accelerated improvement, as more homes are being sold to tech commuters working in Silicon Valley, a greater number of jobs are available in technology and marketing sectors and employers are paying more to compete for talent.

The District's main office is located in the City of Scotts Valley in Santa Cruz County. The number of service connections is closely impacted by the local economy and by the City's economic development policies, especially the housing development policy. The City has a population of approximately 11,594 per the State Department of Finance for January 2014, an increase of 1.8% compared with 11,385 of the 2000 census. The number of households grew from 4,273 in the 2000 census to 4,426 in the 2010 census, a growth of 3.6%. As the City's remaining buildable space is limited, growths in population and the number of households are likely to be moderate.

The City Planning Department is currently facilitating several commercial and residential developments. Once these projects get accomplished, both the number of connections and the usage is expected to increase.

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

The District's water supply continues to be a concern due to a prolonged statewide drought that began in 2012, and the aging water infrastructure. The severity of the drought in its third year prompted Governor Brown to declare Drought State of Emergency on January 17, 2014, calling all residents to conserve water in every possible way. A statewide conservation campaign led by the Department of Water Resources called on Californians to reduce water usage by 20%. The District launched a voluntary usage reduction program in April 2014 and achieved a usage reduction of 21% in the May-June billing cycle compared with the same period in 2013.

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

Major Accomplishments

The activities of the District are driven by its Mission Statement: “To deliver a sustainable, high quality water supply in an environmentally responsible and sound financial manner while providing outstanding customer service”. The accomplishments in each of the Strategic Goal areas for FYE 6/30/2014 included:

1. **Water Resource Management:** Renegotiated and executed with the City of Scotts Valley the Recycled Water Agreement which had expired in July 2009. Concluded negotiations with the developer for the installation of a Low Impact Development recharge system at the Woodside Development to capture rain for replenishment of the groundwater.
2. **Infrastructure Integrity:** Completed one expansion project and two replacement projects as follows:
 - Blue Bonnet Recycled Water Main Extension, adding 1,300 feet of recycled water main;
 - Scotts Valley Drive Transfer Station Rehabilitation, replacing the pressure relief valves in the transfer station; and
 - Large Meter Replacement, changing out all 1” to 4” meters.
3. **Financial stewardship:** Implemented a new chart of accounts for financial clarity and transparency, updated the investment policy and invested District funds accordingly, and revamped the budget document and adopted the 2014-15 budget by June 30, 2014.
4. **Public Outreach:** Actively participated in local, regional and State meetings to advance and promote water utility issues and concerns; re-established positive and effective connections with other public and business entities in Scotts Valley and Santa Cruz County; improved the format and content of the board agenda packages; and contributed articles to local press on a regular basis.
5. **Organizational Vitality:** Completed the recruitment of 7 highly qualified employees; collaborated with the Board to refine the District’s mission, vision, values and to develop a set of practicable strategic goals; streamlined Finance/Customer Service operations; aligned water operator certificate requirements with the CDPH standards; and coordinated employee training through monthly Lunch N Learns.

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

Recycled Water

Scotts Valley boasts the only recycled water treatment plant (Tertiary Treatment Plant) in the North Santa Cruz County area. The District’s policy to use the recycled water wherever feasible by installing recycled irrigation services at the new development projects and converting existing potable landscape connections to recycled water has resulted in total number of recycled water accounts to reach 50 since the inception of the Tertiary Treatment Plant in 2002.

Water Rates and District Revenues

On July 1, 2013, the Connection Charges and Water Replenishment Impact Fees were increased by 2.5% based on the ENR construction cost index (July to July). Effective December 15, 2013 the meter service charges were increased by 1% and commodity charges by 3.75% based on a five-year rate schedule approved in December 2012.

Water Conservation and Water Use Efficiency Programs

The District has always been committed to water use efficiency and conservation through rebates, educational workshops, home inspections and consultations. In response to the Governor Brown's call for a water usage reduction of 20%, the District implemented a direct installation toilet program free of charge to eligible District customers and enhanced turf and drip irrigation rebates.

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

Accounting and Finance

In fiscal year 2014, the District upgraded the general ledger chart of accounts to better serve the District's accounting and reporting function. As a result of the many changes, the District has elected to present the 2014 Annual Financial Report as a single year presentation.

Budgetary Control

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

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

Investment Policy

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

Independent Audit and Financial Reporting

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

Risk Management

The District is a member of the Association of California Water Agencies Joint 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 deep 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

Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

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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, 2014, 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 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, 2014, 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 9 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 6, and the supplemental information schedules on pages 35 through 36, are presented for purposes of additional analysis and are not a required part of the 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 November 1, 2014, 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 37 and 38.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation

Cypress, California

November 1, 2014

Scotts Valley Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014 and 2013 for comparative purposes

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Scotts Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2014. 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 2.05%, or \$376,658 to \$18,007,372, in fiscal year 2014, as a result of a \$522,708 loss from current year operations that was offset by a one-time prior period adjustment in the amount of \$146,050. See note 12 for further discussion.
- The District's operating revenues increased 4.18% or \$206,386 in 2014, primarily due a \$72,345 increase in water sales revenues related to increased water consumption and rate increases. Service charge revenues and other operating revenues increased \$46,645 and \$87,396, respectively.
- The District's non-operating revenues decreased 4.61% or \$35,916 primarily due to a \$42,158 decrease in property tax revenues.
- The District's operating expenses increased 21.99% or \$981,789 in 2014, primarily due to expensing construction costs of \$420,000 related to a non-performing monitoring well that was capitalized in the prior year, a contribution of \$300,000 to the Woodside CUDO system for groundwater replenishment, and expensing several feasibility studies previously recorded as capital assets in prior years.
- The District's non-operating expenses decreased 32.50% or \$182,128 primarily due to a \$219,147 write-down of deferred charges related to the implementation of GASB 65 in the prior year.

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.

Scotts Valley Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014 and 2013 for comparative purposes

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 18 through 33.

Statements of Net Position

Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current assets	\$ 8,605,823	8,181,121	424,702
Non-current assets	115,000	120,000	(5,000)
Capital assets, net	<u>19,622,309</u>	<u>20,903,134</u>	<u>(1,280,825)</u>
Total assets	<u>28,343,132</u>	<u>29,204,255</u>	<u>(861,123)</u>
Deferred outflows of resources	<u>663,598</u>	<u>723,382</u>	<u>(59,784)</u>
Liabilities:			
Current liabilities	1,485,760	1,539,674	(53,914)
Non-current liabilities	<u>9,513,598</u>	<u>9,858,033</u>	<u>(344,435)</u>
Total liabilities	<u>10,999,358</u>	<u>11,397,707</u>	<u>(398,349)</u>
Net position:			
Net investment in capital assets	11,822,421	12,539,862	(717,441)
Restricted	918,709	924,515	(5,806)
Unrestricted	<u>5,266,242</u>	<u>4,919,653</u>	<u>346,589</u>
Total net position	<u>\$ 18,007,372</u>	<u>18,384,030</u>	<u>(376,658)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities by \$18,007,372 and \$18,384,030, as of June 30, 2014 and 2013, respectively.

Scotts Valley Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014 and 2013 for comparative purposes

Statements of Net Position, continued

By far the largest portion of the District's net position (66% and 68% as of June 30, 2014 and 2013, 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 2014 and 2013, the District showed a positive balance in its unrestricted net position of \$5,266,242 and \$4,919,653, respectively, which may be utilized in future years. See note 9 for further discussion.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position			
	2014	2013	Change
Revenues:			
Operating revenues	\$ 5,144,598	4,938,212	206,386
Non-operating revenues	743,598	779,514	(35,916)
Total revenues	5,888,196	5,717,726	170,470
Expenses:			
Operating expenses	5,445,573	4,463,784	981,789
Depreciation and amortization	1,023,055	1,167,654	(144,599)
Non-operating expenses	378,240	560,368	(182,128)
Total expenses	6,846,868	6,191,806	655,062
Net loss before capital contributions	(958,672)	(474,080)	(484,592)
Capital contributions:	435,964	363,956	72,008
Change in net position	(522,708)	(110,124)	(412,584)
Net position – beginning of year	18,384,030	19,185,614	(801,584)
Prior period adjustment	146,050	(691,460)	837,510
Net position – end of year	\$ 18,007,372	18,384,030	(376,658)

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

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

The District's net position decreased 2.05%, or \$376,658 to \$18,007,372, in fiscal year 2014, as a result of a \$522,708 loss from current year operations that was offset by a one-time prior period adjustment in the amount of \$146,050. See note 12 for further discussion.

The District's operating revenues increased 4.18% or \$206,386 in 2014, primarily due a \$72,345 increase in water sales revenues related to increased water consumption and rate increases. Service charge revenues and other operating revenues increased \$46,645 and \$87,396, respectively.

The District's non-operating revenues decreased 4.61% or \$35,916 primarily due to a \$42,158 decrease in property tax revenues.

Scotts Valley Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014 and 2013 for comparative purposes

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

The District's operating expenses increased 21.99% or \$981,789 in 2014, primarily due to expensing construction costs of \$420,000 related to a non-performing monitoring well that was capitalized in the prior year, a contribution of \$300,000 to the Woodside CUDO system for groundwater replenishment, and expensing several feasibility studies previously recorded as capital assets in prior years.

The District's non-operating expenses decreased 32.50% or \$182,128 primarily due to a \$219,147 write-down of deferred charges related to the implementation of GASB 65 in the prior year.

Capital Asset Administration

At the end of fiscal year 2014, the District's investment in capital assets amounted to \$19,622,309 (net of accumulated depreciation). 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 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2014</u>
Capital assets:				
Non-depreciable assets	\$ 2,022,451	491,823	(1,203,369)	1,310,905
Depreciable assets	37,167,893	507,174	(473,150)	37,201,917
Accumulated depreciation	<u>(18,287,210)</u>	<u>(1,023,055)</u>	<u>419,752</u>	<u>(18,890,513)</u>
Total capital assets, net	<u>\$ 20,903,134</u>	<u>(24,058)</u>	<u>(1,256,767)</u>	<u>19,622,309</u>

Debt Administration

Changes in long-term debt amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2014</u>
Long-term debt:				
2003 Refunding Bonds	\$ 1,060,000	-	(135,000)	925,000
2004 COP	2,980,000	-	(150,000)	2,830,000
2011 Note Payable	<u>4,935,000</u>	<u>-</u>	<u>(195,000)</u>	<u>4,740,000</u>
Total loans payable	8,975,000	-	<u>(480,000)</u>	8,495,000
Less: current portion	(480,000)			(495,000)
Discount on debt	<u>(34,246)</u>			<u>(31,514)</u>
Long-term portion	<u>\$ 8,460,754</u>			<u>7,968,486</u>

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.

Basic Financial Statements

Scotts Valley Water District
Statement of Net Position
June 30, 2014

	2014
Current assets:	
Cash and cash equivalents (note 2)	\$ 5,903,538
Cash & cash equivalents – restricted (note 2)	918,709
Accrued interest receivable	6,294
Accounts receivable, net	892,511
Accounts receivable – property tax	31,461
Accounts receivable – other	603,821
Materials and supplies inventory	175,409
Prepaid expenses and deposits	74,080
Total current assets	8,605,823
Non-current assets:	
Note receivable	115,000
Capital assets – not being depreciated (note 3)	1,310,903
Capital assets – being depreciated (note 3)	18,311,406
Total non-current assets	19,737,309
Total assets	28,343,132
Deferred outflows of resources:	
Loss on defeasance of debt (note 4)	663,598
Total deferred outflows of resources	\$ 663,598

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Net Position
June 30, 2014

	2014
Current liabilities:	
Accounts payable and accrued expense	772,094
Accrued wages and related payables	29,999
Accrued interest payable	155,907
Customer deposits	6,000
Long-term liabilities – due in one year:	
Compensated absences (note 5)	26,760
Note payable (note 6)	205,000
Certificates of Participation (note 6)	150,000
Bonds payable (note 6)	140,000
Total current liabilities	1,485,760
Non-current liabilities:	
Unearned revenue	245,766
Long-term liabilities – due in more than one year:	
Compensated absences (note 5)	80,281
Other post-employment benefits payable (note 8)	1,219,065
Note payable (note 6)	4,535,000
Certificates of Participation (note 6)	2,653,485
Bonds payable (note 6)	780,001
Total non-current liabilities	9,513,598
Total liabilities	10,999,358
Net position: (note 9)	
Net investment in capital assets	11,822,421
Restricted for debt service	918,709
Unrestricted	5,266,242
Total net position	\$ 18,007,372

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended June 30, 2014

	<u>2014</u>
Operating revenues:	
Water sales	\$ 4,295,924
Water sales – recycled	205,584
Service charges	306,189
Other revenue	<u>336,901</u>
Total operating revenues	<u>5,144,598</u>
Operating expenses:	
Source of supply	666,853
Pumping	602,886
Water treatment	588,134
Recycled water	76,682
Transmission and distribution	1,082,962
Conservation	430,989
Customer accounts	217,062
General and administrative expense	<u>1,780,005</u>
Total operating expenses	<u>5,445,573</u>
Operating income before depreciation and amortization	(300,975)
Depreciation expense	<u>(1,023,055)</u>
Operating loss	<u>(1,324,030)</u>
Non-operating revenue (expense):	
Property tax revenues	710,237
Investment earnings	13,336
Interest expense	(378,240)
Other non-operating revenue (expense), net	<u>20,025</u>
Total non-operating revenues, net	<u>365,358</u>
Net loss before capital contributions	<u>(958,672)</u>
Capital contributions:	
Capital contributions	319,438
Capital grants – State	<u>116,526</u>
Total capital contributions	<u>435,964</u>
Change in net position	(522,708)
Net position – beginning of year	18,384,030
Prior period adjustment (note 12)	<u>146,050</u>
Net position – end of year	<u>\$ 18,007,372</u>

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Cash Flow
For the Fiscal Year Ended June 30, 2014

	<u>2014</u>
Cash flows from operating activities:	
Cash received from customers	\$ 5,208,828
Cash paid to employees for salaries	(1,416,197)
Payments to vendors for materials and services	<u>(3,455,278)</u>
Net cash provided by operating activities	<u>337,353</u>
Cash flows from non-capital financing activities:	
Proceeds from property taxes	<u>692,289</u>
Net cash provided by non-capital financing activities	<u>692,289</u>
Cash flows from capital and related financing activities:	
Cash paid to acquire capital assets	(257,370)
Principal paid on long-term debt	(480,000)
Proceeds from capital grant	116,526
Interest paid	(306,013)
Principal payments received on note receivable	<u>(5,000)</u>
Net cash used in capital and related financing activities	<u>(931,857)</u>
Cash flows from investing activities:	
Interest on investments	<u>3,803</u>
Net cash provided by investing activities	<u>3,803</u>
Net increase in cash and cash equivalents	101,588
Cash and cash equivalents – beginning of year	<u>6,720,659</u>
Cash and cash equivalents – end of year	<u><u>\$ 6,822,247</u></u>
Reconciliation of cash and cash equivalents to statements of financial position:	
Cash and cash equivalents	\$ 5,903,538
Cash and cash equivalents – restricted	<u>918,709</u>
Total cash and cash equivalents	<u><u>\$ 6,822,247</u></u>

Continued on next page

See accompanying notes to the basic financial statements

Scotts Valley Water District
Statement of Cash Flow
For the Fiscal Year Ended June 30, 2014

	<u>2014</u>
Reconciliation of operating loss to net cash provided	
by operating activities:	
Operating loss	\$ <u>(1,324,030)</u>
Adjustments to reconcile operating income (loss) to net cash	
provided by operating activities:	
Deprecation and amortization	1,023,055
Non-operating, net	279,981
Changes in assets and liabilities:	
(Increase) Decrease in assets:	
Customer accounts receivable	(138,424)
Accounts receivable – other	364,446
Materials and supplies inventory	102,365
Prepaid expenses and deposits	23,268
Increase (Decrease) in liabilities:	
Accounts payable and accrued expense	(103,758)
Accrued wages and related payables	8,126
Property tax payable	(38,239)
Customer deposits	(6,000)
Compensated absences	(5,077)
Other post-employment benefits obligation	307,432
Unearned revenue	<u>(155,792)</u>
Total adjustments	<u>1,661,383</u>
Net cash provided by operating activities	\$ <u><u>337,353</u></u>
Non-cash financing and investing, capital, and financing transaction:	
Change in fair-market value of funds deposited with LAIF	\$ <u><u>692</u></u>

See accompanying notes to the basic financial statements

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies

A. Reporting Entity and Component Unit

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.

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.

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.

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

1. Use of Estimates

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

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, continued

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

2. Cash and Cash Equivalents

For purposes 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

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

4. Accounts Receivable and Allowance for Uncollectible Accounts

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

5. Property Taxes and Assessments

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

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

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

6. Supplies Inventory

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

7. Prepaid Expenses

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

8. Compensated Absences

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

9. Water Sales

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

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, continued

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

10. 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.

11. 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.

12. 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.

13. Deferred Outflows of Resources

Loss on defeasance of debt is included on the Statement of Net Position and is 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.

14. Net Position

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

Net Investment in Capital Assets – 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 assets.

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".

15. Budgetary Policies

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

**Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

(2) Cash and Investments

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

	2014
Cash and cash equivalents	\$ 5,903,538
Cash & cash equivalents – restricted	918,709
Total cash and cash equivalents	\$ 6,822,247

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

	2014
Petty cash	\$ 400
Deposits with financial institutions	4,505,968
Local Agency Investment Fund (LAIF)	2,315,879
Total cash and cash equivalents	\$ 6,822,247

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

	2014
Deposits held with California Local Agency Investment Fund (LAIF)	232 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).

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(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, 2014 and 2013, respectively.

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(3) Capital Assets

Changes in capital assets for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land & land rights	\$ 641,798	-	-	641,798
Construction-in-process	<u>1,380,653</u>	<u>491,823</u>	<u>(1,203,369)</u>	<u>669,107</u>
Total non-depreciable assets	<u>2,022,451</u>	<u>491,823</u>	<u>(1,203,369)</u>	<u>1,310,905</u>
Depreciable assets:				
Water rights – recycled water	5,629,279	-	-	5,629,279
Water treatment	5,505,470	33,908	-	5,539,378
Transmission and distribution	9,197,069	32,079	(473,150)	8,755,998
Resservoirs and tanks	5,767,404	96,400	-	5,863,804
Source of supply - wells	5,609,973	-	-	5,609,973
Pumping	1,206,938	46,544	-	1,253,482
Buildings	646,872	-	-	646,872
Recycled water	2,157,373	298,243	-	2,455,616
Equipment and tools	825,653	-	-	825,653
Office equipment	199,104	-	-	199,104
Transportation	<u>422,758</u>	<u>-</u>	<u>-</u>	<u>422,758</u>
Total depreciable assets	<u>37,167,893</u>	<u>507,174</u>	<u>(473,150)</u>	<u>37,201,917</u>
Accumulated depreciation:				
Water rights – Recycled water	(1,260,054)	(112,586)	-	(1,372,640)
Water treatment	(4,036,076)	(191,715)	-	(4,227,791)
Transmission and distribution	(5,084,309)	(202,310)	419,752	(4,866,867)
Resservoirs and tanks	(2,235,202)	(149,562)	-	(2,384,764)
Source of supply - wells	(2,989,544)	(143,617)	-	(3,133,161)
Pumping	(839,654)	(44,598)	-	(884,252)
Buildings	(398,280)	(20,845)	-	(419,125)
Recycled water	(439,088)	(56,144)	-	(495,232)
Equipment and tools	(477,247)	(84,545)	-	(561,792)
Office equipment	(186,141)	(3,849)	-	(189,990)
Transportation	<u>(341,615)</u>	<u>(13,284)</u>	<u>-</u>	<u>(354,899)</u>
Total accumulated depreciation	<u>(18,287,210)</u>	<u>(1,023,055)</u>	<u>419,752</u>	<u>(18,890,513)</u>
Total depreciable assets, net	<u>18,880,683</u>	<u>(515,881)</u>	<u>(53,398)</u>	<u>18,311,404</u>
Total capital assets, net	<u>\$ 20,903,134</u>			<u>19,622,309</u>

In 2014, major capital assets additions include water treatment \$33,908, Transmission and distribution \$32,079, reservoirs and tanks \$96,400, pumping \$46,544, and recycled water \$298,243.

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 \$669,107 at June 30, 2014.

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(4) Deferred Outflows of Resources

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

	<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>2014</u>
Loss on defeasance of debt	\$ 723,382	-	(59,784)	663,598

(5) Compensated Absences

Changes in compensated absences for 2014 were as follows:

	<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2014</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
\$	112,118	104,936	(110,013)	107,041	26,760	80,281

(6) Long-Term Debt

Changes in long-term debt amounts for 2014 were as follows:

	<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u> <u>2014</u>
Long-term debt:				
2003 Refunding Bonds	\$ 1,060,000		(135,000)	925,000
2004 COP	2,980,000		(150,000)	2,830,000
2011 Note Payable	4,935,000		(195,000)	4,740,000
Total loans payable	8,975,000	-	(480,000)	8,495,000
Less: current portion	(480,000)			(495,000)
Discount on debt	(34,246)			(31,514)
Long-term portion	\$ 8,460,754			7,968,486

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.

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(6) Long-Term Debt, continued

2003 Refunding Bonds, continued

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	165,000	13,448	178,448
2020	165,000	6,765	171,765
Total	925,000	<u>132,645</u>	<u>1,057,645</u>
Less: Current portion	(140,000)		
Discount on debt	<u>(4,999)</u>		
Total non-current	<u>\$ 780,001</u>		

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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	180,000	93,753	273,753
2020-2024	1,015,000	346,310	1,361,310
2025-2028	985,000	95,461	1,080,461
Total	2,830,000	<u>976,062</u>	<u>3,806,062</u>
Less: Current portion	(150,000)		
Discount on debt	<u>(26,515)</u>		
Total non-current	<u>\$ 2,653,485</u>		

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(6) Long-Term Debt, continued

2011 Refunding Certificates of Participation

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	230,000	124,394	354,394
2020-2024	1,910,000	472,631	2,382,631
2025-2028	1,745,000	111,231	1,856,231
Total	4,740,000	<u>1,276,925</u>	<u>6,016,925</u>
Less: Current portion	<u>(205,000)</u>		
Total non-current	\$ <u>4,535,000</u>		

(7) 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 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 MOU that expired on June 30, 2014.

**Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

(7) Defined Benefit Pension Plan, continued

Funding Policy, continued

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 2014, 2013 and 2012 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.

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 contributed the employee share for new members until the expiration of the employee MOU on 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 2014, 2013 and 2012, the District's annual contributions for the CalPERS plan were equal to the District's 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
2011-2012	\$ 327,020	100%	-	15.226%	9.539%	N/A
2012-2013	232,986	100%	-	15.645%	9.716%	6.250%
2013-2014	221,094	100%	-	16.155%	10.282%	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 employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

See Page 34 for the Schedule of Funding Status.

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(8) 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:

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>2014</u>	<u>2013</u>	<u>2012</u>
Active plan members	19	12	14
Retirees and beneficiaries receiving benefits	12	16	14
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>31</u>	<u>28</u>	<u>28</u>

Plan Description – Benefits

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

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 36.6% 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, 2014, the District's ARC cost is \$447,176. The District's net OPEB payable obligation amounted to \$1,219,065 for the fiscal year ended June 30, 2014. The District contributed \$136,706 in age adjusted contributions for current retiree OPEB premiums for the fiscal year ended June 30, 2014.

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(8) Post Employment Benefits Payable, continued

Annual OPEB Cost and Net OPEB Obligation, continued

The balance at June 30, consists of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 447,176	429,977	278,424
Interest on net OPEB obligation	27,350	18,456	20,237
Adjustment to annual required contribution	<u>(30,388)</u>	<u>(20,506)</u>	<u>-</u>
Total annual OPEB expense	444,138	427,927	298,661
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(136,706)</u>	<u>(131,485)</u>	<u>(88,205)</u>
Total change in net OPEB payable obligation	307,432	296,442	210,456
OPEB payable - beginning of year	<u>911,633</u>	<u>615,191</u>	<u>404,735</u>
OPEB payable - end of year	<u>\$ 1,219,065</u>	<u>911,633</u>	<u>615,191</u>

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 2014 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
2014	\$ 444,138	136,706	30.78%	\$ 1,219,065
2013	427,927	131,485	30.73%	911,633
2012	298,661	88,205	29.53%	615,191

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 34 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.

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(8) Post Employment Benefits Payable, continued

Actuarial Methods and Assumptions, continued

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 amortization 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%

(9) Net Position

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

	<u>2014</u>
Net investment in capital assets:	
Capital assets, net	\$ 19,622,309
Loss on defeasance of debt	663,598
Note payable – current	(205,000)
Note payable – long-term	(4,535,000)
Certificates of Participation – current	(150,000)
Certificates of Participation – long-term	(2,653,485)
Bonds payable – current	(140,000)
Bonds payable – long-term	(780,001)
Total net investment in capital assets	<u>11,822,421</u>
Restricted net position:	
Restricted for debt service	<u>918,709</u>
Unrestricted net position:	
Non-spendable net position:	
Materials and supplies inventory	175,409
Prepaid expenses and deposits	74,080
Total non-spendable net position	<u>249,489</u>
Spendable net position are designated as follows:	
Total spendable net position	<u>5,016,753</u>
Total unrestricted net position	<u>5,266,242</u>
Total net position	<u><u>\$ 18,007,372</u></u>

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(10) 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, 2014:

- Property coverage: Liability limits varying by property type with a \$500-\$5,000 deductible and a premium of \$13,364.
- Liability coverage: \$67,381 deposit premium.
- Crime coverage: Premium is included.
- Workers compensation: \$2,000,000 each accident or each employee by disease.

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

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

Governmental Accounting Standards Board Statement No. 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.

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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

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. 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. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

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

(12) Prior Period Adjustment

In 2014, the District determined that amounts related accumulated depreciation was overstated. As a result, the District has recorded a prior period adjustment to net position in the amount \$146,050.

The adjustment to net position is as follows:

Net position at June 30, 2013, as previously stated	\$ 18,384,030
Effect of adjustment to accumulated depreciation	<u>146,050</u>
Net position at July 1, 2013	<u>18,530,080</u>
Change in net position at June 30, 2014	<u>(522,708)</u>
Net position at June 30, 2014	<u><u>\$ 18,007,372</u></u>

Scotts Valley Water District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

(13) 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 \$116,526 fiscal year ended June 30, 2014.

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.

(14) Subsequent Events

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as November 1, 2014, which is the date the financial statements were available to be issued.

Required Supplementary Information

**Scotts Valley Water District
Schedule of Funding Status
For the Fiscal Year Ended June 30, 2014**

(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

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
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.

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (a)</u>	<u>Actuarial Value of Assets (AVA) (b)</u>	<u>Market Value of Assets (MVA) (c)</u>	<u>Funded Ratio AVA (b/a)</u>	<u>MVA (c/a)</u>	<u>Annual Covered Payroll</u>
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%	-
June 30, 2014	*	-	-	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

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

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 of Operating Income (Loss)
For the Fiscal Year Ended June 30, 2014

	2014
Operating revenues:	
Water sales	\$ 4,274,449
Water sales – recycled	205,584
Water sales – bulk	21,475
Service charges	306,189
Other revenue	336,901
Total operating revenues	5,144,598
Operating expenses:	
Source of supply	666,853
Pumping	602,886
Water treatment	588,134
Recycled water	76,682
Transmission and distribution	1,082,962
Conservation	430,989
Customer accounts	217,062
General and administrative expense	1,780,005
Total operating expenses	5,445,573
Operating income before depreciation expense	(300,975)
Depreciation expense	(1,023,055)
Operating loss	\$ (1,324,030)

**Scotts Valley Water District
Schedule of Customer Account and
General and Administrative Expense
For the Fiscal Year Ended June 30, 2014**

		<u>2014</u>
Customer accounts:		
Collection	\$	120,287
Customer service		<u>96,775</u>
Total customer accounts	\$	<u><u>217,062</u></u>
 General and administrative:		
Office	\$	104,207
General maintenance		132,683
Salaries and benefits		1,298,766
Education		50,199
Management		6,679
Board expenses		-
Outside services		178,640
Other		<u>8,831</u>
Total general and administrative expense	\$	<u><u>1,780,005</u></u>

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, 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 1, 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
November 1, 2014