Pajaro Valley Water Management Agency

Annual Financial Report

For the Fiscal Year Ended June 30, 2018

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, 2018

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
Bob Culbertson	Director	Elected	Division D
Vacant	Director	Appointed	County of Santa Cruz

Pajaro Valley Water Management Agency
Brian Lockwood, General Manager
36 Brennan Street
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, 2018

Pajaro Valley Water Management Agency
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For the Fiscal Year Ended June 30, 2018

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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, 2018, 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 opinions.

Opinions

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, 2018, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 10 to the financial statements, the Agency restated net position as of June 30, 2017 for prepaid expenses. Our opinion is not modified with respect to this matter. See Note 10 to the basic financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 39 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 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 46 and 47.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 19, 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, 2018. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- The Agency's net position increased 10.60% or $5,552,263 to $57,948,284 from ongoing operations.
- The Agency's total revenues increased 1.55% or $220,547 to $14,404,141.
- The Agency's total expenses increased 5.47%, or $459,298 to 8,851,878.

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 revenues 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

Statement of Net Position and Statement 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 is one indicator of whether its *financial health* is improving or deteriorating; however, one will need to consider other non-financial factors to assess the *overall health* of the Agency.

Governmental Funds Financial Statements

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

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, continued

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 Balance 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 38.

Government-wide Financial Analysis

Condensed Statements of Net Position

	2018	As Restated 2017	Change
Assets:			
Current assets	$ 15,599,078	13,645,994	1,953,084
Capital assets, net	75,740,465	74,934,267	806,198
Total assets	91,339,543	88,580,261	2,759,282
Deferred outflows of resources	493,065	431,674	61,391
Liabilities:			
Current liabilities	4,132,161	4,571,859	(439,698)
Non-current liabilities	29,728,137	31,991,720	(2,263,583)
Total liabilities	33,860,298	36,563,579	(2,703,281)
Deferred inflows of resources	24,026	52,335	(28,309)
Net position:			
Net investment in capital assets	45,200,690	42,028,667	3,172,023
Restricted	253,681	253,553	128
Unrestricted	12,493,913	10,113,801	2,380,112
Total net position	$ 57,948,284	52,396,021	5,552,263

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 exceeded liabilities and deferred inflows of resources by $57,948,284 as of June 30, 2018. A large portion of the Agency's net position ($45,200,690 or 78.00%), 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 2018, the Agency reflected a positive balance in its unrestricted net position of $12,493,913 that may be utilized in future years. (See note 11 for further information)

Condensed Statements of Activities

		2018	As Restated 2017	Change
Revenues:				
Program revenues:				
Charge for services	$	12,544,903	10,452,213	2,092,690
Capital grants and contributions		1,365,994	3,237,582	(1,871,588)
Total program revenues		13,910,897	13,689,795	221,102
General revenues:				
Management fees		375,592	383,998	(8,406)
Investment earnings		87,079	53,183	33,896
Other revenues		30,573	56,618	(26,045)
Total general revenues		493,244	493,799	(555)
Total revenues		14,404,141	14,183,594	220,547
Expenses:				
Water basin management		7,911,675	7,341,128	570,547
Interest on long-term debt		940,203	1,051,452	(111,249)
Total expense		8,851,878	8,392,580	459,298
Changes in net position		5,552,263	5,791,014	(238,751)
Net position, beginning of year		52,396,021	46,605,007	5,791,014
Net position, end of year	$	57,948,284	52,396,021	5,552,263

The Statement of Activities show how the Agency's net position changed during the fiscal year. In the case of the Agency, net position increased 10.60% or $5,552,263 to $57,948,284, as a result of ongoing operations.

The Agency's total revenues from all sources increased 1.55% or $220,547 to $14,404,141. Program revenues increased by $221,102 primarily due to a $2,092,690 increase in charges for service caused by an increase in rates and consumption; which was offset by a $1,871,588 decrease in grants. General revenues decreased by $555.

Government-wide Financial Analysis, continued

The Agency's total expenses increased 5.47% or $459,298 to $8,851,878 primarily due to an increase of $570,547 in water basin management; which was offset by a decrease of $111,249 in interest on long-term debt.

Changes in Fund Balance – Governmental funds

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2018:

Condensed Changes in Fund Balance - Governmental Funds

		General	Special Revenue	Capital Projects	Debt Service	Total Fund Balance
Fund balance, beginning of year	$	2,681,033	9,488,539	(714,081)	253,553	11,709,044
Changes in fund balance		187,944	2,133,325	90,263	128	2,411,660
Fund balance, end of year	$	2,868,977	11,621,864	(623,818)	253,681	14,120,704

In 2018, total fund balance increased by 20.60% or $2,411,660 to $14,120,704. The General fund increased by 7.01% or $187,944 to $2,868,977; the Special Revenue fund increased by 22.48% or $2,133,325 to $11,621,864; Capital Projects fund increased by 12.64% or $90,263 to a deficit of $623,818; and the Debt Service fund increased by 0.05% or $128 to $253,681.

Capital Asset Administration

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

		Balance 2017	Additions	Transfers/ Deletions	Balance 2018
Non-depreciable assets	$	8,017,427	3,388,187	(6,304,789)	5,100,825
Depreciable assets		92,087,581	6,321,489	-	98,409,070
Accumulated depreciation		(25,170,741)	(2,598,689)	-	(27,769,430)
Total capital assets, net	$	74,934,267	7,110,987	(6,304,789)	75,740,465

At the end of fiscal year 2018, the Agency's investment in capital assets (net of accumulated depreciation) amounted to $75,740,465. The 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 2017	Additions	Transfers/ Deletions	Balance 2018
Loan payable	$	2,321,231	-	(196,877)	2,124,354
Bond payable		30,584,369	-	(2,168,948)	28,415,421
Total long-term debt	$	32,905,600	-	(2,365,825)	30,539,775

In 2018, long-term debt decreased by $2,365,825, 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 2017-2018 is based on the following economic factors and assumptions:

Projected billed consumption of 53,440 acre feet of water usage, that includes 48,640 acre feet of groundwater, and 4,800 acre feet of delivered water.

Current augmentation charges are $217/acre foot (af) of pumped groundwater outside the delivered water zone. Within the delivered water zone, the pumped ground water charge is $282/af, and the delivered water charge is $369/af. Rural residential users with unmetered wells pay an estimated 0.5 af/year of water usage at a rate of $206/af or $103/af per 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, 2018

		2018
Current assets:		
Cash and cash equivalents (note 2)	$	11,566,594
Cash and cash equivalents - restricted (note 2)		253,681
Accounts receivable, net		3,584,419
Grant receivable (note 3)		85,032
Interest receivable		29,310
Prepaid expenses and other assets		80,042
Total current assets		15,599,078
Non-current assets:		
Capital assets - not being depreciated (note 4)		5,100,825
Depreciable capital assets, net (note 4)		70,639,640
Total non-current assets		75,740,465
Total assets		91,339,543
Deferred outflows of resources:		
Deferred pension outflows (note 9)		493,065
Total deferred outflows of resources	$	493,065

Continued on next page

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Net Position, continued
June 30, 2018

		2018
Current liabilities:		
Accounts payable	$	1,416,859
Accrued wages payable		53,418
Accrued interest		358,038
Unearned revenue		8,097
Long-term liabilities - due within one year:		
Compensated absences (note 6)		64,119
Note payable (note 7)		201,630
Bonds payable (note 7)		2,030,000
Total current liabilities		4,132,161
Non-current liabilities:		
Long-term liabilities - due in more than one year:		
Compensated absences (note 6)		192,355
Net pension liability (note 9)		1,227,637
Note payable (note 7)		1,922,724
Bonds payable (note 7)		26,385,421
Total non-current liabilities		29,728,137
Total liabilities		33,860,298
Deferred inflows of resources:		
Deferred pension inflows (note 9)		24,026
Total deferred inflows of resources		24,026
Net position: (note 11)		
Net investment in capital assets		45,200,690
Restricted		253,681
Unrestricted		12,493,913
Total net position	$	57,948,284

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Activities
For the Fiscal Year Ended June 30, 2018

		Expenses	Charge for Services	Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position
Functions/Programs					
Governmental activities:					
Water basin management	$	7,911,675	12,544,903	1,365,994	5,999,222
Interest on long-term debt		940,203	-	-	(940,203)
Total governmental activities	$	8,851,878	12,544,903	1,365,994	5,059,019

General revenues:		
Management fees	$	375,592
Investment earnings		87,079
Other revenue		30,573
Total general revenues		493,244
Changes in net position		5,552,263
Net position, beginning of year, as restated (note 10)		52,396,021
Net position, end of year	$	57,948,284

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Balance Sheet
June 30, 2018

		General	Special Revenue	Capital Projects	Debt Service	Total Governmental Activities
Assets:						
Cash and cash equivalents	$	2,727,514	8,839,080	-	-	11,566,594
Restricted cash		-	-	-	253,681	253,681
Accounts receivable		88,604	3,495,815	-	-	3,584,419
Grants receivable		-	85,032	-	-	85,032
Interest receivable		5,175	24,135	-	-	29,310
Prepaid expenses		45,965	34,077	-	-	80,042
Interfund receivable (note 5)		81,659	-	11,021	-	92,680
Total assets	$	2,948,917	12,478,139	11,021	253,681	15,691,758
Liabilities:						
Accounts payable		26,522	755,498	634,839	-	1,416,859
Accrued wages payable		53,418	-	-	-	53,418
Unearned revenues		-	8,097	-	-	8,097
Interfund payable (note 5)	$	-	92,680	-	-	92,680
Total liabilities		79,940	856,275	634,839	-	1,571,054
Fund balance: (note 12)						
Non-spendable		45,965	34,077	-	-	80,042
Restricted		-	-	-	253,681	253,681
Committed		486,554	4,507,812	-	-	4,994,366
Assigned		256,474	-	-	-	256,474
Unassigned		2,079,984	7,079,975	(623,818)	-	8,536,141
Total fund balance		2,868,977	11,621,864	(623,818)	253,681	14,120,704
Total liabilities and fund balance	$	2,948,917	12,478,139	11,021	253,681	15,691,758

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Reconciliation:

Fund balance of governmental funds	$	14,120,704
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not in the governmental funds balance sheet. However, the Statement of Net Position includes those capital position among the assets of the Agency as a whole.		75,740,465
Deferred outflow of resources applicable to the consumption of resources to be used in future periods.		493,065
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.		
Accrued interest		(358,038)
Compensated absences		(256,474)
Note payable		(2,124,354)
Bonds payable		(28,415,421)
Net pension liability		(1,227,637)
Deferred inflow of resources applicable to the acquisition of resources to be used in future periods.		(24,026)
Net position of governmental activities	$	57,948,284

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
June 30, 2018

	General	Special Revenue	Capital Projects	Debt Service	Total Governmental Activities
Revenues:					
Charge for services:					
Augmentation charges	$ -	10,776,768	-	-	10,776,768
Water sales	-	1,768,135	-	-	1,768,135
Capital grants and contributions	-	1,365,994	-	-	1,365,994
Management fees	375,592	-	-	-	375,592
Interest income	16,283	70,667	-	129	87,079
Other income	-	30,573	-	-	30,573
Total revenues	391,875	14,012,137	-	129	14,404,141
Expenditures:					
Office administration	162,439	803,093	-	-	965,532
Board support	31,455	-	-	-	31,455
Education and outreach	10,037	97,208	-	-	107,245
Grant administration	-	142,216	-	-	142,216
Conservation	-	415,875	-	-	415,875
Harkins Slough facility	-	188,642	-	-	188,642
Coastal distribution system	-	986,033	-	-	986,033
Supplemental water (In-Basin)	-	184,131	-	-	184,131
BMP network improvements	-	-	187,589	-	187,589
Recyled water storage	-	-	799,928	-	799,928
Recycled water facility	-	1,541,176	-	-	1,541,176
Metering program	-	229,614	-	-	229,614
Basin modeling	-	62,342	-	-	62,342
Basin monitoring	-	169,540	-	-	169,540
In-Basin management plan	-	52,570	-	-	52,570
Regional water management plan	-	10,548	-	-	10,548
Out-of-Basin funding	-	23,302	-	-	23,302
In-Basin funding	-	11,865	-	-	11,865
Harkins Slough recharge facilities	-	-	501,275	-	501,275
College Lake project	-	-	1,514,474	-	1,514,474
Watsonville Slough & North Dunes	-	-	507,250	-	507,250
Debt service:					
Principal	-	-	-	2,156,877	2,156,877
Interest	-	-	-	1,203,002	1,203,002
Total expenditures	203,931	4,918,155	3,510,516	3,359,879	11,992,481
Excess(deficiency) of revenues over expenditures	187,944	9,093,982	(3,510,516)	(3,359,750)	2,411,660
Other financing sources(uses):					
Operating transfers in (note 5)	-	-	3,600,779	3,359,878	6,960,657
Operating transfers out (note 5)	-	(6,960,657)	-	-	(6,960,657)
Total other financing sources(uses)	-	(6,960,657)	3,600,779	3,359,878	-
Changes in fund balance	187,944	2,133,325	90,263	128	2,411,660
Fund balance, beginning of year, as restated (note 10)	2,681,033	9,488,539	(714,081)	253,553	11,709,044
Fund balance, end of year	$ 2,868,977	11,621,864	(623,818)	253,681	14,120,704

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Reconciliation:

Net change in fund balance of governmental funds	$	2,411,660
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 amounts are as follows:		
Capital outlay		3,404,887
Current year depreciation		(2,598,689)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on Statement of Activities. In the current period, the amounts are as follows:		
Changes in accrued interest		53,851
Principal payments on note payable		196,877
Principal payments on bond payable		1,960,000
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 as follows:		
Deferred pension outflows		61,391
Deferred pension inflows		28,309
Net pension liabilities		(183,069)
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.		8,098
Changes in net position of governmental activities	$	5,552,263

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 (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.

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 Statement of Activities presents 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 Balance 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 Balance 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.

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

a) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or

c) The entity has determined that a fund is important to the financial statements users.

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). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles applicable to governmental entities.

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

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.

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

C. Financial Reporting, continued

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.

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]).

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.

D. Financial Elements

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

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

D. Financial Elements, continued

4. 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.

5. 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.

6. 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 to 25 years
- Vehicles – 7 to 10 years
- Furniture and fixtures – 5 years
- Water rights – Recycle Water Facility – 25 years

7. Deferred Outflows of Resources

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

8. Compensated Absences

The Agency allows employees to accrue vacation, sick, and compensation time 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, sick, and compensation time are recorded as an expense and a liability in the government-wide financial statements at the time the liability is incurred.

9. Deferred Inflows of Resources

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

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

D. Financial Elements, continued

10. 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, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

11. Net Position

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

- **Net investment in capital assets** – 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** – 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** – consists of net position that does not meet the definition of *restricted* or *net investment in capital assets.*

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.

12. Fund Balance

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

- **Non-spendable** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- **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.

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

D. Financial Elements, continued

12. Fund Balance, continued

- **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 includes 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, committed, or assigned 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. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

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

The Agency believes that sound financial management principles require that sufficient funds be retained by the Agency to provide a stable financial base at all times. To retain this stable financial base, the Agency needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the Agency and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the Agency's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

13. 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.

14. 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. Large delinquent accounts are collected through litigation after other recovery efforts have been exhausted.

All collected augmentation charge revenues are recorded in the Special Revenue fund accounts. All capital construction costs are paid with augmentation charges, grants, loans, and debt issuances.

15. Water Sales

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.

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

D. Financial Elements, continued

16. Capital Contributions

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

17. Budgetary Policies

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

(2) Cash and Investments

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

		2018
Cash and cash equivalents	$	11,566,594
Cash and cash equivalents - restricted		253,681
Total cash and investments	$	11,820,275

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

		2018
Cash on hand	$	225
Deposits with financial institutions		5,654,625
Local Agency Investment Fund (LAIF)		6,165,425
Total	$	11,820,275

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

	2018
Deposits held with the California Local Agency Investment Fund (LAIF)	193 days

(2) Cash and Investments, continued

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: 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 are 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.

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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, which will permit easy and rapid conversion into cash without substantial loss of value, and will enable the Agency to meet all operating requirements which can 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. The Agency's investment in LAIF is not rated.

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 investments at June 30, 2018.

(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 the Agency to reduce its liability with the City of Watsonville for the Recycled Water Treatment Facility and $1,240,000 is allocated to the Agency for grant administration.

Receipt of funds under the grant agreement 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, 2018, the Agency's grant receivable balance totaled to $85,042.

(4) Capital Assets

Changes in capital assets for fiscal year 2018 were as follows:

		Balance 2017	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Non-depreciable assets:					
Land	$	1,401,689	-	-	1,401,689
Construction in progress		6,615,738	3,388,187	(6,304,789)	3,699,136
Total non-depreciable assets		8,017,427	3,388,187	(6,304,789)	5,100,825
Depreciable assets:					
Harkins Slough project		19,387,705	-	-	19,387,705
Accelerated pipeline project		8,207,481	-	-	8,207,481
Coastal distribution system		31,017,872	6,304,789	-	37,322,661
Buildings and improvements		456,958	-	-	456,958
Vehicle		224,770	-	-	224,770
Office and field equipment		84,681	16,700	-	101,381
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		92,087,581	6,321,489	-	98,409,070
Accumulated depreciation		(25,170,741)	(2,598,689)	-	(27,769,430)
Total depreciable assets, net		66,916,840	3,722,800	-	70,639,640
Total capital assets, net	$	74,934,267			75,740,465

Major depreciable capital asset additions during fiscal year 2018, include additions to the coastal distribution system, 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 are as follows:

		2018
Recycled water facility disk filter	$	371,729
College Lake integrated resource management		2,007,263
Watsonville Slough project with recharge basin		675,713
Harkins Slough facility upgrade		644,431
Construction-in-process	$	3,699,136

(5) Interfund Transactions

At June 30, 2018, interfund receivables and payables consist of:

		Interfund Receivable	Interfund Payable
Special revenue	$	-	92,680
General fund		81,659	-
Capital projects		11,021	-
Total	$	92,680	92,680

The interfund receivables and payables represent cash deposited to one fund belonging to another fund. These amounts will be reimbursed subsequent to 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 and funded through the special revenue fund.

Transfers between funds during the year were as follows:

		Transfers In	Transfers Out
Special revenue	$	-	6,960,657
Debt service		3,359,878	-
Capital projects		3,600,779	-
Total	$	6,960,657	6,960,657

(6) Compensated absences

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

Balance 2017	Earned	Taken	Balance 2018	Current Portion	Long-term Portion
$ 264,572	152,136	(160,234)	256,474	64,119	192,355

(7) Long-Term Debt

Changes in long-term debt at June 30 were as follows:

	Balance 2017	Additions	Payments	Balance 2018	Current Portion	Non-Current Portion
Note payable:						
Department of Water Resources	$ 2,321,231	-	(196,877)	2,124,354	201,630	1,922,724
Total note payable	2,321,231	-	(196,877)	2,124,354	201,630	1,922,724
Bonds:						
2015 Water Revenue Bonds	16,860,000	-	(1,555,000)	15,305,000	1,615,000	13,690,000
Premium on bonds	1,852,146	-	(157,629)	1,694,517	-	1,694,517
Total 2015 Water Revenue Bonds	18,712,146	-	(1,712,629)	16,999,517	1,615,000	15,384,517
2016 Water Revenue Bonds	10,910,000	-	(405,000)	10,505,000	415,000	10,090,000
Premium on bonds	962,223	-	(51,319)	910,904	-	910,904
Total 2016 Water Revenue Bonds	11,872,223	-	(456,319)	11,415,904	415,000	11,000,904
Total bonds payable	30,584,369	-	(2,168,948)	28,415,421	2,030,000	26,385,421
Total long-term debt	32,905,600	-	(2,365,825)	30,539,775	2,231,630	28,308,145
Less: current portion	(2,156,877)			(2,231,630)		
Non-current portion	$ 30,748,723			28,308,145		

Department of Water Resources

On June 15, 2005, the Agency entered into a promissory note with the Department of Water Resources (DWR) in the amount of $3,511,446. The loan proceeds were used for the construction of components of the revised basin management plan. Commencing on April 1, 2008, the note was payable in semi-annual installments of principal and interest of $111,049, with interest at 2.4%, maturing 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 on April 1, 2012, the note is payable in semi-annual installments of principal and interest of $125,708. There were no changes to the interest rate or maturity date.

Future debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 201,630	49,786	251,416
2020	206,408	45,008	251,416
2021	211,565	39,851	251,416
2022	216,589	34,827	251,416
2023	221,819	29,597	251,416
2024-2028	1,066,343	65,027	1,131,372
Total	2,124,354	264,096	2,388,452
Current	(201,630)		
Non-current	$ 1,922,724		

(7) Long-Term Debt, continued

2015 Water Revenue Refunding

On April 30, 2015, the Agency issued the 2015 Revenue Refunding Bond in the amount of $19,970,000. The bonds were issued to refund the 1999 Certificates of Participation and the State Water Resources Control Board Note payables No. 1 and 2. The terms of the bond calls for annual payments of principal and interest payable annually on March 1 of each year. The bond's interest rate range from 3.0% to 5.0% and matures on March 1, 2029.

Future debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
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	1,940,000	354,850	2,294,850
2024-2028	5,340,000	659,150	5,999,150
2029	1,105,000	33,150	1,138,150
Total	15,305,000	3,335,150	18,640,150
Current	(1,615,000)		
Non-current	$ 13,690,000		

2016 Water Revenue Refunding

On June 29, 2016, the Agency issued the 2016 Revenue Refunding Bond in the amount of $11,435,000. The terms of the bond calls for semi-annual payments of interest on September 1 and March 1 of each year, and annual payments of principal on March 1 of each year. The bond's interest rate range from 2.0% to 5.0% and matures on March 1, 2036.

Future debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 415,000	389,413	804,413
2020	425,000	376,963	801,963
2021	440,000	364,213	804,213
2022	460,000	346,613	806,613
2023	475,000	328,213	803,213
2024-2028	2,680,000	1,344,075	4,024,075
2029-2033	3,335,000	687,150	4,022,150
2034-2036	2,275,000	137,850	2,412,850
Total	10,505,000	3,974,490	14,479,490
Current	(415,000)		
Non-current	$ 10,090,000		

(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, 2018, was $674,267.

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 Statement 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 Plan's provisions and benefits in effect as June 30, 2018, 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	
Benefit payments	monthly for life	
Retirement age	50 - Minimum	52 - Minimum
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	6.896%	6.250%
Required employer contribution rates	8.921%	6.533%

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, 2018, the contributions recognized as part of pension expense for the Plan was as follows:

	2018
Contributions – employer	$ 152,966

Net Pension Liability

As of June 30, 2018, the Agency reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	2018
Proportionate share of net pension liabiltiy	$ 1,227,637

(9) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

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, 2018, the net pension liability of the Plan is measured as of June 30, 2017 (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, 2016 (the valuation date), rolled forward to June 30, 2017, 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.

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, 2017, was as follows:

	Miscellaneous	
Proportion – June 30, 2016	0.01207	%
Increase in proportion	0.00031	
Proportion – June 30, 2017	0.01238	%

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2018, the Agency recognized pension expense of $262,828. As of the fiscal year ended June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	169,459	-
Differences between actual and expected experience		-	(24,026)
Change in assumptions		206,635	-
Net differences between projected and actual earnings on plan investments		50,589	-
Adjustment due to changes in proportions and difference between actual and proportionate share of contributions		66,382	-
Total	$	493,065	(24,026)

(9) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2018, the Agency reported $169,459 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, 2019.

At June 30, 2018, 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
2019	$	84,528
2020		150,953
2021		94,136
2022		(30,037)

Actuarial Assumptions

The total pension liabilities were determined by actuarial valuations as of June 30, 2016, which were rolled forward to June 30, 2017, using the following actuarial assumptions:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumption	
Discount rate	7.15%
Inflation	2.75%
Salary increase	Varies by Entry Age and Service
Mortality table*	Derived using CalPERS membership data
Period upon which actuarial experience survey assumptions were based	1997 - 2011
Post-retirement benefit increase	Contract COLA up to 2.75% until PPPA 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.

Discount Rate

The discount rates used in the actuarial valuations to measure the total pension liability as of June 30, 2017, reflect the long-term expected rates of return. The discount rates used to measure the total pension liability as of June 30, 2017, was 7.15%. These differ from the discount rates used as of June 30, 2016, which was 7.65%, due to a decrease in the long-term expected rate of return. The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period.

(9) Defined Benefit Pension Plan, continued

Discount Rate, continued

To determine whether the municipal bond rate should be used in the calculation of the discount rate, the amortization and smoothing periods adopted by CalPERS in 2013 were used. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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.

As of June 30, 2018, the target allocation and the long-term expected real rate of return by asset class were as follow:

Asset Class	Strategic Allocation	Real Return Years 1-10*	Real Return Year 11+**
Global Equity	47.00 %	4.90 %	0.54 %
Global Debt Securities	19.00	0.80	2.27
Inflation Assets	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Estate	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	2.00	(0.40)	(0.90)
Total	100.00 %		

(9) Defined Benefit Pension Plan, continued

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 pension 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.

As of June 30, 2018, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
Agency's net pension liability	$ 1,981,733	1,227,637	603,081

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 44 and 45 for the Required Supplementary Information.

(10) Restatement

In fiscal year 2018, the Agency restated its net position/fund balance to report health insurance premiums based on the period incurred. The effects of the restatement to net position are as follows:

	Net Position	Fund Balance
Beginning net position, as previously stated	$ 52,334,736	11,647,759
Prepaid expenses	61,285	61,285
Beginning net position, as restated	$ 52,396,021	11,709,044

(11) Net Position

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

		2018
Net investment in capital assets:		
Capital assets, net	$	75,740,465
Loan payable, current		(201,630)
Loan payable, non-current		(1,922,724)
Bonds payable, current		(2,030,000)
Bonds payable, non-current		(26,385,421)
Total net investment in capital assets		45,200,690
Restricted for debt service:		
Restricted - cash and cash equivalents		253,681
Total restricted for debt service		253,681
Unrestricted net position:		
Non-spendable net position:		
Prepaid expenses and other assets		80,042
Total non-spendable net position		80,042
Spendable net position:		
Unrestricted		12,413,871
Total spendable net position		12,413,871
Total unrestricted net position		12,493,913
Total net position	$	57,948,284

(12) Fund Balance

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

		2018
Non-spendable:		
Prepaid expenses	$	80,042
Total non-spendable		80,042
Restricted		
Restricted for debt service		253,681
Total restricted		253,681
Committed:		
Contracted captial projects		4,507,812
Contracted services		486,554
Total committed		4,994,366
Assigned:		
Compensated absences		256,474
Total assigned		256,474
Unassigned:		
Operations		8,536,141
Total unassigned		8,536,141
Total fund balance	$	14,120,704

(13) 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, 2018, 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.

(13) Risk Management, continued

- 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.
- 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, 2018. 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, 2018, 2017, and 2016.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the issue date, that have effective dates that may impact future financial presentations.

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) 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 requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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.

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

Governmental Accounting Standards Board Statement No. 84, continued

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 requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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 requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

(15) 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.

City of Watsonville

In April 2006, the Agency entered into an agreement with the City of Watsonville (City) for costs associated with the operation and maintenance of the Watsonville recycle plant which provides recycled water to the Agency. The City owns, operates, and maintains the distribution infrastructure and blending facilities. The Agency is entitled to water from the treatment plant. As part of the agreement, the Agency agreed to pay the City quarterly operation and maintenance costs of the treatment plant. In fiscal year 2018, the Agency paid the City $1,509,669 for the cost associated with the Watsonville recycle plant.

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.

(16) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of December 19, 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, 2018

	Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues				
Management fees	$ 384,000	384,000	375,592	(8,408)
Interest income	5,000	5,000	16,283	11,283
Total revenues	389,000	389,000	391,875	2,875
Expenditures:				
Office administration	223,769	223,769	162,439	61,330
Board support	40,305	40,305	31,455	8,850
Education and outreach	30,050	30,050	10,037	20,013
Total expenditures	294,124	294,124	203,931	90,193
Excess of revenues over expenditures	94,876	94,876	187,944	93,068
Fund balance - beginning of year	2,681,033	2,681,033	2,681,033	
Fund balance - end of year	$ 2,775,909	2,775,909	2,868,977	

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, 2018

	Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:				
Augmentation charges	$ 10,760,400	10,760,400	10,776,768	16,368
Water sales	1,771,200	1,771,200	1,768,135	(3,065)
Interest income	30,000	30,000	70,667	40,667
Grant income	2,600,000	2,600,000	1,365,994	(1,234,006)
Other income	35,000	35,000	30,573	(4,427)
Total revenues	15,196,600	15,196,600	14,012,137	(1,184,463)
Expenditures:				
Office administration	931,797	931,797	803,093	128,704
Education and outreach	133,641	133,641	97,208	36,433
Grant administration	204,722	204,722	142,216	62,506
Conservation	527,708	527,708	415,875	111,833
Harkins Slough facility	224,478	224,478	188,642	35,836
Coastal distribution system	1,005,136	1,005,136	986,033	19,103
Supplemental water (In-Basin)	286,621	286,621	184,131	102,490
Recycled water facility	1,930,579	1,930,579	1,541,176	389,403
Metering program	259,275	259,275	229,614	29,661
Basin modeling	112,312	112,312	62,342	49,970
Basin monitoring	331,454	331,454	169,540	161,914
In-Basin management plan	113,952	113,952	52,570	61,382
Regional water management plan	120,500	120,500	10,548	109,952
Out-of-Basin funding	39,476	39,476	23,302	16,174
In-Basin funding	32,476	32,476	11,865	20,611
Total expenditures	6,254,127	6,254,127	4,918,155	1,335,972
Excess of revenues over expenditures	8,942,473	8,942,473	9,093,982	151,509
Other financing sources:				
Transfers out	-	-	(6,960,657)	6,960,657
Total other financing sources	-	-	(6,960,657)	6,960,657
Net change in fund balance	8,942,473	8,942,473	2,133,325	(6,809,148)
Fund balance - beginning of year	9,488,539	9,488,539	9,488,539	
Fund balance - end of year	$ 18,431,012	18,431,012	11,621,864	

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, 2018

	Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Expenditures:				
BMP network improvements	$ 61,884	61,884	187,589	(125,705)
Recycled water storage	327,628	327,628	799,928	(472,300)
Harkins Slough recharge facilities	775,702	775,702	501,275	274,427
College Lake project	1,424,782	1,424,782	1,514,474	(89,692)
Watsonville Slough & North Dunes	674,245	674,245	507,250	166,995
Total expenditures	3,264,241	3,264,241	3,510,516	(246,275)
Other financing sources:				
Transfers in	-	-	3,600,779	(3,600,779)
Total other financing sources	-	-	3,600,779	(3,600,779)
Net change in fund balance	(3,264,241)	(3,264,241)	90,263	3,354,504
Fund balance - beginning of year	(714,081)	(714,081)	(714,081)	
Fund balance - end of year	$ (3,978,322)	(3,978,322)	(623,818)	

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, 2018

		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		2,211,416	2,211,416	2,156,877	54,539
Interest		1,148,463	1,148,463	1,203,002	(54,539)
Total expenditures		3,359,879	3,359,879	3,359,879	-
Deficiency of revenues over expenditures		(3,359,879)	(3,359,879)	(3,359,750)	129
Other financing sources:					
Transfers in		-	-	3,359,878	(3,359,878)
Total other financing sources		-	-	3,359,878	(3,359,878)
Net change in fund balance		(3,359,879)	(3,359,879)	128	3,360,007
Fund balance - beginning of year		253,553	253,553	253,553	
Fund balance - end of year	$	(3,106,326)	(3,106,326)	253,681	

Pajaro Valley Water Management Agency
Notes to the Required Supplementary Information
June 30, 2018

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 are adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types. 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, Capital Projects, and Debt Service funds.

Pajaro Valley Water Management Agency
Schedules of the Agency's Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last Ten Years*

Description		Fiscal Year Ending June 30, 2018	2017	2016	2015
Agency's proportion of the net pension liability		0.01238%	0.01207%	0.01173%	0.01278%
Agency's proportionate share of the net pension liability	$	1,227,637	1,044,568	805,081	795,051
Agency's covered-employee payroll	$	1,160,676	1,012,215	957,312	908,004
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll		105.77%	103.20%	84.10%	87.56%
Plan's fiduciary net position as a percentage of the Plan's total pension liability		73.31%	74.06%	78.40%	79.82%

Notes to the Schedules of the Agency's Proportionate Share of Net Pension Liability

***Changes in Benefit Terms* –** The District can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for the District's plan can be found in the plan's annual valuation report.

***Changes of Assumptions* –** In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation report. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the changes in the financial reporting discount rate.

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

Pajaro Valley Water Management Agency
Schedules of Pension Plan Contributions
As of June 30, 2018
Last Ten Years*

Description		Fiscal Year Ending June 30, 2018	2017	2016	2015
Actuarially determined contribution	$	169,459	148,790	133,907	125,928
Contributions in relation to the actuarially determined contribution		(169,459)	(143,115)	(145,038)	(125,928)
Contribution deficiency(excess)	$	-	5,675	(11,131)	-
Covered payroll	$	1,160,676	1,012,215	957,312	908,004
Contribution's as a percentage of covered-employee payroll		14.60%	14.14%	15.15%	13.87%

Notes to the Schedules of Pension Plan Contributions

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

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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 an Audit 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, 2018, and the related notes to the financial statements, which collectively comprises the Agency's basic financial statements, and have issued our report thereon dated December 19, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
December 19, 2018