Pajaro Valley
Water Management Agency

Pajaro Valley Water Management Agency

Annual Financial Report

For the Fiscal Year Ended June 30, 2017

Mission Statement

"Pajaro Valley Water Management Agency is a state-chartered water management district formed to efficiently and economically manage existing and supplemental water supplies in order to prevent further increase in, and to accomplish continuing reduction of, long-term overdraft. We also work to provide and ensure sufficient water supplies for present and future anticipated needs within our boundaries, generally the greater coastal Pajaro Valley."

Pajaro Valley Water Management Agency

Board of Directors as of June 30, 2017

Name	Title	Elected/ Appointed	Area Served
Rosemarie Imazio	Chair	Appointed	City of Watsonville
Amy Newell	Vice Chair	Elected	Division C
Dwight Lynn	Treasurer	Elected	Division A
Don Bussey	Director	Elected	Division B
Javier Zamora	Director	Appointed	County of Monterey
David Cavanaugh	Director	Appointed	Santa Cruz County
Bob Culbertson	Director	Elected	Division D

Pajaro Valley Water Management Agency
Brian Lockwood, General Manager
36 Brennan St.
Watsonville, California 95076-4303
(831) 722-9292 – www.pvwater.org

Pajaro Valley Water Management Agency

Annual Financial Report

For the Fiscal Year Ended June 30, 2017

Pajaro Valley Water Management Agency
Annual Financial Report
For the Fiscal Year Ended June 30, 2017

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Financial Section

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Independent Auditor's Report

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 (Agency), as of and for the year ended June 30, 2017, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund as of June 30, 2017, 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.

Independent Auditor's Report, continued

Other Matters

The financial statements as of and for the year ended June 30, 2016, were audited by the predecessor auditor who expressed an unmodified opinion on their report dated January 18, 2017.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 38 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance. This report can be found on pages 45 and 46.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 24, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Pajaro Valley Water Management Agency (Agency) provides an introduction to the financial statements of the Agency for the fiscal year ended June 30, 2017 (with comparative information for fiscal year ended June 30, 2016). We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- The Agency's net position increased 12.29% or $5,729,729 to $52,334,736.
- The Agency's total revenues increased 3.96% or $561,532 to $14,183,593.
- The Agency's total expenses decreased 10.73%, or $1,016,617 to $8,453,864.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the Agency's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency. All of the year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the Agency's operations over the past year and can be used to determine the Agency's net operating reserves and credit worthiness.

Government-wide Financial Statements

Statements of Net Position and Statements of Activities

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Agency in a way that helps answer this question. These statements use the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. These two statements report the Agency's *net position* and changes in them. Think of the Agency's net position – the difference between assets and deferred outflows of resources, less liabilities, and deferred inflows of resources – as one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however to assess the *overall health* of the Agency.

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance, continued

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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. Such information may be useful in evaluating a government's near term financing requirements.

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance, continued

Because the focus of governmental funds 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 for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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 11 through 14 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 37.

Government-wide Financial Analysis

Condensed Statements of Net Position

	2017	2016	Change
Assets:			
Current assets	$ 13,614,170	12,809,884	804,286
Capital assets, net	74,934,267	72,334,394	2,599,873
Total assets	88,548,437	85,144,278	3,404,159
Deferred outflows of resources	431,674	234,849	196,825
Liabilities:			
Current liabilities	4,601,320	4,506,563	94,757
Non-current liabilities	31,991,720	34,135,522	(2,143,802)
Total liabilities	36,593,040	38,642,085	(2,049,045)
Deferred inflows of resources	52,335	132,035	(79,700)
Net position:			
Net investment in capital assets	42,028,667	36,992,488	5,036,179
Restricted	253,553	253,424	129
Unrestricted	10,052,516	9,359,095	693,421
Total net position	$ 52,334,736	46,605,007	5,729,729

Government-wide Financial Analysis, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets and deferred outflows of resources of the Agency exceeded liabilities and deferred inflows of resources by $52,334,736 as of June 30, 2017. A large portion of the Agency's net position ($42,028,667 or 80.31%), reflects its investment in capital assets (net of accumulated depreciation); less any related debt used to acquire those assets that are still outstanding. The Agency uses these capital assets for operations; consequently, these assets are *not* available for future spending. At the end of fiscal year 2017, the Agency reflected a positive balance in its unrestricted net position of $10,052,516 that may be utilized in future years. (See note 10 for further information)

Condensed Statements of Activities

	2017	2016	Change
Revenues:			
Program revenues:			
Charges for services	$ 10,452,213	11,055,253	(603,040)
Operating grants and contributions	3,237,582	2,083,479	1,154,103
Total program revenues	13,689,795	13,138,732	551,063
General revenues:			
Management fees	383,998	383,938	60
Investment earnings	53,182	31,739	21,443
Other revenue	56,618	67,652	(11,034)
Total general revenues	493,798	483,329	10,469
Total revenues	14,183,593	13,622,061	561,532
Expenses:			
Water basin management	7,402,412	8,200,949	(798,537)
Interest on long-term debt	1,051,452	1,269,532	(218,080)
Total expense	8,453,864	9,470,481	(1,016,617)
Change in net position	5,729,729	4,151,580	1,578,149
Net position, beginning of year	46,605,007	42,453,427	4,151,580
Net position, end of year	$ 52,334,736	46,605,007	5,729,729

The statements of activities show how the Agency's net position changed during the fiscal year. In the case of the Agency, net position increased 12.29% or $5,729,729 to $52,334,736, as a result of ongoing operations.

The Agency's total revenues from all sources increased 3.96% or $561,532 to $14,183,593, primarily due to a $551,063 increase in program revenues resulting from a $1,154,103 increase in operating grants and contributions, which was offset by a $603,040 decrease in charges for services and a $10,469 increase in general revenues in the amount resulting from a $21,443 increase in investment earnings, which was offset by an $11,034 decrease in other revenue.

The Agency's total expenses decreased 10.73%, or $1,016,617 to $8,453,864, primarily due to decreases of $798,537 in water basin management capital projects and $218,080 in interest on long-term debt.

Changes in fund balance – Governmental funds

The following table is a summary of the changes in fund balances for all governmental funds for the year ended June 30, 2017:

Condensed Changes in Fund Balance - Governmental Funds

		General	Special Revenue	Debt Service	Capital Projects	Total Governmental Activities
Fund balance, beginning of year	$	2,453,201	9,211,880	253,421	(1,039,963)	10,878,539
Change in fund balance		166,547	276,659	132	325,882	769,220
Fund balance, end of year	$	2,619,748	9,488,539	253,553	(714,081)	11,647,759

In 2017, total fund balance increased by 7.07% or $769,220 to $11,647,759. The General fund increased by 6.79% or $166,547 to $2,619,748. The special revenue fund increased by 3.00% or $276,659 to $9,488,539, debt service fund increased by 0.05% or $132 to $253,553, and the capital projects fund increased by 31.34% or $325,882 to $(714,081).

Capital Asset Administration

Changes in capital asset amounts for the year were as follows:

		Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Non-depreciable assets	$	6,228,122	5,077,164	(3,287,859)	8,017,427
Depreciable assets		88,750,319	3,337,262	-	92,087,581
Accumulated depreciation		(22,644,047)	(2,526,694)	-	(25,170,741)
Total capital assets, net	$	72,334,394	5,887,732	(3,287,859)	74,934,267

At the end of fiscal year 2017, the Agency's investment in capital assets amounted to $74,934,267 (net of accumulated depreciation). This investment in capital assets includes Harkins Slough Project, Accelerated Pipeline Project, Coastal Distribution System, Buildings and Improvements, Vehicle, Office and Field Equipment, Furniture and Fixtures, Capacity Rights – Water Recycle Plant, etc. See note 4 to the financial statements for further information.

Debt Administration

		Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Loan payable	$	2,513,589	-	(192,358)	2,321,231
Bond payable		32,828,317	-	(2,243,948)	30,584,369
Total long-term debt	$	35,341,906	-	(2,436,306)	32,905,600

In 2017, long-term debt decreased by $2,436,306, primarily due to principal payments on outstanding debt. See Note 7 to the financial statements for further information.

Conditions Affecting Current Financial Position

The budget for fiscal year 2016-2017 is based on the following economic factors and assumptions:

Projected billed consumption of 55,150 acre feet of water usage, that includes 50,350 acre feet of groundwater, and 4,800 acre feet of delivered water.

Current augmentation charges where $203/acre foot (af) of pumped groundwater outside the delivered water zone. Within the delivered water zone, the pumped ground water charge is $258/af and the delivered water charge is $359/af. Rural residential users with unmetered wells pay for an estimated 0.5/af of usage annually at a rate of $194/af for an annual fee of $97/residence.

Management is unaware of any other conditions, which could have a significant impact on the Agency's current financial position, net position or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the Agency's funding sources, customers, stakeholders and other interested parties with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Agency's Financial & Administrative Services Manager, Teresa Delfino at Pajaro Valley Water Management Agency, 36 Brennan Street, Watsonville California 95076 or (831) 722-9292.

Basic Financial Statements

Pajaro Valley Water Management Agency
Statement of Net Position
June 30, 2017

		2017
Current assets:		
Cash and cash equivalents (note 2)	$	9,851,258
Cash and cash equivalents - restricted (note 2)		253,553
Accounts receivable, net		2,959,413
Grant receivable (note 3)		466,620
Interest receivable		14,059
Notes receivable		33,333
Prepaid expenses and other assets		35,934
Total current assets		13,614,170
Non-current assets:		
Capital assets - not being depreciated (note 4)		8,017,427
Depreciable capital assets, net (note 4)		66,916,840
Total non-current assets		74,934,267
Total assets		88,548,437
Deferred outflows of resources:		
Deferred pension outflows (note 9)		431,674
Total deferred outflows of resources	$	431,674

Continued on next page

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Net Position, continued
June 30, 2017

		2017
Current liabilities:		
Accounts payable	$	1,672,764
Accrued wages payable		79,509
Retention payable		214,138
Accrued interest		411,889
Long-term liabilities - due within one year:		
Compensated absences (note 6)		66,143
Note payable (note 7)		196,877
Bonds payable (note 7)		1,960,000
Total current liabilities		4,601,320
Non-current liabilities:		
Long-term liabilities - due in more than one year:		
Compensated absences (note 6)		198,429
Net pension liability (note 9)		1,044,568
Note payable (note 7)		2,124,354
Bonds payable (note 7)		28,624,369
Total non-current liabilities		31,991,720
Total liabilities		36,593,040
Deferred inflows of resources:		
Deferred pension inflows (note 9)		52,335
Total deferred inflows of resources		52,335
Net position: (note 10)		
Net investment in capital assets		42,028,667
Restricted		253,553
Unrestricted		10,052,516
Total net position	$	52,334,736

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Activities
For the Fiscal Year Ended June 30, 2017

	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position
Functions/Programs				
Governmental activities:				
Water basin management	$ 7,402,412	10,452,213	3,237,582	6,287,383
Interest on long-term debt	1,051,452	-	-	(1,051,452)
Total governmental activities	$ 8,453,864	10,452,213	3,237,582	5,235,931

General revenues:	
Management fees	$ 383,998
Investment earnings	53,182
Other revenue	56,618
Total general revenues	493,798
Change in net position	5,729,729
Net position, beginning of year	46,605,007
Net position, end of year	$ 52,334,736

Pajaro Valley Water Management Agency
Balance Sheet
June 30, 2017

		General	Special Revenue	Debt Service	Capital Projects	Total Governmental Activities
Assets:						
Cash and cash equivalents	$	2,548,555	7,302,703	-	-	9,851,258
Restricted cash		-	-	253,553	-	253,553
Accounts receivable		62,078	2,897,335	-	-	2,959,413
Grants receivable		-	466,620	-	-	466,620
Interest receivable		2,482	11,577	-	-	14,059
Notes receivable		-	33,333	-	-	33,333
Interfund receivable (note 5)		77,909	-	-	11,021	88,930
Prepaid expenses		14,001	21,933	-	-	35,934
Total assets		2,705,025	10,733,501	253,553	11,021	13,703,100
Liabilities:						
Interfund payable (note 5)		-	88,930	-	-	88,930
Accounts payable		5,768	1,156,032	-	510,964	1,672,764
Retention payable		-	-	-	214,138	214,138
Accrued wages payable		79,509	-	-	-	79,509
Total liabilities		85,277	1,244,962	-	725,102	2,055,341
Fund balance:						
Restricted for debt service		-	-	253,553	-	253,553
Committed		294,124	6,254,127	-	-	6,548,251
Unassigned		2,325,624	3,234,412	-	(714,081)	4,845,955
Total fund balance		2,619,748	9,488,539	253,553	(714,081)	11,647,759
Total liabilities and fund balance	$	2,705,025	10,733,501	253,553	11,021	13,703,100

Pajaro Valley Water Management Agency
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

Reconciliation:

Fund balance of governmental funds	$	11,647,759
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		74,934,267
Long-term liabilities applicable to the Agency are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term, are reported in the Statement of Net Position.		
Compensated absences		(264,572)
Note payable		(2,321,231)
Bonds payable		(30,584,369)
Deferred outflow of resources reported on the Statement of Net Position in accordance with GASB 68		431,674
Deferred inflow of resources reported on the Statement of Net Position in accordance with GASB 68		(52,335)
Net pension liability reported on the Statement of Net Position in accordance with GASB 68		(1,044,568)
Accrued interest represents interest due for long-term obligations and is therefore not reported in the funds		(411,889)
Net position of governmental activities	$	52,334,736

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
June 30, 2017

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Activities
Revenues:					
Management fees	$ 383,998	-	-	-	383,998
Augmentation charges	-	9,080,219	-	-	9,080,219
Interest income	10,630	42,424	129	-	53,183
Water sales	-	1,371,994	-	-	1,371,994
Grant income	-	3,237,582	-	-	3,237,582
Other income		56,618	-	-	56,618
Total revenues	394,628	13,788,837	129	-	14,183,594
Expenditures:					
Office Administration	177,951	730,723	-	-	908,674
Board Support	42,496	-	-	-	42,496
Education and Outreach	7,634	91,463	-	-	99,097
Grant Administration	-	168,356	-	-	168,356
Conservation	-	192,980	-	-	192,980
Harkins Slough Facility	-	232,854	-	-	232,854
Coastal Distribution System	-	909,914	-	-	909,914
Supplemental Water (In-Basin)	-	138,611	-	-	138,611
BMP Network Improvements	-	-	-	8,578	8,578
Blendwell Enhancements	-	-	-	1,638	1,638
RW Storage	-	-	-	4,006,948	4,006,948
K-1 Pipeline	-	-	-	353,804	353,804
Recycled Water Facility	-	1,513,526	-	-	1,513,526
Metering Program	-	251,484	-	-	251,484
Basin Modeling	-	102,218	-	-	102,218
Basin Monitoring	-	207,256	-	-	207,256
In-Basin Management Plan	-	78,920	-	-	78,920
Regional Water Management Plan	-	37,563	-	-	37,563
Out-of-Basin Funding	-	7,519	-	-	7,519
In-Basin Funding	-	12,403	-	-	12,403
Harkins Slough Recharge Facilities	-	-	-	181,203	181,203
College Lake Project	-	-	-	429,129	429,129
Watsonville Slough & North Dunes	-	-	-	166,263	166,263
Murphy Crossing Recharge	-	-	-	7,326	7,326
Debt service:					
Principal	-	-	2,227,358	-	2,227,358
Interest	-	-	1,128,256	-	1,128,256
Total expenditures	228,081	4,675,790	3,355,614	5,154,889	13,414,374
Excess (deficiency) of revenues over expenditures	166,547	9,113,047	(3,355,485)	(5,154,889)	769,220
Other financing sources (uses):					
Operating transfers in (note 5)	-	-	3,355,617	5,480,771	8,836,388
Operating transfers out (note 5)	-	(8,836,388)	-	-	(8,836,388)
Total other financing sources (uses)	-	(8,836,388)	3,355,617	5,480,771	-
Change in fund balance	166,547	276,659	132	325,882	769,220
Fund balance, beginning of year	2,453,201	9,211,880	253,421	(1,039,963)	10,878,539
Fund balance, end of year	$ 2,619,748	9,488,539	253,553	(714,081)	11,647,759

Pajaro Valley Water Management Agency
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017

Reconciliation:

Net changes in fund balance of governmental fund	$ 769,220
Amounts reported for governmental activities in the statement of activities are different because:	
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, the amount is:	
Capital outlay	5,126,567
Current year depreciation	(2,526,694)
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, the amount is:	
Change in accrued interest	(132,144)
Principal payments on long-term debt	2,227,358
Amortization of bond premium	208,948
Net pension liability and deferred pension outflows (inflows) 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	33,191
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	23,283
Change in net position of governmental activities	$ 5,729,729

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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. In 1980, the State Department of Water Resources issued Bulletin 118-80, which identified 447 separate groundwater basins, sub-basins and areas of potential groundwater storage throughout the State. The Agency's boundaries include the communities of Division A (Corralitos and La Selva Beach), Division B (Freedom), Division C (Watsonville and Pajaro) and Division D (Las Lomas, Moss Landing and Aromas) and encompasses the Pajaro Watershed. The Agency is governed by a Board of Directors made up of seven members elected or appointed by qualified voters in the Agency.

B. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets, deferred outflows of resources, liabilities and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statements of Activities present changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Agency are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements. The Agency has presented its General Fund, as its major fund, in these statements to meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Governmental Fund Financial Statements, continued

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Agency are property taxes and assessments, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

The Agency reports the following major governmental fund:

General Fund – is a government's primary operating fund. It accounts for all financial resources of the Agency, except those required to be accounted for in another fund when necessary.

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.

Debt Service Fund – accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects Fund – accounts for the financial resources to be used for the acquisition or construction of major capital facilities and infrastructure improvements.

C. Financial Reporting

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

The following are standards adopted by the Agency in 2017:

Government Accounting Standards Board Statement No. 74

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

The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

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

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

Government Accounting Standards Board Statement No. 77

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

The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

Government Accounting Standards Board Statement No. 78

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

In December 2015, the GASB issued Statement No. 78 – *Pensions* The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.* This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

Government Accounting Standards Board Statement No. 80

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

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

Government Accounting Standards Board Statement No. 82

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

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

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

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

1. Use of Estimates

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

2. Cash and Cash Equivalents

The Agency considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

3. Investments and Investment Policy

The Agency has adopted an investment policy directing the Treasurer to deposit and invest funds in financial institutions in accordance with California Government Code section 53600. The investment policy applies to all financial assets and investment activities of the Agency.

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

4. Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

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

5. Accounts Receivable and Allowance for Uncollectible Accounts

The Agency periodically evaluates receivables for collectability on an individual account basis and records an allowance for any amounts to be uncollectible.

6. Prepaid Expenses

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

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

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

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at acquisition value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings and improvements – 15 to 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

8. Deferred Outflows of Resources

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

9. 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, sick, and compensation time to a maximum of 360 hours, 720 hours, and 80 hours, respectively.

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.

10. Deferred Inflows of Resources

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

11. 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 California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction 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.

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

- Valuation Date: June 30, 2015
- Measurement Date: June 30, 2016
- Measurement Period: July 1, 2015 to June 30, 2016

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

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

12. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

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

13. Fund Balance

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.

- **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.
- **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.
- **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.
- **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 balance commitments and assignments by approving contractual commitments, an ordinance or a resolution. In the government-wide financial statements, restrictions of net position are limited to outside third-party restrictions.

14. Management Fees

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.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

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

15. Augmentation Charges

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

All collected augmentation charge revenue is recorded in the Special Revenue Fund accounts. All capital construction costs are paid for through augmentation charges, grants, loans, and debt issuances.

16. Water Sales

A delivered water charge is collected for water delivered through the constructed project. This revenue is recorded in the Special Revenue Fund Accounts and spent in accordance with the Agency's Fund Accounting Policy.

17. Capital Contributions

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

18. Budgetary Policies

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.

19. Reclassification

Certain prior year comparatives have been reclassified to conform to the current year's presentation.

(2) Cash and Investments

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

		2017
Cash and cash equivalents	$	9,851,258
Cash and cash equivalents - restricted		253,553
Total cash and investments	$	10,104,811

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

		2017
Cash on hand	$	225
Deposits with financial institutions		3,999,735
Local Agency Investment Fund (LAIF)		6,104,851
Total	$	10,104,811

(2) Cash and Investments, continued

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

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

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

The table below identifies the investment types that are authorized for the Agency by the California Government Code as follows:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
Federal Agency and Bank Obligations	None	50%	None
Local Agency Bonds	5 years	None	None
Certificates of Deposits	5 years	None	None
Negotiable Certificates of Deposits	5 years	30%	25%
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	20%	10%
Money market mutual funds	N/A	20%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

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 cost basis.

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

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

Custodial Credit Risk

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

(2) Cash and Investments, continued

Custodial Credit Risk, continued

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to $250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Agency's name.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market 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. The policy is designed to minimize the interest rate risk. The Agency had no investments in debt instruments that would be subject to interest rate risk.

Credit Risk

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

Concentration of Credit Risk

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

(3) Grant receivable

In fiscal year 2007, the Agency, in cooperation with the City of Watsonville, Aromas Water District, The Nature Conservancy, Action Pajaro Valley, Santa Cruz County Flood Control and Water Conservation District, 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, $4,660,000 is allocated to the Agency for the Coastal Distribution System, $6,800,000 is allocated to reduce the Agency's liability to the City of Watsonville for the Recycled Water Treatment Facility and $1,240,000 is allocated to the Agency for grant administration.

(3) Grant receivable, continued

Receipt of funds under the grant agreements is dependent upon the State of California appropriating funds for the grant. 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 is probable. As of June 30, 2017, the Agency's grant receivable balance amounted to $466,620.

(4) Capital Assets

Changes in capital assets for fiscal year 2017, were as follows:

	Balance 2016	Additions/ Transfers	Deletions/ Transfers	Balance 2017
Non-depreciable assets:				
Land	$ 1,401,689	-	-	1,401,689
Construction in progress	4,826,433	5,077,164	(3,287,859)	6,615,738
Total non-depreciable assets	6,228,122	5,077,164	(3,287,859)	8,017,427
Depreciable assets:				
Harkins Slough project	19,387,705	-	-	19,387,705
Accelerated Pipeline project	8,207,481	-	-	8,207,481
Coastal Distribution System	27,730,013	3,287,859	-	31,017,872
Buildings and improvements	456,958	-	-	456,958
Vehicle	195,697	29,073	-	224,770
Office and field equipment	64,351	20,330	-	84,681
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 depreciable assets	88,750,319	3,337,262	-	92,087,581
Accumulated depreciation	(22,644,047)	(2,526,694)	-	(25,170,741)
Total depreciable assets, net	66,106,272	810,568	-	66,916,840
Total capital assets, net	$ 72,334,394			74,934,267

Major depreciable capital asset additions during fiscal year 2017 include additions to the coastal distribution system, vehicle and office and field equipment.

Construction-in-Process

The Agency has been involved in various construction projects throughout the year. The projects that comprise the construction-in-process balances at June 30, 2017 are as follows:

	2017
Recycled Water Storage	$ 5,531,775
Basin Monitoring Network	249,234
College Lake Integrated Resource Management*	480,611
Watsonville Slough Project with Recharge Basin*	189,081
Harkins Slough Facility Upgrade*	165,037
Construction-in-process	$ 6,615,738

****proposed projects***

(5) Interfund Transactions

At June 30, 2017, interfund receivables and payables consist of:

		Interfund Receivable	Interfund Payable
Special revenue	$	-	88,930
General fund		77,909	-
Capital projects		11,021	-
Total	$	88,930	88,930

The interfund receivables and payables represent cash deposited to one fund belonging to one another fund. These amounts will be reimbursed in fiscal year ending June 30, 2018.

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.

Transfers between funds during the year were as follows:

		Transfers In	Transfers Out
Special revenue	$	-	8,836,388
Debt service		3,355,617	-
Capital projects		5,480,771	-
Total	$	8,836,388	8,836,388

(6) Compensated absences

Compensated absences comprise unpaid paid time-off that accrues when benefits are fully vested and are determined annually. Compensated absences turn-over each year, therefore, the compensated absences balance of the Agency is recorded as a liability on the Statement of Net Position.

The changes to compensated absences balances at June 30, were as follows:

	Balance 2016	Earned	Taken	Balance 2017	Current Portion	Long-term Portion
$	287,855	112,389	(135,672)	264,572	66,143	198,429

(7) Long-Term Debt

Changes in long-term debt for the year ended June 30, 2017, are as follows:

	Balance 2016	Additions	Payments	Balance 2017
Long-term debt:				
Note payable				
Department of Water Resources	$ 2,513,589	-	(192,358)	2,321,231
Total note payable	2,513,589	-	(192,358)	2,321,231
Bonds				
2015 Water Revenue Bonds	18,370,000	-	(1,510,000)	16,860,000
Premium on bonds	2,009,775	-	(157,629)	1,852,146
Total 2015 Water Revenue Bonds	20,379,775	-	(1,667,629)	18,712,146
2016 Water Revenue Bonds	11,435,000	-	(525,000)	10,910,000
Premium on bonds	1,013,542	-	(51,319)	962,223
Total 2016 Water Revenue Bonds	12,448,542	-	(576,319)	11,872,223
Total bonds payable	32,828,317	-	(2,243,948)	30,584,369
Total long-term debt	35,341,906			32,905,600
Less: current portion	(2,227,356)			(2,156,877)
Non-current portion	$ 33,114,550			30,748,723

Department of Water Resources

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 semi-annual 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 semi-annual installments of principal and interest in the amount of $125,708, with interest at 2.4% with final payment on September 30, 2027.

Future debt service payments, through maturity in 2028, are as follows:

Year	Principal	Interest	Total
2018	$ 196,877	54,539	251,416
2019	201,630	49,786	251,416
2020	206,408	45,008	251,416
2021	211,565	39,851	251,416
2022	216,589	34,826	251,415
2023-2027	1,163,949	93,129	1,257,078
2028	124,213	1,495	125,708
Total	2,321,231	318,634	2,639,865
Less: current portion	(196,877)		
Long-term portion	$ 2,124,354		

(7) Long-Term Debt, continued

2015 Water Revenue Refunding

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 Resources Control Board Note payables No. 1 and 2. The annual debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
2018	$ 1,555,000	746,900	2,301,900
2019	1,615,000	684,700	2,299,700
2020	1,685,000	620,100	2,305,100
2021	1,770,000	535,850	2,305,850
2022	1,850,000	447,350	2,297,350
2023-2027	6,210,000	1,048,750	7,258,750
2028-2029	2,175,000	98,400	2,273,400
Total	16,860,000	4,182,050	21,042,050
Add: bond premium	1,852,146		
Less: current portion	(1,555,000)		
Long-term portion	$ 17,157,146		

2016 Water Revenue Refunding

On June 29, 2016, the Agency issued the 2016 Revenue Refunding Bonds in the amount of $11,435,000 with interest rates ranging from 2% to $5%, with the final installment payment due on March 1, 2036. Interest is payable annually on September 1 and March 1. Principal is payable annually on March 1 of each year. The bonds were issued to pay off the balances of City of Watsonville notes payable.

Annual debt service requirements on the 2016 Revenue Refunding bonds are as follows

Year	Principal	Interest	Total
2018	$ 405,000	401,563	806,563
2019	415,000	389,412	804,412
2020	425,000	376,963	801,963
2021	440,000	364,212	804,212
2022	460,000	346,613	806,613
2023-2027	2,575,000	1,449,987	4,024,987
2028-2032	3,200,000	819,750	4,019,750
2033-2036	2,990,000	227,550	3,217,550
Total	10,910,000	4,376,050	15,286,050
Add: bond premium	962,223		
Less: current portion	(405,000)		
Long-term portion	$ 11,467,223		

(8) Deferred Compensation Savings Plan

For the benefit of its employees, the Agency participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate. Generally, eligible employees may defer portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Agency is in compliance with this legislation. Therefore, these assets are not the legal property of the Agency, and are not subject to claims of the Agency's general creditors. Market value of all plan assets held in trust at June 30, 2017, was $709,413.

The Agency has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the Agency has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statements of net position.

(9) Defined Benefit Pension Plan

Plan Description

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

Benefits Provided

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

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

(9) Defined Benefit Pension Plan, continued

Benefits Provided, continued

The Agency participates in the Plan's miscellaneous risk pool. The Plans' provisions and benefits in effect as June 30, 2017, are summarized as follows:

	Miscellaneous Plan	
	Classic	**PEPRA**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 service years	5 service years
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	7.00%	6.50%
Required employer contribution rates	8.377%	6.492%

Contributions

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

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan was as follows:

	2017
Contributions – employer	$ 143,115

Net Pension Liability

As of June 30, 2017, the Agency reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	2017
Proportionate share of net pension liabiltiy	$ 1,044,568

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

(9) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The Agency's changes in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement date June 30, 2016, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2015	0.01173%
Increase in proportion	0.00034%
Proportion – June 30, 2016	0.01207%

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2017, the Agency recognized pension expense of $54,817. As of the fiscal year ended June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (see next page)

As June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 152,966	-
Differences between actual and expected experience	3,945	-
Changes in assumptions	-	(48,422)
Net differences between projected and actual earnings on plan investments	252,021	-
Differences between actual contribution and proportionate share of contribution	-	(3,913)
Net adjustment due to differences in proportions of net pension liability	22,742	-
Total	$ 431,674	(52,335)

As of June 30, 2017, the Agency reported $152,966 as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2018.

(9) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

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

Fiscal Year Ending June 30,	Deferred Net Outflows/(Inflows) of Resources
2018	$ 25,286
2019	33,980
2020	99,168
2021	67,939
2022	-
Remaining	-

Actuarial Assumptions

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

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.

Discount Rate

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

(9) 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 expense. For the year ended June 30, 2017, the 7.65% investment return assumption is used to exclude administrative expenses assumed to be 15 basis points.

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.

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

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

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

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

The following table presents the Agency's proportionate share of the net position liability for the Plan, calculated using the discount rate, 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 one percentage point lower or one percentage point higher than the current rate.

(9) Defined Benefit Pension Plan, continued

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

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

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
Agency's Net Pension Liability	$ 1,611,056	1,044,568	557,222

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 43-44 for the Required Supplementary Schedules.

Payable to the Pension Plan

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

(10) Net Position

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

	2017
Net investment in capital assets:	
Capital assets, net	$ 74,934,267
Loan payable, current	(196,877)
Loan payable, non-current	(2,124,354)
Bonds payable, current	(1,960,000)
Bonds payable, non-current	(28,624,369)
Total net investment in capital assets	42,028,667
Restricted for debt service:	
Restricted - cash and cash equivalents	253,553
Total restricted for debt service	253,553
Unrestricted net position:	
Non-spendable net position	
Prepaid expenses and other assets	35,934
Total non-spendable net position	35,934
Spendable net position is designated as follows:	
Unrestricted	10,016,582
Total spendable net position	10,016,582
Total unrestricted net position	10,052,516
Total net position	$ 52,334,736

(11) City of Watsonville Water Treatment Plant Repayment Contract

In April 2006, the Agency entered into a repayment agreement with the City of Watsonville (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 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.

The City has a restricted bond reserve fund with the fiscal agent, US Bank. As of June 30, 2015, 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.

On June 29, 2016, the Agency paid the amount owed to the City of Watsonville through application of the grant money owed by the City and the 2016 Water Revenue Bond issuance. See Note 7 for further details.

An intangible asset, representing the Agency's capacity rights to the project, is recorded at June 30, 2017 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 part of the agreement, the Agency agreed to pay quarterly operation and maintenance costs of the treatment plant to the City. In 2017, the Agency paid the City for operation and maintenance costs in the amount of $1,445,631.

(12) Risk Management

The Agency is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017, the Agency participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,000,000, combined single limit at $9,000,000 per occurrence. The JPIA purchases additional excess coverage layers: $30 million per occurrence for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft and computer fraud.
- Property loss is paid at the replacement cost for property on file if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $150 million per occurrence, subject to a $1,000 deductible per occurrence.

(12) Risk Management, continued

- Boiler and machinery coverage for the replacement cost up to $50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to $2,000,000 and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Agency's insurance coverage during the year ending June 30, 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2017, 2016, and 2015.

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

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

Governmental Accounting Standards Board Statement No. 75

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

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

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

Governmental Accounting Standards Board Statement No. 81

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

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

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

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

Governmental Accounting Standards Board Statement No. 83

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

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement to the Agency's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 84

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

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

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

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement to the Agency's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 85

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

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

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

Governmental Accounting Standards Board Statement No. 86

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

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of the implementation of this Statement to the Agency's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 87

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

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

(14) Commitments and Contingencies

Construction Contracts

The Agency has a variety of agreements with various contractors and vendors relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the Agency's replacement reserves, capital contributions and debt financing.

Litigation

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

(15) Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of January 24, 2018, which is the date the financial statements were available to be issued.

Required Supplementary Information

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2017

		Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues					
Management fees	$	383,634	383,634	383,998	364
Interest income		5,000	5,000	10,630	5,630
Total revenues		388,634	388,634	394,628	5,994
Expenditures:					
Office Administration		202,571	202,571	177,951	24,620
Board Support		80,016	40,191	42,496	(2,305)
Education and Outreach		80,286	30,286	7,634	22,652
Total expenditures		362,873	273,048	228,081	44,967
Excess of revenues over expenditures		25,761	115,586	166,547	50,961
Fund balance – beginning of period		2,453,201	2,453,201	2,453,201	
Fund balance – end of period	$	2,478,962	2,568,787	2,619,748	

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Special Revenue Fund
For the Year Ended June 30, 2017

		Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Augmentation charges	$	10,590,275	10,590,275	9,080,219	(1,510,056)
Interest income		15,000	30,000	42,424	12,424
Water sales		1,723,200	1,723,200	1,371,994	(351,206)
Grant income		2,997,500	2,997,500	3,237,582	240,082
Other income		10,000	35,000	56,618	21,618
Total revenues		15,335,975	15,375,975	13,788,837	(1,587,138)
Expenditures:					
Office Administration		902,061	891,061	730,723	160,338
Education and Outreach		119,075	119,075	91,463	27,612
Grant Administration		158,247	188,247	168,356	19,891
Conservation		570,578	250,578	192,980	57,598
Harkins Slough Facility		294,473	305,473	232,854	72,619
Coastal Distribution System		1,135,613	1,012,113	909,914	102,199
Supplemental Water (In-Basin)		156,648	233,648	138,611	95,037
Recycled Water Facility		2,047,264	2,047,264	1,513,526	533,738
Metering Program		324,480	304,480	251,484	52,996
Basin Modeling		139,557	124,557	102,218	22,339
Basin Monitoring		292,118	270,118	207,256	62,862
In-Basin Management Plan		112,229	101,229	78,920	22,309
Regional Water Management Plan		131,436	46,436	37,563	8,873
Out-of-Basin Funding		38,127	11,127	7,519	3,608
In-Basin Funding		24,931	24,931	12,403	12,528
Total expenditures		6,446,837	5,930,337	4,675,790	1,254,547
Excess of revenues over expenditures		8,889,138	9,445,638	9,113,047	(332,591)
Other financing sources:					
Transfers out		-	-	(8,836,388)	8,836,388
Total other financing sources		-	-	(8,836,388)	8,836,388
Net change in fund balance		8,889,138	9,445,638	276,659	(9,168,979)
Fund balance - beginning of period		9,211,880	9,211,880	9,211,880	
Fund balance - end of period	$	18,101,018	18,657,518	9,488,539	

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Debt Service Fund
For the Year Ended June 30, 2017

		Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Interest income	$	-	-	129	129
Total revenues		-	-	129	129
Expenditures:					
Debt service:					
Principal		2,442,355	2,442,356	2,227,358	214,998
Interest		1,111,560	1,111,559	1,128,256	(16,697)
Total expenditures		3,553,915	3,553,915	3,355,614	198,301
Excess of revenues (under) expenditures		(3,553,915)	(3,553,915)	(3,355,485)	198,430
Other financing sources:					
Transfers in		-	-	3,355,617	(3,355,617)
Total other financing sources		-	-	3,355,617	(3,355,617)
Net change in fund balance		(3,553,915)	(3,553,915)	132	3,554,047
Fund balance - beginning of period		253,421	253,421	253,421	
Fund balance - end of period	$	(3,300,494)	(3,300,494)	253,553	

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Capital Projects Fund
For the Year Ended June 30, 2017

	Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:				
Other income	$ -	-	-	-
Total revenues	-	-	-	-
Expenditures:				
BMP Network Improvements	58,146	8,146	8,578	(432)
Blendwell Enhancements	-	1,638	1,638	-
Recycled Water Storage	3,260,350	4,960,350	4,006,948	953,402
K-1 Pipeline	-	353,811	353,804	7
Harkins Slough Recharge Facilities	127,188	427,188	181,203	245,985
College Lake Project	277,296	527,296	429,129	98,167
Watsonville Slough & North Dunes	138,093	388,093	166,263	221,830
Murphy Crossing Recharge	69,127	9,127	7,326	1,801
Total expenditures	3,930,200	6,675,649	5,154,889	1,520,760
Excess of revenues under expenditures	(3,930,200)	(6,675,649)	(5,154,889)	1,520,760
Other financing sources:				
Transfers in	-	-	5,480,771	(5,480,771)
Total other financing sources	-	-	5,480,771	(5,480,771)
Net change in fund balance	(3,930,200)	(6,675,649)	325,882	7,001,531
Fund balance - beginning of period	(1,039,963)	(1,039,963)	(1,039,963)	
Fund balance - end of period	$ (4,970,163)	(7,715,612)	(714,081)	

Basis of Budgeting

The Agency follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the Agency's General Manager and Financial and Administrative Services Manager prepare and submit a capital and operating budget to the Board of Directors and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General, Special Revenue, Debt Service, and Capital Projects Funds.

Pajaro Valley Water Management Agency
Schedule of the Agency's Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last Ten Years*

		Measurement Dates	
	6/30/2016	6/30/2015	6/30/2014
Agency's Proportion of the Net Pension Liability	0.01207%	0.01173%	0.01278%
Agency's Proportionate Share of the Net Pension Liability	$ 1,044,568	805,081	795,051
Agency's Covered-Employee Payroll	$ 1,012,215	957,312	908,004
Agency's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	103.20%	84.10%	87.56%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	77.05%	80.84%	79.61%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 130,577	117,462	83,950

Notes:

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

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

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

Pajaro Valley Water Management Agency
Schedule of Pension Plan Contributions
As of June 30, 2017
Last Ten Years*

Description		Measurement Dates 6/30/16	6/30/15	6/30/14
Actuarially Determined Contribution	$	148,790	133,907	125,928
Contributions in Relation to the Actuarially Determined Contribution		(143,115)	(145,038)	(125,928)
Contribution Deficiency (Excess)	$	5,675	(11,131)	-
Covered Payroll	$	1,012,215	957,312	908,004
Contribution's as a percentage of Covered-employee Payroll		14.14%	15.15%	13.87%

Note:

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

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Report on Internal Controls and Compliance

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

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 Pajaro Valley Water Management Agency (Agency) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the Agency's basic financial statements, and have issued our report thereon dated January 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits 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 opinion 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 audits 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency'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.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 24, 2018