

**PAJARO VALLEY WATER
MANAGEMENT AGENCY**
FINANCIAL STATEMENTS
JUNE 30, 2015



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PAJARO VALLEY WATER MANAGEMENT AGENCY

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Pajaro Valley Water Management Agency
Watsonville, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pajaro Valley Water Management Agency (the Agency), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Agency, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 and Note 17 to the basic financial statements, the Agency has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during fiscal year 2015. The adoption of this standard required retrospective application resulting in a \$894,589 reduction of net position as of July 1, 2014. Our opinion is not modified with respect to this matter. Because all of the information required to restate the prior year was not available at the time the financial statements were available to be issued, prior year values are not presented in a comparable manner.

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 4 through 8, the California Public Employees' Retirement System - Schedule of Pajaro Valley Water Management Agency's Proportionate Share of the Net Pension Liability on page 44, California Public Employees' Retirement System - Schedule of Contributions on page 45 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.

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 an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The Supplemental Schedule of Historical Cash Flows and Rate Coverage Table on page 46 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Supplemental Schedule of Historical Cash Flows and Rate Coverage Table is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the other 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 12, 2016 on our consideration of Pajaro Valley Water Management Agency's internal control over financial reporting and 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 the 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 Agency's internal control over financial reporting and compliance.

Bartlett, Pringle & Wolf, LLP

January 12, 2016

PAJARO VALLEY WATER MANAGEMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of the Pajaro Valley Water Management Agency's financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2015. This information is presented in conjunction with the audited financial statements that follow Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS

- The total net position of the Agency exceeded its liabilities by \$42.4 million. Of this amount, \$23.1 million may be used to meet the Agency's ongoing obligations to ratepayers and creditors.
- The Agency's net position increased by \$4.1 million during the current fiscal year. This is due in large part to pass-through grant revenue due from the City of Watsonville.
- The Agency refinanced a portion of their outstanding obligations by issuing \$19.97 million in revenue bonds with an all-inclusive cost of 2.67%. Without extending the payment terms, the Agency expects to save over \$250,000 per year in principal and interest payments totaling approximately \$3.5 million through March 2029.
- The Agency approved new rates to fund projects identified by the Basin Management Plan, addressing groundwater overdraft and seawater intrusion. New California groundwater regulations require that basins are brought into balance by 2040.
- Deliveries of blended recycled water were made through the Coastal Distribution System (CDS) pipeline system. More than 4,300 acre feet of supplemental water deliveries were made to coastal growers. The supplemental supply consists of recycled water from the Recycled Water Facility (RWF) blended with Harkins Slough Project water and supplemental well blend water.
- 2014/2015 overall water consumption of 54,600 acre feet was below the 56,500 acre feet of usage projected in the budget, due in large part to more rainfall than 2013/14 and conservation efforts.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the Agency's financial statements. The Agency's financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating. The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations.

PAJARO VALLEY WATER MANAGEMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the Agency's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 9 through 11 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detail information about the most significant funds, not the Agency as a whole. The Agency, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Agency's funds are governmental fund types. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate the comparison between the governmental fund and government-wide statements.

The Agency maintains four individual governmental funds. Information is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Special Revenue, Capital Projects, and Debt Service Funds.

The fund financial statements can be found on pages 12 through 15 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 43 of this report.

PAJARO VALLEY WATER MANAGEMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENT ANALYSIS

Summary of Net Position
For the Year Ended June 30

	2015	2014	Increase (Decrease)
<u>Assets:</u>			
Current and other assets	\$ 14,319,737	\$ 13,497,717	\$ 822,020
Due from other government	10,365,437	6,654,469	3,710,968
Capital assets	70,386,093	71,724,733	(1,338,640)
Total assets	<u>95,071,267</u>	<u>91,876,919</u>	<u>3,194,348</u>
<u>Deferred Outflows of Resources</u>			
Deferred pensions	171,702	-	171,702
Total deferred outflow of pensions	<u>\$ 171,702</u>	<u>\$ -</u>	<u>\$ 171,702</u>
<u>Liabilities:</u>			
Current and other liabilities	3,072,460	3,560,717	(488,257)
Long-term liabilities	49,486,381	49,999,146	(512,765)
Total liabilities	<u>52,558,841</u>	<u>53,559,863</u>	<u>(1,001,022)</u>
<u>Deferred Inflows of Resources:</u>			
Deferred pensions	230,701	-	230,701
Total deferred inflow of pensions	<u>\$ 230,701</u>	<u>\$ -</u>	<u>\$ 230,701</u>
<u>Net Position:</u>			
Net investment in capital assets	19,112,140	20,018,992	(906,852)
Restricted	253,188	712,716	(459,528)
Unrestricted	23,088,099	17,585,348	5,502,751
Total net position	<u>\$ 42,453,427</u>	<u>\$ 38,317,056</u>	<u>\$ 4,136,371</u>

PAJARO VALLEY WATER MANAGEMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENT ANALYSIS (Continued)

Following is a more detailed review of the year's operations:

Summary of Activities
For the Year Ended June 30

	2015	2014	Increase (Decrease)
Revenue:			
Charges for services	\$ 10,830,132	\$ 12,103,761	\$ (1,273,629)
Operating grants	4,045,861	6,722,991	(2,677,130)
General revenue	525,392	403,461	121,931
Total revenue	15,401,385	19,230,213	(3,828,828)
Expenses:			
Operating expenses	7,849,340	8,103,181	(253,841)
Interest	2,520,815	2,567,696	(46,881)
Total expenses	10,370,155	10,670,877	(300,722)
Change in net position	5,031,230	8,559,336	(3,528,106)
Net position - beginning of year, as originally presented	38,317,056	29,757,720	8,559,336
Prior period adjustment	(894,859)	-	(894,859)
Net Position - beginning of year, as restated	37,422,197	-	37,422,197
Net position - end of year	\$ 42,453,427	\$ 38,317,056	\$ 4,136,371

The Agency's net position increased by \$4.1 million during the current fiscal year. This is due in large part to the pass-through grant revenue due from the City of Watsonville.

The assets of the Agency exceeded liabilities by \$42.4 million at the close of the fiscal year. Of this amount, \$20 million is the amount invested in capital assets net of related debt and \$0.25 million is restricted cash reserved for debt payments. \$23.2 million is available to meet the Agency's ongoing obligations to citizens and creditors and for continued planning and/or implementation of the Basin Management Plan.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital asset additions of \$6,453 were made during the fiscal year ended June 30, 2015 related to the SCADA computer system. Additional capital asset additions of \$28,422 were made during fiscal year ended June 30, 2015 related to equipment. Construction in progress additions of \$1.1 million were related to Recycle Water Facility storage tank and distribution pump improvements, blend well pipeline improvements that will improve delivered water reliability and quality, K1 pipeline project to serve approximately 180 irrigated acres of land impacted by seawater intrusion, and new Basin Monitoring Wells.

PAJARO VALLEY WATER MANAGEMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements.

At the end of the current fiscal year, the Agency's governmental funds reported a total fund balance of \$13,173,093, a \$926,615 increase from prior year. The General Fund has a fund balance of \$2,307,317, the Special Revenue Fund has a balance of \$10,045,757, the Debt Service Fund has a fund balance of \$843,362, and the Capital Projects Fund had a \$23,343 deficit fund balance. Capital Projects Fund is supported by cash inflows from the Special Revenue Fund.

During the current fiscal year, the fund balance of the Agency's General Fund increased \$120,159 the Special Revenue Fund increased \$1,457,404, the Debt Service Fund decreased \$655,577, and the Capital Projects Fund increased by \$4,629. The overall increase in net position is due to revenues and other financing sources exceeding expenditures.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget for fiscal year 2015-2016 is based on the following economic factors and assumptions:

- Projected billed consumption of 56,500 acre feet of water usage, including 51,700 acre feet of groundwater, and 4,800 acre feet of delivered water.
- Current augmentation charges were \$191/acre foot (af) of pumped groundwater outside the delivered water zone. Within the delivered water zone, the pumped ground water charge is \$235/af and the delivered water charge is \$348/af. Rural residential users with unmetered wells pay for an estimated 0.5/af of usage annually at a rate of \$184/af for an annual fee of \$92/residence.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's accountability for the Agency's assets. If you have any questions about this report or need any additional information, contact the General Manager at 36 Brennan Street, Watsonville, CA 95076, or phone (831) 722-9292.

PAJARO VALLEY WATER MANAGEMENT AGENCY
STATEMENT OF NET POSITION
June 30, 2015

ASSETS

Cash and investments	\$ 10,305,121
Restricted cash	253,188
Accounts receivable, net	3,319,916
Grant receivable	364,446
Interest receivable	754
Notes receivable	33,333
Prepaid expenses	42,979
Due from other government	10,365,437
Capital assets, net:	
Nondepreciable	3,032,616
Depreciable	67,353,477
Total capital assets, net	<u>70,386,093</u>
 Total assets	 <u>95,071,267</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred pensions	<u>171,702</u>
 Total deferred outflows of resources	 <u>171,702</u>
 Total assets and deferred outflows of resources	 <u>\$ 95,242,969</u>

PAJARO VALLEY WATER MANAGEMENT AGENCY
STATEMENT OF NET POSITION
June 30, 2015

LIABILITIES

Accounts payable and other accrued liabilities	\$ 888,498
Accrued interest	396,388
Noncurrent liabilities:	
Due within one year	1,787,574
Due in more than one year	<u>49,486,381</u>
Total non current liabilities	51,273,955
 Total liabilities	 <u>52,558,841</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pensions	<u>230,701</u>
 Total deferred inflows of resources	 <u>230,701</u>

NET POSITION

Net investment in capital assets	19,112,140
Restricted	253,188
Unrestricted	<u>23,088,099</u>
 Total net position	 <u>42,453,427</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 95,242,969</u>

PAJARO VALLEY WATER MANAGEMENT AGENCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expenses) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions / Programs				
Governmental activities:				
Water basin management	\$ 7,849,340	\$ 10,830,132	\$ 4,045,861	\$ 7,026,653
Interest on long-term debt	<u>2,520,815</u>			<u>(2,520,815)</u>
Total	<u>\$ 10,370,155</u>	<u>\$ 10,830,132</u>	<u>\$ 4,045,861</u>	<u>\$ 4,505,838</u>
General Revenues				
Management fees				383,634
Investment earnings				<u>141,758</u>
Total general revenues				<u>525,392</u>
Change in net position				<u>5,031,230</u>
Net Position - beginning of year, as originally presented				<u>38,317,056</u>
Prior period adjustment (Note 17)				(894,859)
Net Position - beginning of year, as restated				<u>37,422,197</u>
Net Position - end of year				<u>\$ 42,453,427</u>

See Notes to Financial Statements.

PAJARO VALLEY WATER MANAGEMENT AGENCY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015
(WITH SUMMARY TOTALS FOR JUNE 30, 2014)

	General	Special Revenue	Debt Service	Capital Projects	Memorandum Only	
					2015 Total	2014 Total
ASSETS						
Cash and equivalents	\$ 1,242,126	\$ 7,995,883	\$ -	\$ -	\$ 9,238,009	\$ 7,826,365
Restricted cash	-	-	253,186	-	253,186	712,716
Investments	1,067,112	-	-	-	1,067,112	1,064,509
Accounts receivable	28,784	3,291,132	-	-	3,319,916	3,820,863
Grants receivable	-	364,446	-	-	364,446	3,285
Interest receivable	754	-	-	-	754	587
Notes receivable	-	33,333	-	-	33,333	33,333
Interfund receivable	57,399	-	590,176	11,022	658,597	832,666
Prepaid expenses	10,265	32,714	-	-	42,979	36,057
Total assets	\$ 2,406,440	\$ 11,717,508	\$ 843,362	\$ 11,022	\$ 14,978,332	\$ 14,330,381
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Interfund payable	\$ -	\$ 658,597	\$ -		\$ 658,597	\$ 832,666
Accounts payable and other accrued liabilities	99,123	755,019	-	34,365	888,507	1,194,273
Total liabilities	99,123	1,413,616	-	34,365	1,547,104	2,026,939
Deferred Inflows of Resources:						
Unavailable revenue	-	258,135	-	-	258,135	56,964
Total deferred inflows of resources	-	258,135	-	-	258,135	56,964
Fund Balances:						
Restricted for capital projects	-	-	-	(23,343)	(23,343)	(27,972)
Restricted for debt service	-	-	843,362	-	843,362	1,498,939
Committed for Basin Management Plan	-	664,727	-	-	664,727	664,727
Committed for Facility Operations	-	176,557	-	-	176,557	176,557
Committed for Grant Administration	-	139,561	-	-	139,561	139,561
Committed for Conservation	-	163,228	-	-	163,228	163,228
Committed for Professional Services	84,661	-	-	-	84,661	84,661
Committed for Information Technology	37,741	-	-	-	37,741	37,741
Unassigned	2,184,915	8,901,684	-	-	11,086,599	9,509,036
Total fund balances	2,307,317	10,045,757	843,362	(23,343)	13,173,093	12,246,478
Total liabilities, deferred inflows of resources and fund balances	\$ 2,406,440	\$ 11,717,508	\$ 843,362	\$ 11,022	\$ 14,978,332	\$ 14,330,381

See Notes to Financial Statements.

**PAJARO VALLEY WATER MANAGEMENT AGENCY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
For the Year Ended June 30, 2015**

Total fund balance of governmental funds	\$ 13,173,093
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	70,386,093
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the funds.	(51,273,955)
Deferred outflow of resources reported on the Statement of Net Position in accordance with GASB 68.	171,702
Deferred inflow of resources reported on the Statement of Net Position in accordance with GASB 68.	(230,701)
Accrued interest represents interest due for long-term obligations and is therefore not reported in the funds.	(396,377)
Long-term receivables are not expected to be recovered in the current period and therefore they are not reported in the funds.	10,365,437
Unavailable revenue represents notes receivable and grants receivable that are not recorded as revenue in the funds because they do not provide current financial resources but are recorded as revenue in the statement of activities.	<u>258,135</u>
Net position	<u><u>\$ 42,453,427</u></u>

See Notes to Financial Statements.

PAJARO VALLEY WATER MANAGEMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
For the year ended June 30, 2015
(WITH SUMMARY TOTALS FOR JUNE 30, 2014)

	General	Special Revenue	Debt Service	Capital Projects	Memorandum Only	
					2015 Total	2014 Total
Revenues:						
Management fees	\$ 383,634	\$ -	\$ -	\$ -	\$ 383,634	\$ 383,206
Augmentation charges	-	9,226,566	-	-	9,226,566	10,353,722
Interest income	5,214	136,157	385	-	141,756	20,253
Water sales	-	1,468,510	-	-	1,468,510	1,555,441
Grant income	-	133,722	-	-	133,722	114,102
Other income	58,488	76,571	-	-	135,059	236,850
Total revenues	447,336	11,041,526	385	-	11,489,247	12,663,574
Expenditures:						
Supplies and equipment	5,258	69,922	-	-	75,180	80,855
Monitoring well	-	55,603	-	-	55,603	77,058
Conservation	126,753	-	-	-	126,753	115,492
Delivered water	-	258,988	-	-	258,988	335,310
Professional services	114,587	744,198	-	1,133,618	1,992,403	1,254,542
Bond issuance costs	-	-	315,837	-	315,837	-
Personnel	23,974	1,575,739	-	-	1,599,713	1,514,707
Operating	52,090	2,024,265	-	-	2,076,355	2,382,934
Training and travel	4,515	13,775	-	-	18,290	18,007
Debt service:						
Principal	-	-	23,422,899	-	23,422,899	1,643,132
Interest	-	-	2,784,287	-	2,784,287	2,623,099
Total expenditures	327,177	4,742,490	26,523,023	1,133,618	32,726,308	10,045,136
Revenues over (under) expenditures	120,159	6,299,036	(26,522,638)	(1,133,618)	(21,237,061)	2,618,438
Other financing sources (uses)						
Issuance of refunding bonds	-	-	19,970,000	-	19,970,000	-
Bond premium on refunding bonds	-	-	2,193,676	-	2,193,676	-
Operating transfers in	-	-	3,703,385	1,138,247	4,841,632	3,995,336
Operating transfers out	-	(4,841,632)	-	-	(4,841,632)	(3,995,336)
Total other financing sources (uses)	-	(4,841,632)	25,867,061	1,138,247	22,163,676	-
Net change in fund balance	120,159	1,457,404	(655,577)	4,629	926,615	2,618,438
Fund balance, beginning	2,187,158	8,588,353	1,498,939	(27,972)	12,246,478	9,628,040
Fund balance, ending	\$ 2,307,317	\$ 10,045,757	\$ 843,362	\$ (23,343)	\$ 13,173,093	\$ 12,246,478

See Notes to Financial Statements.

**PAJARO VALLEY WATER MANAGEMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET POSITION OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015**

Net change in fund balances \$ 926,615

Amounts reported in the Statement of Revenues, Expenses, and Changes in Net Position are different because:

Grant income recorded on the accrual basis in the Statement of Net Position in a previous year was collected in the current year and provides current financial resources in the governmental funds. 3,912,139

Governmental funds report capital outlay as expenditures; however in the Statement of Net Position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period this the amount is:

Capital outlay	1,168,496
Current year depreciation	(2,507,134)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on net assets. In the current period this amount is:

Change in accrued interest	263,457
Proceeds from issuance of long term debt	(22,163,676)
Principal payments on long-term debt	23,422,899

Net pension liability reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. 40,819

Compensated absences reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (32,385)

Change in net position \$ 5,031,230

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Description of Organization and Significant Accounting Policies

A) Nature of the Organization

The Pajaro Valley Water Management Agency (the Agency) was formed in 1984 to provide integrated management of the ground and surface water resources within the Pajaro Basin. The Agency is responsible for the management and augmentation of the water supplies for domestic, agricultural, municipal, and industrial purposes.

B) New Accounting Pronouncements

During the fiscal year ended June 30, 2015, the Agency adopted the following pronouncements:

Statement No. 68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date. This Statement amends paragraph 137 of Statement No. 68. The requirements of this Statement apply to all state and local governments that are required to apply the provisions of Statement No. 68 for defined benefit pensions. This statement recognizes that at the beginning of the period in which the provisions of Statement No. 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Description of Organization and Significant Accounting Policies (Continued)

C) Reporting Entity

The Agency has defined its reporting entity in accordance with the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards. These standards provide guidance for determining which governmental activities; organizations and functions should be included in the reporting entity and how information about them should be presented. The basic criterion for inclusion of a governmental unit in a governmental reporting entity are: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

The scope of this report extends exclusively to the financial information of Pajaro Valley Water Management Agency. The Governing Board of the Agency has no oversight responsibility over any other governmental unit or agency. As such, the Board's governing authority, designation of management, ability to significantly influence operation, and accountability for fiscal matters extend only to the affairs of the Agency.

D) Basis of Accounting and Measurement Focus

This report has been prepared in conformity with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

Basis of Accounting - Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared under the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. The Agency has no proprietary or fiduciary funds.

The *basic financial statements* of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Government-wide Financial Statements - Government-wide financial statements display information about the reporting government as a whole. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they are allocated).

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Description of Organization and Significant Accounting Policies (Continued)

D) Basis of Accounting and Measurement Focus (Continued)

Government-wide financial statements are presented using the *flow of economic resources measurement focus* and the *accrual basis of accounting*. Under the flow of economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

The Statement of Net Position presents the Agency's assets and liabilities, with the difference reported as net position. Net position is classified into three components as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.
- *Restricted* – This component of net position consists when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position consists of net position that does not meet the definition of the two preceding categories.

Fund Financial Statements - Fund financial statements report detailed information about the Agency. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current position.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Description of Organization and Significant Accounting Policies (Continued)

D) Basis of Accounting and Measurement Focus (Continued)

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt are recorded when the related fund liability is incurred, if measurable. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long – term debt are reported as other financing sources. Inter-fund activity is eliminated for the government-wide financial statements.

The Agency reports the following major governmental funds:

- a. *General Fund*, accounts for the Agency’s primary services and is the primary operating unit of the Agency.
- b. *Special Revenue Fund*, accounts for revenues derived from specific sources, which are usually required by law or regulation to be accounted for in separate funds.
- c. *Debt Service Fund*, accounts for the resources accumulated and payments made for principal and interest on long – term general obligation debt of governmental funds.
- d. *Capital Projects Fund*, accounts for financial resources to be used for the acquisition or construction of major capital facilities and infrastructure improvements.

E) Budgetary Information

The Agency’s Board of Directors annually adopts a non-appropriated budget for the Agency. Board of Directors’ action is required for the approval of budget revisions.

F) Cash and Cash Equivalents

The Agency considers demand deposits, cash on hand, and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Description of Organization and Significant Accounting Policies (Continued)

G) Investments

Investments are reported at fair value, which is determined using selected basis. Short-term investments are reported at cost, which approximates fair value. Cash deposits and deposits with money market funds are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

H) Receivables

Accounts receivable are carried at their estimated collectible amount. Management periodically evaluates receivables for collectibility on an individual account basis and records an allowance for any amounts estimated to be uncollectible. The allowance at June 30, 2015 was \$95,015.

I) Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts in the accompanying financial statements. Actual results could differ from those estimates.

J) Capital Assets

Property, facilities, equipment, and infrastructure purchased or acquired are carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Infrastructure fixed assets are defined by the Agency as underground water pipelines, including allocated professional costs required to construct pipelines, that allow the Agency to distribute water to various users and have been capitalized on a prospective basis, from July 1, 2003. Prior to July 1, 2003, infrastructure assets were not capitalized. Upon implementing GASB 34 governmental units were required to account for all capital assets in the government - wide statements, including infrastructure prospectively from the date of implementation. Retroactive reporting of all major general infrastructure assets for Phase 3 governments, of which the Agency is, is encouraged but not required. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 for equipment, \$25,000 for infrastructure, and all land, with an estimated useful life in excess of one year.

Depreciation is recorded on a straight – line basis over the estimated useful lives of the capital assets as follows:

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Description of Organization and Significant Accounting Policies (Continued)

J) Capital Assets (Continued)

Buildings and improvements	15 – 30 Years
Infrastructure	80 Years
Equipment	5 – 25 Years
Vehicles	7 – 10 Years
Furniture and fixtures	5 Years
Water rights – Recycle Water Facility	25 Years

K) Compensated Absences

The Agency allows employees to accrue vacation, compensation time, and medical leave based on the employee's hourly rate at year end. Upon termination of an employee the Agency is required to pay accrued vacation and compensation time to a maximum of 240 hours for each type of leave, and medical leave to a maximum of 600 hours.

Accumulated vacation, compensation time, and medical leave are recorded as an expense and a liability in the government – wide financial statements at the time the liability is incurred.

L) Deferred Inflows of Resources

Pursuant to GASB Statement Number 63 and GASB Statement Number 65, the Agency recognizes deferred inflows of resources in the fund financial statements. A deferred inflow of resources is defined as a consumption of net position by a government that is applicable to a future reporting period. See Note 11 for a detail listing of deferred inflows of resources the Agency has recognized in the fund financial statements.

M) Pensions

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

N) Long-Term Obligation

In the government-wide financial statements, long – term debt and other long – term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Description of Organization and Significant Accounting Policies (Continued)

N) Long-Term Obligation (Continued)

In the fund financial statements, governmental fund types recognize bond premium and discounts during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O) Fund Equity

In the fund financial statements, governmental funds report fund balance as restricted or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- a. *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- b. *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the Agency’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- c. *Assigned fund balance* – amounts that are constrained by the Agency’s intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the Agency’s special revenue funds.
- d. *Unassigned fund balance* – the residual classification for the Agency’s General Fund that included amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditure incurred for specific purposes exceeds the amounts restricted to those purposes.

The Board of Directors establishes, modifies or rescinds fund balances commitment and assignments by approving contractual commitments, an ordinance or a resolution.

In the government – wide financial statements, restrictions of net positions are limited to outside third – party restrictions.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Description of Organization and Significant Accounting Policies (Continued)

P) Use of Restricted/Unrestricted Net Positions

When an expense is incurred for purposes for which both restricted and unrestricted net positions are available, the Agency's policy is to apply restricted net positions first.

Q) Total Columns on Government Fund Financial Statements

Total columns on the Government Fund financial statements are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

R) Revenues

Program revenues consist of augmentation fees, delivered water charges, proceeds from grant agreements and other revenue. Management fees and investment earnings are classified as general revenues of the Agency.

Augmentation charges, based on quantity of water usage, are billed and collected in two ways. Small accounts are billed annually by the Agency on June 30. Delinquent small accounts are turned over to a collection agency after other recovery efforts have been exhausted. Large accounts are metered and billed quarterly by the Agency. Delinquent large accounts are collected through litigation or turned over to a collection agency after other recovery efforts have been exhausted.

All collected augmentation charge revenue is deposited into bank accounts held in the Special Revenue Fund. All capital construction costs are paid for through augmentation charges, grants, loans, and debt issuances. Transfers of augmentation charge revenues are made to the Debt Service Fund to pay semi-annual interest and principal payments on Certificates of Participation issued in 1999, annual payments on State Water Resources Control Board low interest loans and payments on the City of Watsonville Water Treatment Plant Repayment Contract.

A delivered water charge is collected for water delivered through the constructed project. This revenue is deposited into bank accounts held in the Special Revenue Fund and spent in accordance with the Agency's Fund Accounting Policy.

Management fees are billed by Santa Cruz, San Benito and Monterey counties. Management fees are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The counties bill and collect the management fees and remit them to the Agency.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Cash and Investments

Cash and investments are classified in the accompanying financial statements at fair value at June 30, 2015 as follows:

Cash and investments, at fair value	
Unrestricted:	
Cash and investments	\$ 10,305,121
Restricted:	
Department of Water Resources loan reserve	253,188
Total cash and investments, at fair value	<u>\$ 10,558,309</u>

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 300
Deposits with financial institutions	8,680,367
Investments	1,877,642
Total cash and investments, at fair value	<u>\$ 10,558,309</u>

Investment Policy

The objectives of the Agency's investment policy is, in priority order, to safeguard principal, ensure liquidity to meet the Agency's cash flow needs and provide an acceptable return on investment. The table below identifies the investment types that are authorized by the Agency's investment policy. This table does not address investments of debt proceeds or reserve funds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the Agency's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Federal Agency Securities	None	50%	None
U.S. Treasury Obligations	None	None	None
Banker's Acceptances	180 days	15%	2%
Commercial Paper	1 year	20%	3%
Time Deposits	1 year	None	None
Negotiable Certificates of Deposit	1 year	20%	5%
Local Agency Investment Fund (LAIF)	N/A	**	N/A

** Maximum investment in LAIF is \$40 million per California Government Code. Amounts held by bond trustee are not subject to California Government Code restrictions.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Cash and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The amount of loss in the fair value of fixed-income security increases as the current market interest rate related to the investment rises. It is the Agency's policy to structure the investment portfolio with securities whose maturity date is compatible with cash flow requirements and which will permit easy and rapid conversion into cash without substantial loss of value, and which will enable the Agency to meet all operating requirements which might be reasonably anticipated. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. This policy is designed to minimize the interest rate risk. As of June 30, 2015, the Agency had no investments in debt instruments that would be subject to interest rate risk.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Agency 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. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Agency and are held by either the counter-party or the counter-party's trust department or agent but not in the Agency's name.

At June 30, 2015 the carrying amounts of cash in banks was \$8,680,367 and the corresponding bank balance was \$8,768,360. Of the bank balance at June 30, 2015, \$250,000 was covered by federal depository insurance and \$8,518,360 secured with collateral. The California Government Code requires all California financial institutions to secure a local government agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110% of an agency's deposits. California law also allows financial institutions to secure agency deposits by pledging first trust deed mortgage notes having a value of 150% of the agency's total deposits. All Agency cash held by a financial institution is, therefore, entirely insured and collateralized.

All of the Agency's investments are held in the name of the Agency with the Agency's custodial bank or by the Agency's counterparty's trust department.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Cash and Investments (Continued)

Credit Risk

Generally, 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 the Agency's investment policy, and the actual rating as of the year end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Maturity Date</u>
Local Agency Investment Fund (LAIF)	\$ 1,067,112	N/A
Rabobank Certificate of Deposit	253,188	N/A
Morgan Stanley AA Money Trust	1,116	Daily
Western Asset Government Money Market	556,226	Daily
Total	<u>\$ 1,877,642</u>	

Concentration of Credit Risk

At the June 30, 2015 the Agency had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of the total Agency's investments.

Investment in State Investment Pool

The Agency 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 Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency'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 costs basis.

Note 3 - Restricted Cash

Restricted cash consists of funds that are reserved for debt repayments. At June 30, 2015 restricted cash consisted of the following:

Rabobank certificate of deposit	<u>\$ 253,188</u>
Total restricted cash	<u>\$ 253,188</u>

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 4 - Accounts Receivable and Grants Receivable

The Agency turns accounts receivable over to a collection agency after all other recovery efforts have been exhausted. The collection agency charges a 20%-50% fee, depending on the size of the account. The accounts receivable balance at June 30, 2015 of \$3,319,916 includes a reserve for uncollectible accounts of \$95,015.

During the fiscal year 2007 the Agency, in cooperation with the City of Watsonville, Aromas Water District, The Nature Conservancy, Action Pajaro Valley, the Santa Cruz County Flood Control and Water Conservation District, the Pajaro River Watershed Flood Prevention Authority and the Resource Conservation District of Santa Cruz County, applied for and received a grant with a total reimbursable amount of \$25,000,000 from the California Department of Water Resources under Proposition 50 to assist in funding various projects prescribed by the Pajaro River Watershed Integrated Regional Water Management Plan. Of the total grant amount: \$4.66 million is allocated to the Agency for the Coastal Distribution System, \$6.8 million is allocated to reduce the Agency's liability to the City of Watsonville for the Recycled Water Treatment Facility and \$1.24 million is allocated to the Agency for grant administration.

Receipt of funds under the grant agreements is dependent upon the State of California appropriating funds for the grants. Under the grant, the Agency recognizes grant revenue when the qualifying expenditures are incurred, all eligibility requirements have been met and collection of the grant funds is probable. The grants receivable balance at June 30, 2015 was \$364,446.

Note 5 - Notes Receivable

The Agency has entered into a long-term agreement for the collection of past due augmentation charges. The note is to be collected with interest over a term of nine years. The balance of the note receivable at June 30, 2015 was \$33,333.

Note 6 - Due from Other Government

The City of Watsonville (the City) has received \$10,835,326 in grant funds that were for the construction of the City's Water Recycling Facility that were to be passed through to the Agency. The Agency agreed to let the City of Watsonville hold the funds unit 2017, at that time the funds along with accrued interest will be used to pay down the amount owed in the Repayment Contract described in Notes 10 and 11. Interest will accrue at Local Agency Investment Fund (LAIF). As of June 30, 2015, the amount due from the City, including interest, is \$10,878,769. For government-wide financial statement presentation, it is presented at net present value of the estimated future benefits to be received, using a discount rate of 5.0%.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 6 - Due from Other Government (Continued)

The following is a schedule of future payments expected to be received:

Fiscal Year Ended June 30,	<u>Amount</u>
2016	\$ -
2017	<u>10,365,437</u>
Total	<u><u>\$ 10,365,437</u></u>

Note 7 - Joint Powers Authority

The Agency participates in the property, liability, and workers' compensation insurance program organized by the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA). ACWA/JPIA is a Joint Powers Authority created to provide a self-insurance program to water agencies in the State of California. The ACWA/JPIA is not a component unit of the Agency for financial reporting purposes, as explained below.

ACWA/JPIA provides liability, property and workers' compensation insurance for approximately 300 water agencies for losses in excess of the member agencies specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial carriers. ACWA/JPIA is governed by a board comprised of members from participating agencies. The board controls the operations of ACWA/JPIA, including selection of management and approval of operating budgets, independent of any influence by the members beyond the representation on the board. Each member shares surpluses and deficiencies proportionately to its participation in ACWA/JPIA.

Additional information and complete financial statements for the ACWA/JPIA are available for public inspection at 5620 Birdcage Street, Suite 200, Citrus Heights, CA, between the hours of 8 a.m. and 5 p.m., Monday through Friday.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Interfund Transactions

At June 30, 2015 interfund receivables and payables consist of:

Fund	Interfund Receivable	Interfund Payable
Special revenue	\$	\$ 658,597
Debt service	590,176	
General fund	57,399	
Capital projects	11,022	
Total	\$ 658,597	\$ 658,597

The interfund receivables and payables represent cash deposited to one fund belonging to another fund. These amounts will be reimbursed in fiscal year ending June 30, 2016.

Interfund transfers generally are made for the purpose of capital project and debt service payments, these payments are made from the capital project and debt service funds, respectively, but funded through the special revenue fund. There were no significant transfers that were either non-routine in nature or inconsistent with the activities of the fund making the transfer.

Transfers between funds during the year were as follows:

Fund	Transfers In	Transfers Out
Special revenue	\$	\$ 4,841,632
Debt service	3,703,385	
Capital projects	1,138,247	
Total	\$ 4,841,632	\$ 4,841,632

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 9 - Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	06/30/14 Beginning Balance	Additions/ Transfers	Deletions/ Transfers	06/30/15 Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,401,690	\$ -	\$ -	\$ 1,401,690
Construction in progress	497,307	1,133,621	-	1,630,928
Total capital assets not being depreciated:	1,898,997	1,133,621	-	3,032,618
Capital assets being depreciated:				
Harkins Slough project	19,387,705	-	-	19,387,705
Accelerated Pipeline project	8,207,480	-	-	8,207,480
Coastal Distribution System	26,469,786	-	-	26,469,786
Buildings and improvements	476,280	-	-	476,280
Equipment:				
Automotive	167,274	28,422	-	195,696
Office and field	26,859	6,453	-	33,312
Furniture and fixtures	6,871	-	-	6,871
Capacity rights - Water				
Recycle Plant	32,664,043	-	-	32,664,043
Other assets	37,200	-	-	37,200
Total	87,443,498	34,875	-	87,478,373
Less accumulated depreciation	17,617,764	2,507,134	-	20,124,898
Total capital assets being depreciated	69,825,734	(2,472,259)	-	67,353,475
Capital assets, net	\$ 71,724,731	\$ (1,338,638)	\$ -	\$ 70,386,093

Note 10 - Long-Term Debt

General long-term debt balances and transactions for the year ended June 30, 2015 are as follows:

Bond Payable – 1999 Certificate of Participation

Certificates of Participation, Series 1999A were issued in the amount of \$19,725,000 on October 20, 1999 primarily to construct facilities on Harkins Slough. Principal payments are due in twenty-nine annual installments through March 1, 2029, with interest due semi-annually at interest rates ranging from 3.5% to 5.75%.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 10 - Long-Term Debt (Continued)

In connection with the 1999 Certificate of Participation, the Agency has agreed, among other things to fix, prescribe and collect rates and charges for water service which will be at least sufficient to yield net revenue, as described in the bond document, equal to 125% of the debt service payable in the fiscal year.

On May 1, 2015, the outstanding principal balance of \$13,015,000, plus accrued interest of \$152,412 was placed in an escrow account using proceeds from the 2015 Refunding Water Bonds. On the May 15, 2015, 1999 Certificates of Participant were prepaid in full through this escrow account by the Trustee.

Note payable #1 – State Water Resources Control Board (SWRCB)

The Agency entered into a promissory note on December 24, 1999 with the SWRCB in the amount of \$11,650,000. Loan proceeds were used for the Harkins Slough project. The note is payable in twenty annual installments of \$763,561 with interest at 2.7%. The final payment is due December 17, 2022. On May 1, 2015, the Agency used proceeds from the 2015 Refunding Water Bonds to prepay the outstanding principal balance of \$5,428,445 plus accrued interest of \$54,555 on the note payable.

Note payable #2 – State Water Resources Control Board

The Agency entered into a promissory note on November 21, 2003 with the SWRCB in the amount of \$6,214,989. Loan proceeds were used for the accelerated pipeline and supplemental wells project. The note is payable in twenty annual installments of \$414,486 with interest at 2.7% ending November 21, 2023. On May 1, 2015, the Agency used proceeds from the 2015 Refunding Water Bonds to prepay the outstanding principal balance of \$3,272,859 plus accrued interest of \$39,297 on the note payable.

Note payable – Department of Water Resources (DWR)

The Agency entered into a promissory note on June 15, 2005 with the DWR in the amount of \$3,511,446. The loan proceeds were used for the construction of components of the revised basin management plan. From April 1, 2008 to February 23, 2012 the note is payable in semiannual installments of principal and interest in the amount of \$111,049, with interest at 2.4% with final payment on September 30, 2027.

On February 24, 2012, the Agency received \$390,164 from the DWR related to unpaid retention and the repayment agreement was revised. Commencing with the payment due on April 1, 2012, the note is payable in semiannual installments of principal and interest in the amount of \$125,708, with interest at 2.4% with final payment on September 30, 2027.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 10 - Long-Term Debt (Continued)

Current Refunding - 2015 Refunding Water Bonds

On April 30, 2015, the Agency issued 2015 Revenue Refunding Bonds in the amount of \$19,970,000 with interest rates ranging from 3.00% to 5.00%, with the final installment payment due on March 1, 2029. Principal and interest are payable annually on March 1 of each year. The Bonds were issued to current refund the 1999 Certificates of Participation, the State Water Resource Control Board Note payables #1 and #2.

As a result of the current refunding, the Agency obtained an economic gain of approximately \$2.87 million. The difference in the cash flow requirements to service the old debt and new debt is approximately \$3.4 million.

In connection with the 2015 Refunding Water Bonds, the Agency has agreed, among other things to fix, prescribe and collect rates and charges for water service which will be at least sufficient to yield net revenue, as described in the bond document, equal to 110% of the debt service payable in the fiscal year.

Changes in long-term obligations for the year ended June 30, 2015 are as follows:

	Beginning Balance	Additions	Payment / Retirements	Ending Balance	Due Within One Year
Notes and bonds					
1999A COPs	\$ 13,620,000	\$ -	\$ 13,620,000	\$ -	\$ -
SWRCB #1	6,029,218	-	6,029,218	-	-
SWRCB #2	3,590,404	-	3,590,404	-	-
DWR	2,884,441	-	183,278	2,701,163	187,574
2015 Water Revenue Bonds		19,970,000		19,970,000	1,600,000
Unamortized premium		2,193,676		2,193,676	-
Total bonds and notes	<u>26,124,063</u>	<u>22,163,676</u>	<u>23,422,900</u>	<u>24,864,839</u>	<u>1,787,574</u>
Other liabilities					
City of Watsonville repayment contract	25,355,000	-	-	25,355,000	-
Net pension liability	1,018,496	-	223,445	795,051	-
Compensated absences	226,680	32,385	-	259,065	-
 Total	 <u>\$ 52,724,239</u>	 <u>\$ 22,196,061</u>	 <u>\$ 23,646,345</u>	 <u>\$ 51,273,955</u>	 <u>\$ 1,787,574</u>

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 10 - Long-Term Debt (Continued)

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30,	DWR		City of Watsonville	
	Principal	Interest	Principal	Interest
2016	187,574	63,841	-	1,430,784
2017	192,356	59,060	800,000	1,430,783
2018	196,876	54,539	840,000	1,385,983
2019	201,630	49,786	880,000	1,338,943
2020	206,408	45,008	915,000	1,299,343
2021- 2025	1,109,798	147,280	5,225,000	5,784,953
2026 - 2030	606,521	22,021	6,555,000	4,310,782
2031 - 2035	-	-	8,240,000	2,130,237
2036 - 2037	-	-	3,890,000	323,397
Less: Amount to be paid with Reserve Fund by Fiscal Agent	-	-	(1,990,000)	(49,750)
Unamortized premium	-	-	-	-
Total debt, net	<u>\$ 2,701,163</u>	<u>\$ 441,535</u>	<u>\$25,355,000</u>	<u>\$ 19,385,455</u>

Fiscal Year Ended June 30,	2015 Water Revenue Bonds		Total Debt Service	
	Principal	Interest	Principal	Interest
2016	1,600,000	702,501	1,787,574	\$ 2,197,126
2017	1,510,000	792,200	2,502,356	2,282,043
2018	1,555,000	746,900	2,591,876	2,187,422
2019	1,615,000	684,700	2,696,630	2,073,429
2020	1,685,000	620,100	2,806,408	1,964,451
2020 - 2024	7,795,000	1,789,250	14,129,798	7,721,483
2025 - 2029	4,210,000	341,100	11,371,521	4,673,903
2030 - 2034	-	-	8,240,000	2,130,237
2035 - 2037	-	-	3,890,000	323,397
Less: Amount to be paid with Reserve Fund by Fiscal Agent	-	-	(1,990,000)	(49,750)
Unamortized premium	2,193,676	-	2,193,676	-
Total debt, net	<u>\$22,163,676</u>	<u>\$ 5,676,751</u>	<u>\$ 50,219,839</u>	<u>\$ 25,503,741</u>

In prior years, the General Fund has been used to liquidate compensated absences.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 11 - Deferred Inflows of Resources – Fund Financial Statements

Under GASB Statement No. 63 and GASB No. 65, the Agency recognized deferred inflows of resources in the Balance Sheet. This item is a consumption of net position by the city that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Under the modified accrual basis of accounting, it is not enough the revenue has been earned if it is to be recognized in the current period. Revenue must also be measurable and available to finance expenditures of the current period. Governmental funds report revenues not considered available to liquidate current liabilities of the current period as deferred inflows of resources.

Deferred inflows of resources balances for the year ended June 30, 2015 and 2014 were as follows:

<u>Special Revenue Fund</u>	<u>2015</u>	<u>2014</u>
Unavailable local government awards for maintenance projects	\$ 11,812	\$ 56,964
Unavailable state grant for Integrated Regional Water Management Plan	246,323	45,580
Total	<u>\$ 258,135</u>	<u>\$ 102,544</u>

Note 12 - City of Watsonville Water Treatment Plant Repayment Contract

In April of 2006 the Agency entered into a repayment agreement with the City of Watsonville (the City) for costs associated with the construction and operation of the Watsonville recycle plant which provides recycled water to the Agency. The Project consists of three parts: a treatment plant, a distribution component and blending facilities. The City owns, operates, and maintains the treatment plant and the Agency owns, operates, and maintains the distribution component and blending facilities. Per the agreement, the City paid all construction costs associated with the treatment plant; the Agency is responsible for reimbursing the City for these costs, plus accrued interest, less any grant monies received. The Agency is entitled to water from the treatment plant. The repayment agreement calls for repayment by the Agency of the construction costs over 30 years beginning 120 days after the first delivery of water. The date of first water delivery was March 2009.

The City funded construction of the project through a \$27,345,000 bond offer and through cash reserves. For construction costs funded with bond proceeds, the repayment agreement calls for the Agency to make payments to the City in the amount of the City's debt service on the bonds.

The Contract is payable in semiannual installments of interest equal to the City's bond interest rates (4.00% to 5.00%) plus .05% on the unpaid principal balance and annual principal payments beginning May 1, 2017.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 12 - City of Watsonville Water Treatment Plant Repayment Contract

The City has a restricted bond reserve fund with the fiscal agent, US Bank. As of June 30, 2015 and 2014, the amount restricted in the bond reserve fund was approximately \$2,200,000. The final payment, including principal and interest, will be applied using the bond reserve fund by the Fiscal Agent. The following is reconciliation between the total bond issuance and amount owed by the Agency as of June 30, 2015.

Total bond issuance	\$ 27,345,000
Principal amount to be paid on May 1, 2037 with bond reserve fund by the Fiscal Agent	<u>(1,990,000)</u>
Total amount to be paid by the Agency	<u><u>\$ 25,355,000</u></u>

An intangible asset, representing the Agency's capacity rights to the project, is recorded at June 30, 2015 in the amount of \$32,664,043. This represents total costs incurred on the project by the City and the Agency. The capacity rights are being amortized on a straight-line basis over a useful life of 25 years.

As a part of the agreement, the Agency agreed to pay quarterly operation and maintenance costs of the treatment plant to the City. The Agency paid approximately \$1,526,840 and \$1,834,088 during 2015 and 2014, respectively, to the City for operation and maintenance costs.

Note 13 - Commitments

The Agency has entered into several contracts with various vendors totaling approximately \$2,231,000. Of this amount approximately \$1,168,000 has been paid as of June 30, 2015.

The following significant commitments existed at June 30, 2015:

<u>Project Name</u>	<u>Contract Amount</u>	<u>Expenditures to date as of June 30, 2015</u>	<u>Remaining Commitments</u>
Recycled Water Facility Tanks and Blend			
Well Enhancement Design	\$ 665,401	\$ 287,290	\$ 378,111
Grant Administration	338,780	50,510	288,270
Hydrologic Modeling Services	150,000	37,500	112,500

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 14 - Defined Benefit Pension Plan

Plan Description

All qualified employees are eligible to participate in the Agency's Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Eligible employees hired after January 1, 2013 that are considered new members as defined by the Public Employees' Pension Reform Act (PEPRA) will participate in the PEPRA Miscellaneous Plan, however the Agency had no such employees as of the valuation date of June 30, 2013.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, as discussed above. Members with five years of total service are eligible to retire at age 50 or 52 if in the PEPRA Miscellaneous Plan with statutorily reduced benefits. An optional benefit regarding sick leave was adopted. Any unused sick leave accumulates at the time of retirement will be converted to credited service at a rate of 0.004 years of service for each day of sick leave. All members are eligible for non-duty disability benefits after 10 years of service. The system also provides for the Optional Settlement 2W Death Benefit, as well as the 1959 Survivor Benefit. The cost of living adjustments for all plans are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous Plan</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - Minimum	52 - Minimum
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	6.89%	6.50%
Required employer contribution rates	16.09%	6.70%

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 14 - Defined Benefit Pension Plan (Continued)

Contributions

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

For employees hired prior to January 1, 2013 and for all classic members as defined by PEPRA, the Agency pays the employee's contribution in addition to the employer's contribution. For employees hired after January 1, 2013 who are considered new members as defined by PEPRA, the Agency does not pay any portion of the employee's required contribution.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the Agency reported a liability of \$795,051 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability for all Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of their long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The Agency's proportionate share of the net pension liability as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>
Proportion – June 30, 2013	0.03108%
Proportion – June 30, 2014	<u>0.03217%</u>
Change – Increase (Decrease)	<u><u>0.00109%</u></u>

For the year ended June 30, 2015, the Agency recognized pension expense of \$101,645. At June 30, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 14 - Defined Benefit Pension Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 142,454	\$ -
Changes in assumptions	-	-
Changes in employer's proportion and difference between the employer's contributions and the employer's proportionate share of contributions	29,248	(17,474)
Net differences between projected and actual earnings on plan investments	-	(213,227)
Total	\$ 171,702	\$ (230,701)

Employer contributions of \$156,355 reported as deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30		
2016	\$	(49,102)
2017		(49,102)
2018		(49,944)
2019		(53,308)
2020		-
	\$	(201,456)

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 14 - Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

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

<u>Miscellaneous Plan</u>	
Valuation Date	30-Jun-13
Measurement Date	30-Jun-14
Actual Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by entry age and service (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

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

Discount Rate

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

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 14 - Defined Benefit Pension Plan (Continued)

Discount Rate (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expenses. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability.

CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017/18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

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

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

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 14 - Defined Benefit Pension Plan (Continued)

Discount Rate (Continued)

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

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

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

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

The following presents The Agency's proportionate share of the net pension liability calculated using the discount rate of 7.50% as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

<u>Miscellaneous</u>	
1% Decrease	6.50%
Net Pension Liability	\$ 1,312,345
Current Discount Rate	7.50%
Net Pension Liability	\$ 795,051
1% Increase	8.50%
Net Pension Liability	\$ 365,746

Pension Plan Fiduciary Net Position

Detailed information about all pension plan fiduciary net positions is available in the separately issued CalPERS financial reports.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 15 - Deferred Compensation Plan

The Agency offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are maintained (until paid or made available to the participant or beneficiary) in a trust account administered by California Public Employees Retirement System or Nationwide Retirement Services. Participants have sole rights under the plan in an amount equal to the fair market value of the deferred for each participant.

Note 16 - Federal Water Contract Assignment

In May 1999, the Agency jointly with two partner water districts acquired an assignment of a federal Central Valley Project (CVP) water supply contract from Mercy Springs Water District in Fresno County. This assignment entitles the Agency and its partners, Santa Clara Valley Water District (SCVWD) and Westlands Water District (WWD), to an annual entitlement of 6,250 acre-feet of CVP supply from the U.S. Bureau of Reclamation. The sales price for the entitlement was \$5,617,500, which was paid and financed over a 30-year term by WWD. An agreement among WWD, SCVWB, and the Agency specifies terms of reimbursement to WWD.

The Agency has the right under this agreement to an option to take partial delivery of the 6,260 acre-foot annual entitlement after 10 years and full delivery after 20 years. If the Agency does not exercise this option, it has no repayment obligation and no other obligations, but it loses all rights to the entitlement. If the Agency does exercise this option, the Agency is required to repay WWD for its pro rata share for the remainder of the financing term, and the Agency enjoys exclusive long-term rights to the entitlement. Lands within Mercy Springs Water District, which previously received delivery of the assigned supply, were purchased by the Agency at the time of the assignment in May of 1999 and were immediately resold, at no net cost, to the original landowners. The Agency retains no interest in these lands.

Note 17 – Prior Period Adjustment

Note 1 describes the GASB pronouncements the Agency is adopting for this fiscal year. There is a financial impact for the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTES TO THE FINANCIAL STATEMENTS

Note 17 – Prior Period Adjustment

Net Pension Liability

Implementation of GASB Statement No. 68 recognizes a liability for the Agency's proportionate share of the net pension liability of all employers for benefits provided through the California Public Employees' Retirement System (CalPERS). Additionally, the Agency is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows or resources and deferred inflows of resources related to pensions. The effect of this adjustment can be seen below. Because all of the information required to restate prior year was not available at the time the financial statements were available to be issued, prior year values are not presented in a comparable manner.

The following table presents the effect of the prior period adjustment on the June 30, 2015 financial statement balances:

Net position at July 1, 2014, as originally stated	\$ 38,317,056
Decrease in net position due to net pension liability	\$ (1,018,496)
Increase in net position due to deferred outflows of resources	123,637
Total restatement of net position at July 1, 2014	<u>(894,859)</u>
Net position at July 1, 2014, as restated	<u>\$ 37,422,197</u>

Note 18 - Subsequent Events

Subsequent events have been evaluated through January 12, 2016 the date that the financial statements were available to be issued.

Required Supplementary Information

**PAJARO VALLEY WATER MANAGEMENT AGENCY
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF PAJARO VALLEY WATER MANAGEMENT AGENCY
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2015
LAST 10 YEARS***

	2015
Proportion of the net pension liability	0.01278%
Proportionate share of the net pension liability	\$ 795,051
Covered - employee payroll	\$ 873,282
Proportionate Share of the net pension liability as percentage of covered-employee payroll	91.04%
Plan fiduciary net position as a percentage of the total pension liability	79.61%

Notes to Schedule:

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

See accompanying notes

**PAJARO VALLEY WATER MANAGEMENT AGENCY
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2015
LAST 10 YEARS***

	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 123,637
Contributions in relation to the actuarially determined contributions	\$ 123,637
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 873,282
Contributions as a percentage of covered-employee payroll	14.16%

Notes to Schedule:

Valuation date: 6/30/2013

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

See accompanying notes

Other Supplementary Information

PAJARO VALLEY WATER MANAGEMENT AGENCY
SCHEDULE OF HISTORICAL CASH FLOWS AND RATE COVERAGE
For the years ended June 30

	2015	2014	2013	2012	2011
Revenues					
Augmentation charges	\$ 9,226,566	\$ 10,353,722	\$ 9,172,802	\$ 8,573,027	\$ 6,119,912
Water sales	1,468,510	1,555,441	1,154,295	1,122,612	767,648
Management fees	383,634	383,206	365,032	364,822	364,322
Interest & other income	276,817	257,103	65,627	26,797	33,513
Total operating revenues, excluding grant revenue	<u>11,355,527</u>	<u>12,549,472</u>	<u>10,757,756</u>	<u>10,087,258</u>	<u>7,285,395</u>
Expenses					
Maintenance & equipment	3,469,956	4,107,832	3,866,366	4,073,966	2,467,063
Personnel	1,599,713	1,514,707	1,354,805	1,282,193	1,159,121
Total operating expenses, excluding extraordinary loss, capital outlay and debt service	<u>5,069,669</u>	<u>5,622,539</u>	<u>5,221,171</u>	<u>5,356,159</u>	<u>3,626,184</u>
Net Revenue Before Debt Service & Capital	<u>\$ 6,285,858</u>	<u>\$ 6,926,933</u>	<u>\$ 5,536,585</u>	<u>\$ 4,731,099</u>	<u>\$ 3,659,211</u>
Senior Debt Service					
1999 Certificates of Participation	\$ 1,532,150	\$ 1,375,375	\$ 1,378,987	\$ 1,375,821	\$ 1,376,100
2015 Water Revenue Refunding Bonds	-	-	-	-	-
1999 State Water Loan	818,116	763,561	763,548	763,561	763,560
2003 State Water Loan	356,842	414,486	414,486	414,486	414,486
2005 Department of Water Resources Loan	251,416	251,415	251,416	236,757	222,098
Total senior debt service	<u>\$ 2,958,524</u>	<u>\$ 2,804,837</u>	<u>\$ 2,808,437</u>	<u>\$ 2,790,625</u>	<u>\$ 2,776,244</u>
Senior Coverage	2.12	2.47	1.97	1.70	1.32
Subordinate Debt Service					
2007 Water Revenue Bonds (Watsonville)	\$ 1,435,440	\$ 1,461,392	\$ 1,430,784	\$ 1,131,098	\$ 1,659,891
Total subordinate debt service	<u>\$ 1,435,440</u>	<u>\$ 1,461,392</u>	<u>\$ 1,430,784</u>	<u>\$ 1,131,098</u>	<u>\$ 1,659,891</u>
Subordinate Coverage	1.43	1.62	1.31	1.21	0.82

See accompanying notes



**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 GOVERNMENT AUDITING STANDARDS**

**To the Board of Directors
Pajaro Valley Water Management Agency
Watsonville, 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pajaro Valley Water Management Agency (the Agency) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated January 12, 2016.

Internal Control over Financial Reporting

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bartlett, Pringle + Wolf, LLP

January 12, 2016