

# **Sunnyslope County Water District**



## **Financial Statements**



**June 30, 2014 and 2013**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Sunnyslope County Water District  
Hollister, California

We have audited the accompanying financial statements of Sunnyslope County Water District (the District), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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*Sarita C. Shannon, CPA, Whitney Ernest, CPA, Devvyn MacBeth, CPA,  
Jesus Montemayor, CPA, Smriti Shrestha, CPA*

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sunnyslope County Water District as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Adoption of New Accounting Principle*

As described in Note 21 to the financial statements, in 2014 the District adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for post-employment health insurance benefits, as identified in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as listed on the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information identified on the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Salinas, California  
December 18, 2014

# Sunnyslope County Water District

## **Management's Discussion and Analysis**

For the Year Ended June 30, 2014

As management of the Sunnyslope County Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014 (with 2013 information provided for comparative purposes only). We encourage readers to consider the information presented here as complementary to the information contained in the accompanying basic financial statements, which begin immediately following the Independent Auditor's Report.

### The District

Sunnyslope County Water District was formed December 17, 1954 as a California Special District pursuant to the California County Water District Act, §30000 et seq., to furnish water and wastewater services to residents of the District in San Benito County, California. The District's water system serves an area of approximately 3.5 square miles in the City of Hollister and surrounding areas. The District's wastewater system (of collection, treatment, and disposal) serves a smaller area within the County consisting of Ridgemark Estates and the Oak Creek and Quail Hollow subdivisions. The District serves approximately 5,450 water accounts, of which 97.9% are residential customers, and approximately 1,210 sewer accounts, of which 99.3% are residential customers.

The District is a proprietary entity and uses enterprise fund accounting to report its activities for financial statement purposes. Proprietary funds are reported using the accrual basis of accounting and account for activities in a manner similar to private business enterprises. The intent of the governing body is that the cost (including depreciation) of providing goods and services to the general public on a continuing basis be financed primarily through user rates, fees, and charges.

### The Basic Financial Statements

The basic financial statements include: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows.

The **Statement of Net Position** includes all of the District's Assets and Liabilities, with the difference between the two reported as Net Position, some of which are restricted in accordance with Board action, or other legal commitments. This statement provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position can be found on pages 3 and 4.

The **Statement of Revenues, Expenses, and Changes in Net Position** presents information illustrating how net position changed during the fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The Statement of Revenues, Expenses, and Changes in Net Position can be found on page 5.

The **Statement of Cash Flows** presents information relating to the District's cash receipts and cash payments during the year. When used with related disclosures and information in other financial statements, the information in this statement should help readers assess the District's ability to generate future cash flows, its ability to meet its obligations as they come due, and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects of the District's financial position from its non-capital and capital related financing and its investing transactions during the year. This statement

# Sunnyslope County Water District

## Management's Discussion and Analysis

For the Year Ended June 30, 2014

answers questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period. The Statement of Cash Flows can be found on pages 6 and 7.

The **Notes to the Financial Statements** provide the reader additional information that is necessary to understand all of the data provided in the basic financial statements. The notes to the financial statements are included immediately following the financial statements and can be found on pages 8 to 33.

## Financial Analysis

The following condensed schedules contain a summary of financial information that was taken from the basic financial statements to assist readers in assessing the District's overall financial position and operating results as discussed in this Management's Discussion and Analysis (MD&A).

## Condensed Financial Information

### Statement of Net Position

#### Condensed Statement of Net Position

	June 30, 2014	June 30, 2013	Dollar Change	Percent Change
<b>Assets</b>				
Capital assets, net	\$ 23,446,994	\$ 24,139,382	\$ (692,388)	-2.9%
Other assets	15,778,302	5,810,349	9,967,953	171.6%
	<b>\$ 39,225,296</b>	<b>\$ 29,949,731</b>	<b>\$ 9,275,565</b>	<b>31.0%</b>
<b>Liabilities</b>				
Long-term liabilities	\$ 21,787,987	\$ 14,101,063	\$ 7,686,924	54.5%
Other liabilities	1,947,610	2,541,765	(594,155)	-23.4%
	<b>23,735,597</b>	<b>16,642,828</b>	<b>7,092,769</b>	<b>42.6%</b>
<b>Net Position</b>				
Net investment in capital assets	7,611,428	10,248,076	(2,636,648)	-25.7%
Restricted for connection fees and debt service	1,452,367	675,752	776,615	114.9%
Unrestricted	6,425,904	2,383,075	4,042,829	169.6%
	<b>15,489,699</b>	<b>13,306,903</b>	<b>2,182,796</b>	<b>16.4%</b>
	<b>\$ 39,225,296</b>	<b>\$ 29,949,731</b>	<b>\$ 9,275,565</b>	<b>31.0%</b>

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. Sunnyslope County Water District's assets exceeded liabilities by \$15,489,699 at June 30, 2014, which is the District's net position. The largest portion of the District's net position (49.1%) reflects its investment in capital assets of \$7,611,428 (e.g., land, transmission and distribution systems, wells, tanks, pumps, buildings and structures, equipment, and vehicles), net of accumulated depreciation and related outstanding debt used to acquire those assets. The District uses its capital assets to provide water and wastewater service to its designated service area, and as such, these

# Sunnyslope County Water District

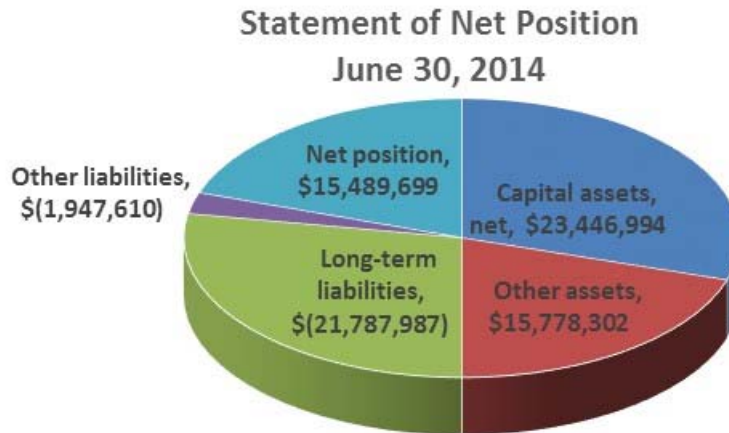
## Management's Discussion and Analysis

For the Year Ended June 30, 2014

assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay the debt.

After restricting net position for connection fees and debt service of \$1,452,367 (9.4%), the remaining net position of \$6,425,904 (41.5%) is unrestricted and may be used at the Board's discretion to continue meeting the needs of the District. See the Notes to the Financial Statements, Note 16 for more details on the District's net position.

The District's net position increased \$2,182,796 from the prior fiscal year. The increase is a result of the income from operations, connection fees collected, and interest earned, offset by interest expense, bond issue expenses, and a loss on disposal of capital assets.



## Statement of Revenues, Expenses, and Change in Net Position

### Condensed Statement of Revenues, Expenses, and Changes in Net Position

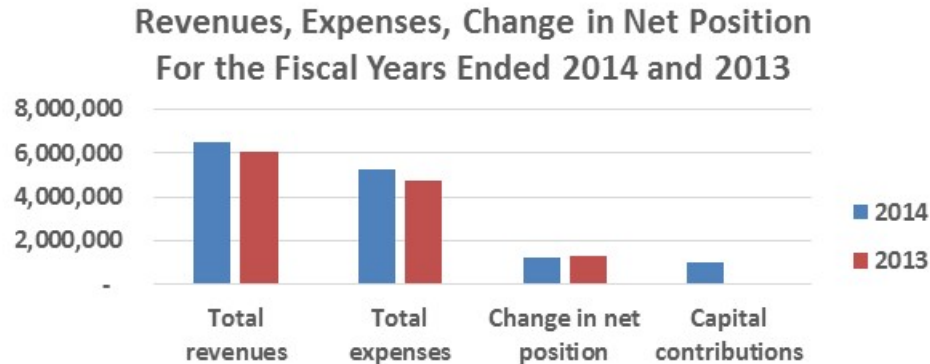
	June 30, 2014	June 30, 2013	Dollar Change	Percent Change
Operating revenues	\$ 6,136,915	\$ 5,730,831	\$ 406,084	7.1%
Non-operating revenues	357,765	333,798	23,967	7.2%
<b>Total revenues</b>	<b>6,494,680</b>	6,064,629	430,051	7.1%
Operating expenses	4,827,993	4,490,717	337,276	7.5%
Non-operating expenses	461,573	275,502	186,071	67.5%
<b>Total expenses</b>	<b>5,289,566</b>	4,766,219	523,347	11.0%
<b>Income before capital contrib.</b>	<b>1,205,114</b>	1,298,410	(93,296)	-7.2%
Contributed capital	977,682	-	977,682	0.0%
<b>Change in net position</b>	<b>2,182,796</b>	1,298,410	884,386	68.1%
<b>Net position - beg. as restated</b>	<b>13,306,903</b>	12,122,972	1,183,931	9.8%
Prior period adjustment	-	(114,479)	114,479	-100.0%
<b>Net position - ending</b>	<b>\$ 15,489,699</b>	\$ 13,306,903	\$ 2,182,796	16.4%



# Sunnyslope County Water District

## Management's Discussion and Analysis

For the Year Ended June 30, 2014



The District's principal source of revenue is from water sales, which on average constitutes about 69% of operating revenues. The District's principal sources of water supply are from several wells owned by the District, through interties with the City of Hollister, and are supplemented by treated surface water from the Lessalt Water Treatment Plant. We expect to see water use vary with the seasons and the amount of rainfall, however, we believe the increase in operating revenue was primarily attributable to an average increase of 30 customers in the total customers served resulting in a 32.5 million increase in the number of gallons of water sales.

The primary source of non-operating revenues are water and wastewater connection fees and investment income. In recent years, due to both the poor economy and the 1% growth cap that was imposed by the County of San Benito, new service connections remain fairly low. With the addition of the new well in February, 2010, the District no longer has a limited water supply pumping capacity, and with the upgrades to the wastewater treatment system including the construction of the sequencing batch reactor, the District no longer has limited wastewater disposal capabilities. The increase in non-operating revenue was primarily due to water connection fees collected.

Operating expenses include salaries and benefits for 18 full-time employees, and water and wastewater system operations. Water department expenses include electricity for pumping water, well water pumping fees, surface water cost and treatment, repairs & maintenance of the production and distribution systems, and their 80% share of customer service and general & administrative costs. Wastewater department expenses include electricity for sewer pumping stations, repair & maintenance of the sewer manholes and mainline pipes, treatment costs, operation and maintenance of the Sequencing Batch Reactor, sludge disposal, and their 20% of customer service and general & administrative costs. Most operating expenses are comparable to 2013, but are up by 18.6% overall. Repair and maintenance costs are up due primarily to an increase in the number of service leaks; depreciation expense is up due to capitalizing the completed wastewater treatment plant upgrades and starting to depreciate the new asset; and Lessalt Water Treatment Plant expenses are up due to the increased costs associated with the transition from ownership of the plant by the Hollister-Sunnyslope Water Treatment Agency to ownership by San Benito County Water District.

Non-operating expenses include interest expense on various debt, amortization of bond issue costs and bond administrative fees, and loss on abandoned capital projects and disposal of assets. Non-operating expenses were up primarily due to interest expense on the wastewater plant loan, since the plant is completed and the interest is no longer being capitalized; and due to expensing the unamortized balance of the bond debt issue costs to implement GASB-65.

Contributed capital comes from water and wastewater system infrastructure constructed by developers and turned over to the District for operation and maintenance. Due to the low growth in



# Sunnyslope County Water District

## Management's Discussion and Analysis

For the Year Ended June 30, 2014

the past few years, there has been no contributed facilities to recognize in the financial statements, except this year, we did received donated assets from San Benito County Water District related to the Lessalt Water Treatment Plant upgrades and dissolution of the Hollister-Sunnyslope Water Treatment Agency.

## Capital Assets and Debt Administration

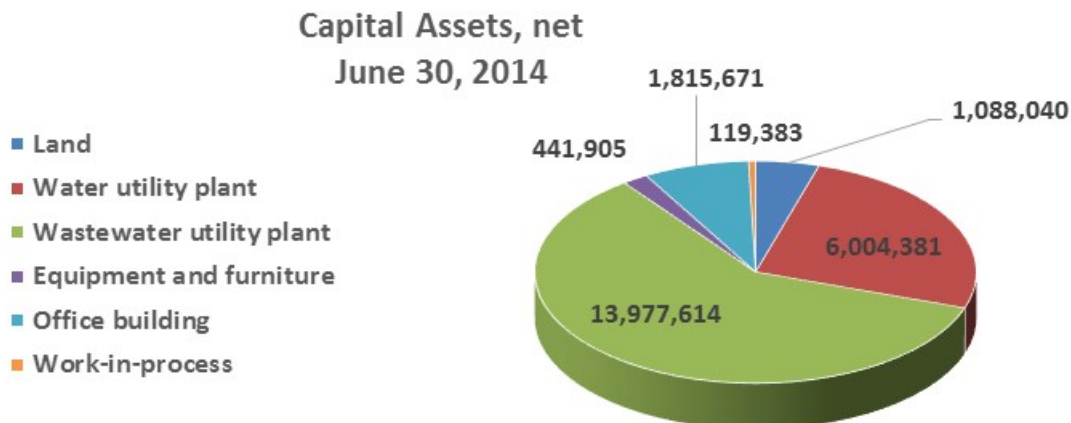
### Capital Assets

Capital assets include the District's water infrastructure, wastewater infrastructure, land, buildings, equipment, furniture, and work-in-process projects.

#### Schedule of Capital Assets, net of depreciation

	June 30, 2014	June 30, 2013	Dollar Change	Percent Change
Land	\$ 1,088,040	\$ 1,081,171	\$ 6,869	0.6%
Water utility plant	6,004,381	6,837,937	(833,556)	-12.2%
Wastewater utility plant	13,977,614	748,723	13,228,891	1766.9%
Equipment and furniture	441,905	324,432	117,473	36.2%
Office building	1,815,671	1,906,933	(91,262)	-4.8%
Work-in-process	119,383	13,240,186	(13,120,803)	-99.1%
<b>Capital assets, net</b>	<b>\$ 23,446,994</b>	<b>\$ 24,139,382</b>	<b>\$ (692,388)</b>	<b>-2.9%</b>

Sunnyslope County Water District's investment in capital assets as of June 30, 2014 was \$23,446,994, net of accumulated depreciation. The major capital asset addition for the current year recognized the completion of the Ridgemark Wastewater Treatment Plant, totaling \$13,760,589. There was a decrease in water utility plant due primarily to receiving a reimbursement from San Benito County Water District of \$437,166, for previously capitalized expenses for Hollister Urban Area Water/Wastewater Master Plan. Work-in-process decreased by \$13,120,803 over the prior year primarily due to transferring/capitalizing the completed wastewater treatment project and rate study expenditures.



# Sunnyslope County Water District

## Management's Discussion and Analysis

For the Year Ended June 30, 2014

### Long-Term Debt

At June 30, 2014, the District had long-term debt, excluding pension related debt, totaling \$22,495,497.

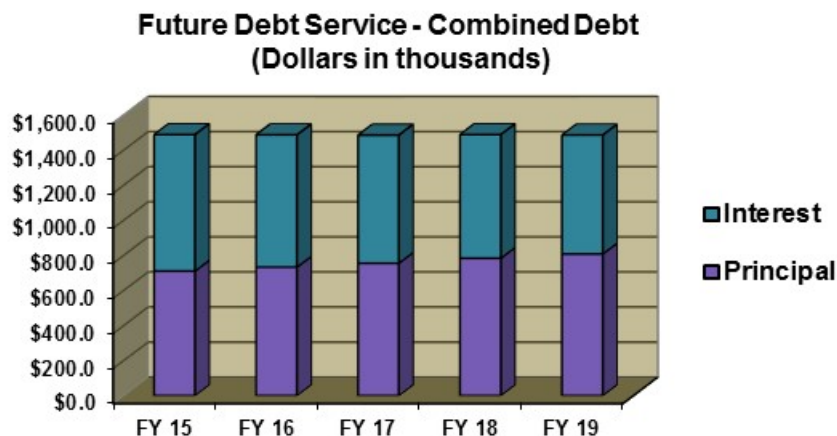
The increase in the SRF loan payable is due to new borrowing for the Ridgemark Wastewater and Recycling Improvements Project, completed in September 2013, bringing the amount borrowed to \$11.4 million plus \$345,037 in construction period interest added to the principal balance of the loan.

### Schedule of Long-Term Debt

	June 30, 2014	June 30, 2013	Dollar Change	Percent Change
Revenue bonds	\$ 4,045,000	\$ 4,175,000	\$ (130,000)	\$ -3.1%
Unamortized bond discount	(47,973)	(50,650)	2,677	-5.3%
Revenue bonds, net of discount	3,997,027	4,124,350	(127,323)	-3.1%
SRF loan payable	11,745,037	9,766,956	1,978,081	20.3%
Commitment payable	6,412,946	-	6,412,946	N/A
Deposits from customers	340,487	339,757	730	0.2%
<b>Long-term debt</b>	<b>\$ 22,495,497</b>	<b>\$ 14,231,063</b>	<b>\$ 8,264,434</b>	<b>\$ 58.1%</b>

### Future Debt Service

The District's debt service requirements for the next five years, through June 30, 2019 are shown on the following table, averaging \$1,486.8 thousand annually.



### Other Future Economic Factors

Since 2002, the District has experienced low to no housing growth, however, in the last two fiscal years new housing starts within the District service boundary have averaged 40 new connections per year. The previous five years averaged 16 new connections per year. The most prevalent issues

# Sunnyslope County Water District

## ***Management's Discussion and Analysis***

For the Year Ended June 30, 2014

affecting growth in the District have been: a housing moratorium imposed by the City of Hollister due to its limited wastewater treatment and disposal capabilities, the imposition of a 1% housing growth cap by the County of San Benito, and limited wastewater treatment and disposal capacity at our Ridgemark Estates Wastewater Treatment Facilities. The City lifted the housing moratorium in late 2008 upon completion of their upgraded wastewater facility. The District completed the upgrades to its Ridgemark Wastewater Treatment Plant in 2013, which will allow for future development within the Ridgemark area.

### RATES AND FEES

The District conducted a water rate study in 2013, in conjunction with the City of Hollister. New water rates were passed after a public hearing was held in August, 2013. The new water rates returned the District to a three tier rate structure. The first approved increase took effect on December 21, 2013, and will occur on December 21 of each subsequent year through 2018. The result of the series of rate increases spread over the six-year time frame should produce an 11.5% increase in water revenue each fiscal year for years 2014 to 2018, with only a 3% increase in fiscal year 2019.

The District also conducted a wastewater rate study in 2013. New wastewater rates were passed after a public hearing was held in August, 2013. The first approved increase took effect on December 21, 2013 and a second increase will take effect on December 21, 2014, increasing by 19% each year. No increases in wastewater rates are anticipated for fiscal years 2016 through 2019.

Finally, the District also conducted a water and wastewater capacity charge rate study in 2013. The new water and wastewater capacity charges were passed after a public hearing in August, 2013, effective October 6, 2013. These fees are charges imposed as a condition of providing new or increased water and wastewater services through new connections. The new water capacity fee for a 5/8", 3/4", or 1" meter size is \$9,462. The new wastewater capacity fee for a single family residential dwelling is \$17,032 per dwelling unit. The capacity fees will increase on July 1 of each year by the San Francisco Construction Index for the prior year as published in the Engineering News Record.

### WASTE DISCHARGE REQUIREMENTS

As a result of approval of the Waste Discharge Report and Monitoring from the California Regional Water Quality Control Board (December 3, 2004) for the Ridgemark Estates Wastewater Treatment Facilities, stringent discharge requirements must be achieved. To meet these new requirements, the Ridgemark Estates Wastewater Treatment Facilities were upgraded to include a Sequencing Batch Reactor plant, the existing Lessalt surface water treatment plant is currently being renovated, and future projects are anticipated to include building a new West Hills surface water treatment plant. RMC Water and Environment, a Sanitary Engineering Consulting firm, has completed a Long-Term Wastewater Management Plan and Salts Management Program. Estimated costs have been identified to implement these projects.

### LESSALT WATER TREATMENT PLANT

The Lessalt Water Treatment Plant has been jointly owned and operated under a Joint Powers Agreement where the District is responsible for 50% of these costs while the City of Hollister (the City) is responsible for the other 50% of these costs. In September, 2013, the District and the City transferred ownership of the plant to San Benito County Water District (SBCWD), the wholesale water supplier for this area, and as agreed to in the Hollister Urban Area Water Master Plan. The District will continue to operate the plant under an Agreement for Operations and Maintenance Services between the District and SBCWD, which was approved by the District's Board on August 14, 2013.

# Sunnyslope County Water District

## ***Management's Discussion and Analysis***

For the Year Ended June 30, 2014

### WATER SUPPLY AND TREATMENT AGREEMENT

The District, City, and SBCWD entered into a Water Supply and Treatment Agreement in June, 2013, which defines how the three agencies will construct and operate a new surface water treatment plant (to be known as the West Hills Water Treatment Plant), upgrade the existing Lessalt Water Treatment Plant, and construct various pipelines and pump stations connecting the two water treatment plants to the District and City infrastructures. These projects are referred to as the Hollister Urban Area Water Project (HUAWP). They are estimated to cost approximately \$30 million and will be constructed over the next five years.

The agreement commits SBCWD to finance the HUAWP facilities up to \$30 million, and commits the City and the District to reimburse SBCWD for the capital costs, for operation of the facilities, and for the costs of raw water delivered to the treatment plants. The agreement commits SBCWD to provide \$10 million (\$5 million each to the City and the District) to allow for gradual and stable water rate increases to fund the HUAWP. SBCWD contributed \$0.5 million to the District in fiscal year 2014, and will contribute \$1.5 million in each of the fiscal years 2015 and 2016, \$1 million in fiscal year 2017, and \$0.5 million in fiscal year 2018 to allow District water rates to gradually increase over six years to the level needed to make the obligated payments to SBCWD. The remainder of the capital costs for the HUAWP will be split equally between the City and the District. The Water Supply and Treatment Agreement is for a term of 30 years, with subsequent 10-year renewal options, and required the execution of an Operations and Maintenance Agreement with the District for operating the two surface water treatment plants. The Operations and Maintenance Agreement between the District and SBCWD was executed in August, 2013.

### **Contacting the District Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overall view of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the General Manager by writing Sunnyslope County Water District, 3570 Airline Highway, Hollister, California, 95023.

## **BASIC FINANCIAL STATEMENTS**

**Sunnyslope County Water District**  
**Statement of Net Position**  
**June 30, 2014 and 2013**

	<u>ASSETS</u>	
	<u>2014</u>	<u>2013</u>
<i>CURRENT ASSETS</i>		
Cash	\$ 1,598,755	\$ 1,307,327
Time certificates	-	844,438
Invested funds - LAIF funds	5,385,760	1,030,895
Bond/loan proceeds invested - reserve fund	1	101,560
Accounts receivable from customers, less allowance for uncollectible accounts of \$20,086 and \$16,456	1,032,012	930,932
Accounts receivable - other	880	1,201
Interest receivable	2,736	410
Inventory supplies	210,847	246,213
Prepaid expenses	34,403	13,145
Current portion of prepaid CalPERS contribution	103,477	103,477
Total Current Assets	<u>8,368,871</u>	<u>4,579,598</u>
<i>CAPITAL ASSETS</i>		
Land and land improvements	1,095,481	1,087,866
Water utility plant	12,622,880	13,109,801
Wastewater utility plant	15,375,544	1,825,976
Equipment and furniture	1,860,294	1,655,088
Office building	2,737,613	2,737,613
Work-in-process	119,383	13,240,186
	<u>33,811,195</u>	<u>33,656,530</u>
Less accumulated depreciation	<u>(10,364,201)</u>	<u>(9,517,148)</u>
Total Capital Assets	<u>23,446,994</u>	<u>24,139,382</u>
<i>INTANGIBLE ASSETS</i>		
Water rights - Lessalt Water Treatment Plant	6,500,000	-
Less accumulated amortization	<u>(180,556)</u>	<u>-</u>
Total Intangible Asset, net	<u>6,319,444</u>	<u>-</u>
<i>OTHER NON-CURRENT ASSETS</i>		
Prepaid post-employment health benefits (OPEB)	21,838	21,818
Prepaid CalPERS contribution	724,340	827,817
Debt issue costs, net of amortization of \$192,937 and \$191,895	-	1,042
Annexation fees receivable	56,333	22,031
Deposits paid	-	70,567
Idle assets, net of accumulated depreciation of \$30,634 and \$30,634	287,476	287,476
Total Other Non-Current Assets	<u>1,089,987</u>	<u>1,230,751</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>39,225,296</u></b>	<b>\$ <u>29,949,731</u></b>

**Sunnyslope County Water District**  
**Statement of Net Position**  
**June 30, 2014 and 2013**

**LIABILITIES AND NET POSITION**

	<u>2014</u>	<u>2013</u>
<i>CURRENT LIABILITIES</i>		
Accounts payable	\$ 843,526	\$ 1,958,182
Current portion of long-term debt	707,510	130,000
Accrued expenses	<u>396,574</u>	<u>453,583</u>
Total Current Liabilities	<u>1,947,610</u>	<u>2,541,765</u>
 <i>LONG-TERM LIABILITIES</i>		
Bonds payable, net of discount of \$47,973 and \$50,650	3,862,027	3,994,350
State Revolving Fund loan payable	11,281,386	9,766,956
Commitment payable for Water rights from the Lessalt Water Treatment Plant	6,304,087	-
Deposits received	<u>340,487</u>	<u>339,757</u>
Total Non-Current Liabilities	<u>21,787,987</u>	<u>14,101,063</u>
Total Liabilities	<u>23,735,597</u>	<u>16,642,828</u>
 <i>NET POSITION</i>		
Net investment in capital assets	7,611,428	10,248,076
Restricted for connection fees	692,367	675,752
Restricted for debt service	760,000	-
Unrestricted	<u>6,425,904</u>	<u>2,383,075</u>
Total Net Position	<u>15,489,699</u>	<u>13,306,903</u>
<b><i>TOTAL LIABILITIES AND NET POSITION</i></b>	<b><u>\$ 39,225,296</u></b>	<b><u>\$ 29,949,731</u></b>

See accompanying notes to basic financial statements



**Sunnyslope County Water District**  
**Statement of Revenues, Expenses, and Change in Net Position**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<i>OPERATING REVENUES</i>		
Water sales	\$ 4,229,177	\$ 3,961,498
Wastewater service	1,605,290	1,486,944
Late fees	67,426	63,953
Customer fees	216,560	215,321
Other	18,462	3,115
Total Operating Revenues	<u>6,136,915</u>	<u>5,730,831</u>
<i>OPERATING EXPENSES</i>		
Salaries and benefits	2,342,479	2,282,697
Operations and maintenance	2,985,514	2,208,020
Water rate stabilization credit	<u>(500,000)</u>	<u>-</u>
Total Operating Expenses	<u>4,827,993</u>	<u>4,490,717</u>
<i>INCOME FROM OPERATIONS</i>	<u>1,308,922</u>	<u>1,240,114</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>		
Water connections	315,242	310,715
Wastewater connections	34,064	16,955
Interest income	8,409	6,078
Other income	50	50
Other expense	(2,186)	-
Interest expense	(426,211)	(234,155)
Debt handling fees	(3,343)	(3,131)
Loss on disposal of assets	(29,833)	(16,675)
Loss on abandoned capital projects	<u>-</u>	<u>(21,541)</u>
Total Non-operating Revenues (Expenses), net	<u>(103,808)</u>	<u>58,296</u>
<i>INCOME BEFORE CAPITAL CONTRIBUTION</i>	1,205,114	1,298,410
<i>CAPITAL CONTRIBUTION</i>		
Donated assets	<u>977,682</u>	<u>-</u>
<i>CHANGE IN NET POSITION</i>	2,182,796	1,298,410
<i>NET POSITION - BEGINNING OF YEAR</i>	13,306,903	12,122,972
<i>PRIOR PERIOD ADJUSTMENT - NOTE 21</i>	<u>-</u>	<u>(114,479)</u>
<i>NET POSITION - END OF YEAR</i>	<u>\$ 15,489,699</u>	<u>\$ 13,306,903</u>

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Cash Flows**  
**June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash received from customers	\$ 6,036,886	\$ 5,745,388
Cash paid to suppliers and employees	(4,609,529)	(4,943,067)
Net Cash Provided by Operating Activities	1,427,357	802,321
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</i>		
Other income (expense)	(2,136)	50
Debt handling expenses	(3,343)	(3,131)
Net Cash Used by Non-Capital Activities	(5,479)	(3,081)
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i>		
Water and wastewater connection fees received	349,306	327,670
Proceeds from new borrowing	1,978,081	4,195,646
Proceeds from sale of equipment	455,416	825
Donated assets	977,682	-
Debt issue costs	-	(2,500)
Acquisition and construction of capital assets	(1,067,163)	(5,040,869)
Bond payments	(130,000)	(125,000)
Loan and commitment payments	(87,054)	(397,508)
Interest paid	(203,933)	(225,471)
Net Cash Provided (Used) by Capital and Related Financing Activities	2,272,335	(1,267,207)
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Sale (purchase) of time certificates of deposit	844,438	(254,145)
Sale (purchase) of LAIF funds	(4,253,306)	(402,077)
Interest received	6,083	6,227
Net Cash Used by Investing Activities	(3,402,785)	(649,995)
<i>NET INCREASE (DECREASE) IN CASH</i>	291,428	(1,117,962)
<i>CASH AT BEGINNING OF YEAR</i>	1,307,327	2,425,289
<i>CASH AT END OF YEAR</i>	\$ 1,598,755	\$ 1,307,327

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Cash Flows**  
**June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<i>Reconciliation of income from operations to net cash provided by operating activities:</i>		
Income from operations	\$ 1,308,922	\$ 1,240,114
Adjustments to reconcile income from operations to cash provided by operating activities:		
Depreciation and amortization	1,176,911	700,411
Bad debt provision	3,630	(4,880)
(Increase) decrease in:		
Accounts receivable	(104,389)	(30,452)
Annexation fees receivable	(34,302)	-
Inventory supplies	35,366	1,513
Prepaid expenses	(21,258)	55,453
Prepaid post-employment health benefits	(20)	54
Prepaid CalPERS retirement side fund	103,477	(931,294)
Deposits with vendors	70,567	6,790
Increase (decrease) in:		
Accounts payable	(1,114,656)	(284,422)
Accrued expenses	2,379	(855)
Deposits from customers	730	49,889
Net Cash Provided by Operating Activities	\$ 1,427,357	\$ 802,321

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity and Basis of Presentation**

Sunnyslope County Water District (the District) was formed December 17, 1954 as a California Special District pursuant to the California County Water District Act, §30000 et seq., to furnish water and wastewater services to residents of the District in San Benito County, California. The District is governed by a five-member Board of Directors who serve overlapping four-year terms. The District operates as a non-taxable governmental entity and earns the majority of its revenues from water sales and services to residential users. The District's water system serves an area of approximately 3.5 square miles in the City of Hollister and surrounding areas. The District's wastewater system serves a smaller area within the County consisting of Ridgemark Estates and the Oak Creek and Quail Hollow subdivisions. For fiscal year 2014, water sales constitute approximately 55.5% of operating revenues and wastewater sales are approximately 21.1% of operating revenues.

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to proprietary funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

**B. Measurement Focus and Basis of Accounting**

Proprietary fund financial statements are reported using the *economic resource measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus all assets and liabilities (whether current or non-current) associated with the District's activities are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred regardless of the timing of cash flow.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, maintenance of capital assets, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**C. Budgetary Reporting**

The Board of Directors adopts the budget by passage with a majority vote prior to July 1<sup>st</sup>, for the new fiscal year, with a mid-year review. The budget is adopted by the governing Board as an operating plan and budgetary basis financial statements are not presented because there is no legal requirement to report budgetary basis financial information.

**D. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers demand deposits with financial institutions of three months or less when purchased to be cash equivalents. Certificates of deposit with maturities greater than three months and LAIF funds are considered to be investments.

**E. Uncollectible Accounts and Credit/Market Risk**

The District provides an allowance for doubtful accounts for all accounts deemed uncollectible. The allowance for fiscal year 2014 and 2013 is calculated as 3.0% and 3.0% of the outstanding receivable balance on District accounts, respectively. The bad debt allowance is held low due to the District's strict shut-off policy for accounts that reach 3 months past due. Management's periodic evaluation of outstanding receivables is based on the District's past loss experience. The majority of accounts that become uncollectible are final bills to customers who have left our service area. Once collection efforts have been exhausted, a list of accounts deemed uncollectible is provided to management for approval to write-off and are turned over to a collection agency for further attempts of collection.

The District provides water and wastewater services to residential and commercial customers who reside or do business in our service area. As part of normal operating practices, credit is granted to customers with a good prior credit history with the District on an unsecured basis. New customers or customers who have been shut-off for non-payment are required to pay, in addition to any other past-due balances or applicable fees, a deposit of \$90 if a water only customer, or a deposit of \$150 if a water and wastewater customer (less any amount currently held on deposit), prior to the start or reinstatement of service.

**F. Inventories and Prepaid Items**

Inventory consists primarily of water meters and parts that are used in the repair and maintenance of water and wastewater utility plant and is valued at cost using the first-in, first-out basis.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

**G. Capital Assets**

Capital assets purchased or constructed by the District are carried at historical cost. Constructed costs include direct labor, materials, transportation, and such indirect items as engineering, supervision, employee fringe benefits, and interest on net borrowed funds related to plant under construction. Contributed assets from developers, such as water main services, fire hydrants,

**Sunnyslope County Water District  
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valves, and related appurtenances, are stated at their cost to construct or fair market value at the date of donation.

The interest capitalized for the projects under construction was \$67,090 for the year ended June 30, 2014 and \$211,500 for the year ended June 30, 2013.

The District's capitalization threshold by asset category as follows:

<b><u>Capital Asset Category:</u></b>	<b><u>Minimum Dollar Amount:</u></b>
Land (by purchase, gift, donation, or bequest)	Actual cost or FMV
Land Improvements	In excess of \$ 5,000
Buildings and Improvements	In excess of \$ 10,000
Leasehold Improvements	In excess of \$ 10,000
Furniture and Equipment	In excess of \$ 1,000
Property Leased from Others Under Capital Leases	In excess of \$ 1,000
Computer Software	In excess of \$ 1,000

Land and construction in progress are not depreciated. Depreciation on the other assets is calculated using the straight-line method over the following estimated useful lives of the assets:

<b><u>Capital Asset Category:</u></b>	<b><u>Estimated Useful Life (in Years)</u></b>
Hydrants, Transmission Mains, Lift Stations	40
Valves, Storage Tanks, Service Lines	40
Distribution Pipes (Water & Wastewater Mains)	40
Wells, Buildings	25 – 40
Landscaping/Grading/Lighting/Fencing/Paving	10 – 25
Backflow Prevention	10 – 20
Tools and Shop Equipment	7 – 15
Meters, Chlorination and Other Treatment Equipment	10
Office Furniture/Supplies, Electrical Systems	7 – 10
Pumps, Transportation Equipment	5 – 10
Lab/Monitoring and SCADA Monitoring Equipment	5 – 10
Computers/Printers	5

**H. Bond Discounts and Debt Issuance Costs**

Bond discounts are deferred and amortized over the term of the bonds or loans using the straight-line method. Net bond discounts are presented as a reduction of the face amount of bonds payable. Debt issuance costs that were previously reported as other assets and amortized over the term of the bonds or loans, are now recorded as expended when incurred, per GASB-65.

**I. Idle Assets**

Idle assets consist of Well No. 1, which was placed in service in 1956, a potential site for Well #9 or a Water Treatment Plant on Union Road, and a potential site for Well #12 on Southside Road, including some engineering and design work, hydrogeology and water quality testing, environmental review work and drilling a test well. Well #1 was taken out of service in 1999 as

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new wells were constructed. The site on Union Road was taken out of service in 2010 because it is not currently being pursued for a well location or water treatment plant site. The potential site for Well #12 was taken out of service in 2012 since the project is on hold until such future time as we need additional groundwater.

**J. Use of Restricted Resources**

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

**K. Proprietary Fund Accounting**

The District reports its two proprietary funds as a combined total in the financial statements; however, the year-end water and wastewater proprietary fund balances and change in fund balances are detailed in Note 16 – Net Position.

**L. Net Position**

Net position represent the difference between assets and liabilities. The District's net position is classified as follows:

*Net investment in capital assets* – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets.

*Restricted net position* – Restricted net position represents resources that are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

Restricted net position includes water and wastewater connection fees. The resolution establishing the authority for water and wastewater connection fees restricts the use of these fees to the construction, acquisition, or financing of capital assets. The water and wastewater connection fees are exchange transactions (non-operating revenues). The connecting party receives a benefit (connection to the system) approximately equal in value to the amount paid.

Generally, restricted resources are not commingled with unrestricted resources in financing projects and activities. The funding source for each project and activity is determined by board action depending upon the type of project or activity. Restricted resources are used for specific types of projects for which such funding is designated.

*Unrestricted net position* – Unrestricted net position represents assets available for transactions relating to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

**M. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will



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not be recognized as an outflow of resources (expenses) until then. The District has no deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has no deferred inflows of resources.

**N. Revenue Recognition**

Revenues are recognized when earned. Metered water accounts are read and billed on a monthly cycle that ends on the 20<sup>th</sup> of the month. Meter readings usually begin 3 to 4 working days prior to the 20<sup>th</sup> of the month. Wastewater customers are also billed monthly and are included with the water billing. Bills are mailed on or near the last working day of the month.

**O. Compensated Absences**

***Vacation:*** The District's policy permits full-time employees to accrue vacation time as follows:

<u>Compensated Absences</u>	
0 - 5 years of service	10 paid days
6 - 10 years of service	15 paid days
11 - 15 years of service	20 paid days
16 + years of service	22 paid days

Employees may accumulate earned but unused vacation benefits, up to a maximum of 240 hours, which are eligible for payment upon separation from the District. The liability for such leave is reported as an expense when incurred.

***Sick Leave:*** The District also allows employees to accrue unused sick days. Any current employee who has completed ten years of continuous service with the District and who retires under CalPERS will be compensated for 25% of accrued unused sick leave in excess of 240 hours at the then current rate of pay at the time of retirement. The liability for such leave is reported as an expense when incurred.

Another option provides that any current employee who has completed ten years of continuous service with the District and having an unused sick leave accrual balance in excess of 500 hours, may "cash-out" up to a maximum of 96 hours of unused sick leave annually, as long as the cashed-out hours do not reduce the unused sick leave accrual balance to less than 500 hours. The employee may elect to contribute any portion of this payout directly to their deferred compensation plan account, up to the maximum plan contribution allowed that year. The expense for this option is recorded annually at the time this election is made.

Accumulated sick leave lapses when employees separate from the District in any other manner.

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**P. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Q. New Accounting Pronouncements**

The District applies all applicable GASB pronouncements for certain accounting and financial reporting guidance.

***Effective for Fiscal Year Ended June 30, 2013***

***GASB Statement No. 62*** – In December, 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements into the GASB's authoritative literature containing certain accounting and financial reporting guidance. This statement was implemented July 1, 2012 and did not have a significant impact on the District's financial statements.

***GASB Statement No. 63*** – In June, 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance on deferred inflows and outflows of resources, and their effect on a government's net position. This statement was implemented July 1, 2012, and was limited to renaming of "Net Assets" to "Net Position".

***Effective for Fiscal Year Ended June 30, 2014***

***GASB Statement No. 65*** – In March, 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides guidance on proper classification of certain items previously reported as assets and liabilities as deferred outflows or deferred inflows of resources. This statement also provides guidance on recognition of certain items that were previously reported as assets and liabilities as outflows or inflows of resources. The statement is effective for periods beginning after December 15, 2012. This statement was implemented July 1, 2013, and the District expensed the unamortized balance of debt issuance costs, see Note 21.

***GASB Statement No. 66*** – In March, 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The statement is effective for periods beginning after December 15, 2012. The District is evaluating the impact of this standard on the financial statements.

***GASB Statement No. 67*** – In June, 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. This statement establishes accounting and financial reporting requirements related to pensions for governments whose

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employees are provided with pensions through pension plans that are covered by the scope of this statement, as well as for non-employer governments that have a legal obligation to contribute to those plans. This statement also addresses accounting and financial reporting for the activities of pension plans that are administered through trusts. This statement is effective for periods beginning after June 15, 2013. The District is evaluating the impact of this standard on the financial statements.

***Effective in Future Fiscal Years***

***GASB Statement No. 68*** – In June, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses relating to financial reporting by state and local governments for pensions. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014. The District is evaluating the impact of this standard on the financial statements.

***GASB Statement No. 69*** – In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2013. The District is evaluating the impact of this standard on the financial statements.

***GASB Statement No. 70*** – In April, 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement is effective for periods beginning after June 15, 2013. The District is evaluating the impact of this standard on the financial statements.

**R. Reclassifications**

The District has reclassified certain prior year information to conform to current year presentation.

**NOTE 2 — CASH AND INVESTMENTS**

***Cash and Investments***

At June 30, 2014, the District maintained cash and investments at MUFG Union Bank, N.A., a commercial bank with branch offices located in Hollister, California, of \$1,595,834, and maintained cash in the State of California's Local Agency Investment Funds (LAIF), which administers a pool of local government funds of \$5,385,760.

**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2014 and 2013**

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

Current Assets (partial listing):

	<u>2014</u>	<u>2013</u>
Cash	\$ 1,598,755	\$ 1,307,327
Time certificates	-	844,438
Less: cash and postage stamps on hand	<u>(2,921)</u>	<u>(3,476)</u>
Cash and invested funds – at MUFG Union Bank	1,595,834	2,148,289
Invested funds – at LAIF	5,385,760	1,030,895
Bond/loan reserve funds – at MUFG Union Bank	1	101,560
Cash and postage stamps – on hand	<u>2,921</u>	<u>3,476</u>
Total cash and investments	<u>\$ 6,984,516</u>	<u>\$ 3,284,220</u>

At June 30, 2013, the District maintained cash and investments at MUFG Union Bank of California, a commercial bank with branch offices located in Hollister, California, of \$2,148,289, maintained cash in the State of California's Local Agency Investment Funds (LAIF), which administers a pool of local government funds of \$1,030,895, and maintained funds in a reserve account at MUFG Union Bank of California of \$101,560.

***Investments Authorized by the District's Investment Policy***

The District's investment policy authorizes investment in commercial paper at local banking institutions and in the local government investment pool administered by the State of California (LAIF). The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

***Disclosures Relating to Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting exposure to fair value losses arising from interest rates, the District's investment policy limits the maturity of investments in accordance with Government Code.

Information about the sensitivity of the fair values of the District's investment to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment by maturity.

As of June 30, 2014, the District had the following cash and investment maturities:

	<u>Fair Value</u>	<u>Cost</u>	<u>0-3 Months</u>	<u>4-12 Months</u>	<u>13-36 Months</u>
Time Certificates					
MUFG Union Bank	\$ -	\$ -	\$ -	\$ -	\$ -
Local Agency Investment Fund	5,385,760	5,385,760	5,385,760	-	-
<b>Total</b>	<b>\$ 5,385,760</b>	<b>\$ 5,385,760</b>	<b>\$ 5,385,760</b>	<b>\$ -</b>	<b>\$ -</b>

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As of June 30, 2013, the District had the following cash and investment maturities:

	<u>Fair Value</u>	<u>Cost</u>	<u>0-3 Months</u>	<u>4-12 Months</u>	<u>13-36 Months</u>
Time Certificates					
MUFG Union Bank	\$ 844,438	\$ 844,438	\$ 86,182	\$ 758,256	\$ -
Local Agency Investment Fund	1,030,895	1,030,895	1,030,895	-	-
<b>Total</b>	<b>\$ 1,875,333</b>	<b>\$ 1,875,333</b>	<b>\$ 1,117,077</b>	<b>\$ 758,256</b>	<b>\$ -</b>

***Disclosures Relating to Credit Risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF is an unrated investment pool and, therefore, does not have a rating provided by a nationally recognized statistical rating organization. However, under federal regulations the State of California cannot declare bankruptcy, so money placed with the state treasurer for deposit in the Funds shall not be subject to impoundment or seizure by any state official or state agency.

Union Bank, now MUFG Union Bank, N.A., has a credit rating of A+/A-1/Stable from Standard & Poor's (as of January 25, 2006) and A2/P-1/Negative from Moody's (as of April 9, 2013). Moody's has updated its rating to Possible Downgrade and the outlook is Ratings Under Review as of October 1, 2014.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments represent a concentration. All investments that are not in LAIF are in certificates of deposit held at MUFG Union Bank.

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy 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. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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As of June 30, 2014, \$250,000 of the balance on deposit with MUFG Union Bank, N.A. was covered by federal depository insurance, and the excess of \$1,345,834 was collateralized by the pledging institution as required by Section 53652 of the California Government Code.

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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

***Investment in State Investment Pool***

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

LAIF is a governmental investment pool for California's local governments and special districts, which is managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The fund invests in U.S. Treasury Securities, Federal Agency Securities, Bankers Acceptances, Certificates of Deposit, Collateralized Time Deposits, Corporate Paper and Bonds, and Repurchase Agreements.

**NOTE 3 — ACCOUNTS RECEIVABLE**

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectible accounts) amount on the financial statements. Below is the detail of the receivables, including applicable allowances for uncollectible accounts:

	<b>Sunnyslope Water &amp; Wastewater Sales and Services</b>	<b>City of Hollister Customer Billings</b>	<b>Other Receivables</b>	<b>Total June 30, 2014</b>
Accounts receivable	\$ 669,536	\$ 367,800	\$ 14,762	\$ 1,052,098
Less: Allowance for uncollectible accounts	(20,086)	-	-	(20,086)
Net accounts receivable	<u>\$ 649,450</u>	<u>\$ 367,800</u>	<u>\$ 14,762</u>	<u>\$ 1,032,012</u>

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	<b>Sunnyslope Water &amp; Wastewater Sales and Services</b>	<b>City of Hollister Customer Billings</b>	<b>Other Receivables</b>	<b>Total June 30, 2013</b>
Accounts receivable	\$ 548,524	\$ 368,957	\$ 29,907	\$ 947,388
Less: Allowance for uncollectible accounts	(16,456)	-	-	(16,456)
Net accounts receivable	<u>\$ 532,068</u>	<u>\$ 368,957</u>	<u>\$ 29,907</u>	<u>\$ 930,932</u>

Sunnyslope County Water District entered into an agency agreement with the City of Hollister to bill wastewater and street sweeping charges to Sunnyslope's water customers who receive their wastewater service from the City beginning July 1, 2007. Accounts receivable from customers includes \$367,800 due from the City of Hollister's customers as of June 30, 2014 and \$368,957 as of June 30, 2013. Likewise, accounts payable includes \$367,800 due to the City of Hollister for the amount billed to their customers as of June 30, 2014 and \$368,957 as of June 30, 2013. See Note 8. No provision was made for uncollectible accounts for the accounts receivable balance due from the City's customers.

Other receivables represent those billings outside of the normal water and wastewater sales and services billings, and include items such as damages to District property and billings for the operation and maintenance of the Lessalt Water Treatment Plant.

**NOTE 4 — CAPITAL ASSETS**

A summary of property, plant, and equipment at June 30, 2014 and 2013, is as follows:

	<b>Cost 6/30/13</b>	<b>Transfers/ Adjustments</b>	<b>Additions</b>	<b>Disposals</b>	<b>Cost 6/30/14</b>
Land and land improve.	\$ 1,087,866	\$ 7,615	\$ -	\$ -	\$ 1,095,481
Water utility plant	13,109,801	65,535	36,075	588,531	12,622,880
Wastewater utility plant	1,825,976	13,549,568	-	-	15,375,544
Equipment & furniture	1,655,088	203,406	29,569	27,769	1,860,294
Office building	2,737,613	-	-	-	2,737,613
Work-in-process	13,240,186	(13,826,124)	723,572	18,251	119,383
	<u>\$ 33,656,530</u>	<u>\$ -</u>	<u>\$ 789,216</u>	<u>\$ 634,551</u>	<u>\$ 33,811,195</u>



**Sunnyslope County Water District  
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	<u>Accumulated Depreciation 6/30/13</u>	<u>Transfers/ Adjustments</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>Accumulated Depreciation 6/30/14</u>
Land and land improve. \$	6,695	\$ -	\$ 746	\$ -	\$ 7,441
Water utility plant	6,271,864	-	468,449	121,814	6,618,499
Wastewater utility plant	1,077,253	-	320,677	-	1,397,930
Equipment & furniture	1,330,656	-	115,222	27,488	1,418,390
Office building	830,680	-	91,261	-	921,941
	<u>\$ 9,517,148</u>	<u>\$ -</u>	<u>\$ 996,355</u>	<u>\$ 149,302</u>	<u>\$ 10,364,201</u>
<b>Net Book Value</b>	<b><u>\$ 24,139,382</u></b>				<b><u>\$ 23,446,994</u></b>

	<u>Cost 6/30/12</u>	<u>Transfers/ Adjustments</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/13</u>
Land and land improve. \$	1,087,866	\$ -	\$ -	\$ -	\$ 1,087,866
Water utility plant	12,124,380	626,676	388,745	30,000	13,109,801
Wastewater utility plant	1,825,976	-	-	-	1,825,976
Equipment & furniture	1,650,400	-	10,878	6,190	1,655,088
Office building	2,737,613	-	-	-	2,737,613
Work-in-process	9,035,658	(626,676)	4,852,745	21,541	13,240,186
	<u>\$ 28,461,893</u>	<u>\$ -</u>	<u>\$ 5,252,368</u>	<u>\$ 57,731</u>	<u>\$ 33,656,530</u>

	<u>Accumulated Depreciation 6/30/12</u>	<u>Transfers/ Adjustments</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>Accumulated Depreciation 6/30/13</u>
Land and land improve. \$	5,948	\$ -	\$ 747	\$ -	\$ 6,695
Water utility plant	5,861,017	-	423,347	12,500	6,271,864
Wastewater utility plant	1,008,711	-	68,542	-	1,077,253
Equipment & furniture	1,220,331	-	116,515	6,190	1,330,656
Office building	739,420	-	91,260	-	830,680
	<u>\$ 8,835,427</u>	<u>\$ -</u>	<u>\$ 700,411</u>	<u>\$ 18,690</u>	<u>\$ 9,517,148</u>
<b>Net Book Value</b>	<b><u>\$ 19,626,466</u></b>				<b><u>\$ 24,139,382</u></b>

**NOTE 5 — PREPAID CALPERS PENSION ASSET**

In fiscal year 2003, California legislation mandated that all agencies with less than 100 active members be enrolled in a risk sharing pool with all other agencies in the State with similar benefit packages. At the time of joining the risk pool, a side fund was created to account for the difference between the unfunded status of the District's Plan and the funded status of the risk pool. As a result, the District's side fund owed to the CalPERS pool was \$931,294 as of May 23, 2013.

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On June 17, 2013, the District opted to prepay the unfunded PERS side fund of \$931,294, reducing the employer rate by 7.692% over the next 9 years. The prepaid pension asset will be amortized using the same amortization period (9 years) utilized by PERS to calculate the Annual Required Contribution (ARC) each year. The current portion of the prepaid is \$103,477 and future deferred expense is \$724,340 at June 30, 2014 and \$827,817 at June 30, 2013.

**NOTE 6 — DEBT ISSUANCE COSTS**

Debt issuance costs were previously capitalized and amortized over the term of the debt using the straight-line method. As of July 1, 2013, the District implemented GASB Statement No. 65. Per the provisions of the Statement, the remaining unamortized balance has been amortized on an accelerated basis and is included in non-operating expense.

The balance at June 30, 2014 and 2013 consists of the following:

	<u>CSCDA (Bond)</u>	<u>MUFG Union Bank (\$2M Cr Line)</u>	<u>June 30, 2014</u>	
Cost of issuance of debt	\$ 172,437	\$ 2,500	\$	174,937
Less: Amortization	<u>(172,437)</u>	<u>(2,500)</u>	<u>\$</u>	<u>(174,937)</u>
Debt issue costs, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$</u>	<u>-</u>

	<u>CSCDA (Bond)</u>	<u>MUFG Union Bank (\$1M Loan)</u>	<u>MUFG Union Bank (\$2M Cr Line)</u>	<u>June 30, 2013</u>
Cost of issuance of debt	\$ 172,437	\$ 18,000	\$ 2,500	\$ 192,937
Less: Amortization	<u>(172,437)</u>	<u>(18,000)</u>	<u>(1,458)</u>	<u>(191,895)</u>
Debt issue costs, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,042</u>	<u>\$ 1,042</u>

**NOTE 7 — IDLE ASSETS**

A summary of idle assets at June 30, 2014 and 2013, is as follows:

	<u>Cost 6/30/13</u>	<u>Transfers/ Adjustments</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/14</u>
Well #1	\$ 69,884	\$ -	\$ -	\$ -	\$ 69,884
Site for Well #9 or Water Treat. Plant	69,790	-	-	-	69,790
Well #12 Test Well	178,436	-	-	-	178,436
	<u>\$ 318,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 318,110</u>

**Sunnyslope County Water District  
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	<b>Accumulated Depreciation 6/30/13</b>	<b>Transfers/ Adjustments</b>	<b>Depreciation</b>	<b>Disposals</b>	<b>Accumulated Depreciation 6/30/14</b>
Well #1	\$ <u>30,634</u>	\$ -	\$ -	\$ -	\$ <u>30,634</u>
<b>Net Book Value</b>	<b>\$ <u>287,476</u></b>				<b>\$ <u>287,476</u></b>

	<b>Cost 6/30/12</b>	<b>Transfers/ Adjustments</b>	<b>Additions</b>	<b>Disposals</b>	<b>Cost 6/30/13</b>
Well #1	\$ 69,884	\$ -	\$ -	\$ -	\$ 69,884
Site for Well #9 or Water Treat. Plant	69,790	-	-	-	69,790
Well #12 Test Well	178,436	-	-	-	178,436
	<b>\$ <u>318,110</u></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ <u>318,110</u></b>

	<b>Accumulated Depreciation 6/30/12</b>	<b>Transfers/ Adjustments</b>	<b>Depreciation</b>	<b>Disposals</b>	<b>Accumulated Depreciation 6/30/13</b>
Well #1	\$ <u>30,634</u>	\$ -	\$ -	\$ -	\$ <u>30,634</u>
<b>Net Book Value</b>	<b>\$ <u>287,476</u></b>				<b>\$ <u>287,476</u></b>

**NOTE 8 — ACCOUNTS PAYABLE**

Sunnyslope County Water District entered into an agency agreement with the City of Hollister to bill wastewater and street sweeping charges to Sunnyslope's water customers who receive their wastewater service from the City beginning July 1, 2007. Accounts payable includes \$367,800 due to the City of Hollister for the amount billed to their customers as of June 30, 2014 and \$368,957 as of June 30, 2013. Likewise, accounts receivable from customers includes \$367,800 due from the City of Hollister's customers as of June 30, 2014 and \$368,957 as of June 30, 2013. See Note 3.

Amounts are aggregated into a single accounts payable total on the financial statements. Below is the detail of the payable amounts:

	<b>Sunnyslope Vendors</b>	<b>City of Hollister Customer Billings</b>	<b>Total June 30, 2014</b>
Accounts payable	\$ <u>475,726</u>	\$ <u>367,800</u>	\$ <u>843,526</u>
	<b>Sunnyslope Vendors</b>	<b>City of Hollister Customer Billings</b>	<b>Total June 30, 2013</b>
Accounts payable	\$ <u>1,589,225</u>	\$ <u>368,957</u>	\$ <u>1,958,182</u>

**Sunnyslope County Water District**  
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**NOTE 9 — COMPENSATED ABSENCES**

Compensated absences comprise unpaid vacation and sick leave that qualifies for “cash-out” at retirement. The liability for compensated absences is determined annually. Accrued compensated absences at June 30, 2014 and 2013 were \$107,255 and \$109,148, respectively.

Three qualifying employees elected to “cash-out” unused sick leave in both fiscal years ended 2014 and 2013. The total amount expensed when they cashed out were \$12,610 and \$9,465 for the years ended June 30, 2014 and 2013, respectively.

**NOTE 10 — BONDS PAYABLE**

On May 7, 2002, Capital Projects Bonds with a face value of \$5,200,000 were issued at a discount of \$80,326, resulting in \$5,119,674 carrying value of the bond. In addition, bond issue costs were \$172,437. The bonds bear interest at rates ranging from 3.9% to 5.5%. Interest payments are due semi-annually on April 1 and October 1. Principal payments are due annually beginning October, 2003 starting at \$80,000. Principal payments then increase by \$5,000 each year until October, 2017 when the principal payment increases by \$10,000. The annual increase in principal payments then alternates between \$5,000 and \$10,000 each year until October, 2021 when the increase remains \$10,000 each year until October, 2025. At October, 2026 the principal payment increases begin alternating to either \$15,000 or \$10,000 each year until October, 2029 when the \$15,000 increase in principal payments remains constant for the remaining life of the bond.

The Capital Projects Bonds were issued to finance major upgrades of the Water and Wastewater Facility. The upgrades include a Water Treatment Plant built with the City of Hollister, a water tank on Fairview Road, an Office/Maintenance complex on Airline Highway, and a new well (#9) on Union Road. The bond discount of \$80,326 is being amortized on a straight-line basis over the 30 year life of the loan. The average annual debt service is estimated to be \$327,707. The bond is part of a bond pool and is managed by MUFJ Union Bank, N.A.

The outstanding bond debt at June 30, 2014 and 2013, is as follows:

	June 30, 2013	Redeemed/ Amortized	June 30, 2014
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Capital projects fund	\$ 4,175,000	\$ (130,000)	\$ 4,045,000
Unamortized bond discount	(50,650)	2,677	(47,973)
	<u>4,124,350</u>	<u>(127,323)</u>	<u>3,997,027</u>
Less: current portion	(130,000)	(5,000)	(135,000)
Bond payable, net of discount	<u>\$ 3,994,350</u>	<u>\$ (132,323)</u>	<u>\$ 3,862,027</u>

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	June 30, 2012	Redeemed/ Amortized	June 30, 2013
Capital projects fund	\$ 4,300,000	\$ (125,000)	\$ 4,175,000
Unamortized bond discount	<u>(53,328)</u>	<u>2,678</u>	<u>(50,650)</u>
	4,246,672	(122,322)	4,124,350
Less: current portion	<u>(125,000)</u>	<u>(5,000)</u>	<u>(130,000)</u>
Bond payable, net of discount	<u>\$ 4,121,672</u>	<u>\$ (127,322)</u>	<u>\$ 3,994,350</u>

The following is a summary of principal maturities of bond debt as of June 30, 2014:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2015	\$ 135,000	\$ 198,052	\$ 333,052
2016	140,000	191,794	331,794
2017	145,000	185,130	330,130
2018	155,000	177,966	332,966
2019	<u>160,000</u>	<u>170,326</u>	<u>330,326</u>
Next 5 years maturity sub-total	735,000	923,268	1,658,268
2020-2024	930,000	717,616	1,647,616
2025-2029	1,190,000	452,000	1,642,000
2030-2033	<u>1,190,000</u>	<u>122,750</u>	<u>1,312,750</u>
<b>Total debt outstanding June 30, 2014</b>	<b><u>\$ 4,045,000</u></b>	<b><u>\$ 2,215,634</u></b>	<b><u>\$ 6,260,634</u></b>

**NOTE 11 — LOANS PAYABLE**

**Bank Credit Line**

On November 12, 2012, the District entered into a \$2 million Line-of-Credit Loan Agreement with MUFG Union Bank, N.A., to be used for working capital needs related to financing the wastewater system improvements then under construction. The Line-of-Credit was intended to bridge cash flow needs should there be any lengthy timing delays between when the expenditures took place and the reimbursements were received from the SRF loan. The District completed constructing upgrades to the Ridgemark Wastewater Treatment Facilities on September 30, 2013 and the credit line expired on November 30, 2013 with a zero balance, having never been used.

**State Revolving Fund (SRF) Loan - State Water Resources Control Board**

On April 11, 2011, the District entered into a project financing agreement with the State Water Resources Control Board for a State Revolving Fund loan in the amount of \$11.4 million. This loan provided funds for the construction of the Ridgemark Wastewater Treatment and Recycled Water Improvements Project, which generally consisted of upgrade and consolidation of the District's Ridgemark I and Ridgemark II wastewater treatment facilities. The contract to Anderson Pacific was

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approved by the Board on April 6, 2011 at a bid cost of \$9,521,946 and was originally estimated to be complete by May 31, 2013. The term of the agreement, per Amendment No. 1, is from December 14, 2010 to May 31, 2033. Due to a change order with the contractor for a 92 day extension of the Project completion date, an extension was requested with the State Water Resources Control Board, who agreed to extending the construction completion date to September 30, 2013 and the initiation of operation date to January 1, 2014. The loan is scheduled to be repaid over a 20 year period beginning September 30, 2014. Interest accrued during the construction period of \$345,037 is being added to the principal balance due on the loan. The annual interest rate is 2.6%, resulting in amortized principal and interest payments of \$759,975 per year as of June 30, 2014.

The outstanding SRF loan payable at June 30, 2014 and 2013, is as follows:

	June 30, 2013	Borrowed	June 30, 2014
Wastewater projects loan	\$ 9,766,956	\$ 1,633,044	\$ 11,400,000
Capitalized interest	-	345,037	345,037
Subtotal	9,766,956	1,978,081	11,745,037
Less: current portion	-	-	(463,651)
Loan payable	\$ 9,766,956	\$ 1,978,081	\$ 11,281,386

	June 30, 2012	Borrowed	June 30, 2013
Wastewater projects loan	\$ 5,571,311	\$ 4,195,645	\$ 9,766,956
Less: current portion	-	-	-
Loan payable	\$ 5,571,311	\$ 4,195,645	\$ 9,766,956

The following is a summary of principal maturities of SRF loan debt as of June 30, 2014:

Year ending June 30:	Principal	Interest	Total Payments
2015	\$ 463,651	\$ 296,324	\$ 759,975
2016	466,658	293,317	759,975
2017	478,792	281,183	759,975
2018	491,240	268,735	759,975
2019	504,012	255,963	759,975
Next 5 years maturity sub-total	2,404,353	1,395,522	3,799,875
2020-2024	2,723,576	1,076,297	3,799,873
2025-2029	3,096,537	703,336	3,799,873
2030-2034	3,520,571	279,302	3,799,873
<b>Total debt outstanding June 30, 2014</b>	<b>\$ 11,745,037</b>	<b>\$ 3,454,457</b>	<b>\$ 15,199,494</b>

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**NOTE 12 — COMMITMENT PAYABLE**

**Water Rights for Lessalt Water Treatment Plant**

The San Benito County Water District committed to finance up to \$30 million dollars of the project costs to upgrade the surface water treatment process at the Lessalt Water Treatment Plant to meet current water quality regulations and to construct a second surface water treatment plant to be called the West Hills Water Treatment Plant. These funds were committed in two tranches. The first tranche of \$13 million dollars was made available on the effective date of the agreement, September 1, 2013. The second tranche of \$17 million dollars will be made available at the time of execution of a contract for construction of the West Hills Water Treatment Plant. The District and the City of Hollister are committed to share equally in the costs associated with these two surface water treatment plants and we share in the rights to receive the treated water produced. The District's share of the first tranche capital cost is \$6.5 million and is spread in equal monthly payments over thirty years. For more information, see Note 20.

The outstanding commitment payable at June 30, 2014 is as follows:

	<u>June 30,</u> <u>2013</u>	<u>Commitment/</u> <u>Redeemed</u>	<u>June 30,</u> <u>2014</u>
Lessalt Water Treatment Plant			
Upgrades	\$ -	\$ 6,500,000	\$ 6,500,000
Payments	-	(87,054)	(87,054)
Less: current portion	-	(108,859)	(108,859)
Commitment payable	<u>\$ -</u>	<u>\$ 6,304,087</u>	<u>\$ 6,304,087</u>

The following is a summary of principal maturities of commitment payable as of June 30, 2014:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Payments</u>
2015	\$ 108,859	\$ 286,356	\$ 395,215
2016	113,860	281,355	395,215
2017	119,091	276,124	395,215
2018	124,562	270,653	395,215
2019	<u>130,284</u>	<u>264,931</u>	<u>395,215</u>
Next 5 years maturity sub-total	596,656	1,379,419	1,976,075
2020-2024	746,891	1,229,182	1,976,073
2025-2029	934,955	1,041,118	1,976,073
2030-2034	1,170,373	805,700	1,976,073
2035-2039	1,465,068	511,005	1,976,073
2040-2044	<u>1,499,003</u>	<u>147,721</u>	<u>1,646,724</u>
<b>Total debt outstanding June 30, 2014</b>	<b><u>\$ 6,412,946</u></b>	<b><u>\$ 5,114,145</u></b>	<b><u>\$ 11,527,091</u></b>

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**NOTE 13 — DEFINED BENEFIT PENSION PLAN**

***Plan Description***

The District's defined benefit pension plan (the Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The Board of Directors selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through a Board Resolution. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office located at 400 Q Street, Sacramento, CA 95811.

All full-time District employees are eligible for benefits under the plan in one of two tiers. Employees hired prior to January 1, 2013, or who are hired after December 31, 2012 and qualify as "classic" members on date of hire are in Tier 1, and employees hired after December 31, 2012 and who do not qualify as "classic" members are in Tier 2. The benefit formula for employees in Tier 1 is 2.7% at 55, and the benefit formula for employees in Tier 2 is 2% at 62. At June 30, 2014, all current full-time employees are in Tier 1.

***Funding Policy***

Participants are required to contribute 8% (Tier 1) or 6.25% (Tier 2) of their annual covered salary. The District makes the contributions required of District classic member employees (Tier 1) on their behalf and for their account, which totals \$122,028 and \$128,239 for June 30, 2014 and 2013, respectively. The District is also required to make an additional contribution at an actuarially determined rate necessary to fund the benefits for its member employees. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For fiscal years ended June 30, 2014 and 2013, the required employer contribution rate was 15.685% and 22.838%, respectively, of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established on an actuarially determined basis and may be amended by CalPERS. The District's contributions to CalPERS for the years ended June 30, 2014 and 2013, were \$360,433 and \$493,025, respectively.

***Annual Pension Cost***

For fiscal years 2014 and 2013, the District's annual CalPERS pension cost of \$238,405 and \$364,786, respectively, were equal to the District's required and actual contributions. The contractually required contribution for the period July 1, 2013 to June 30, 2014 was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The principal actuarial assumptions included: (a) a 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.30% to 14.20% depending on age, service, and type of employment, (c) 2.75% per year inflation, (d) 3.00% per year growth in payroll, and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%. The



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actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value).

Initial unfunded liabilities are amortized over a closed period that depends on the District's date of entry into the CalPERS Risk Pool. Subsequent plan amendments by the District are amortized as a level percentage of pay over a closed 20-year period.

***Three-Year Trend Information for the Plan***

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$ 345,082	100%	N/A
6/30/13	\$ 364,786	100%	N/A
6/30/14	\$ 238,405	100%	N/A

***Funded Status of the Plan***

As of June 30, 2003, CalPERS implemented risk-pooling for the District's agent multiple-employer public employee defined benefit pension plan. As a result, the District's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. Formation of the risk pools required the establishment of "side funds" to account for the difference between the funded status of the risk pool and the funded status of the member districts plan. CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined, which CalPERS financed at a 7.75% interest rate.

On June 17, 2013, the District made a lump sum payment of \$931,294 to pay off its side fund. The lump sum payment is carried as a prepaid asset and will be amortized over the remaining amortization period of 9 years.

All pension costs are paid timely.

**NOTE 14 — DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Retirement law allows "rollovers" of 457 plan assets into other qualified retirement plans. Participants are fully vested at all times and the District or creditors of the District have no claim against the plan. All funds are held by an outside trustee and excluded from the combined statement of net assets in conformity with Government Auditing Standards.

Effective July 1, 2010, the District agreed to match the lesser of 30% of the employee deferral contribution or \$468, to the extent that District contributions and employee deferral do not exceed the maximum permitted by law. Prior to July 1, 2010, the District match was the lesser of 25% of employee deferral or \$360.

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For the years ended June 30, 2014 and 2013, employee contributions consisting of employee deferrals, compensated absences, and cash in lieu of insurance benefits converted to deferred compensation totaled \$154,222 and \$178,505, respectively. For the years ended June 30, 2014 and 2013, the required employer contribution was \$6,384 and \$8,160, respectively. The investment balance in the deferred compensation plan at June 30, 2014 and 2013 was \$1,432,906 and \$1,235,830.

**NOTE 15 — OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS**

***Plan Description***

The District rejoined CalPERS for health insurance coverage for employees in January, 2011. Under the CalPERS health plan, the District is required to pay the minimum employer health premium contribution for the District's eligible retirees and eligible surviving spouses. The employee is responsible for paying the remainder of the monthly healthcare premium. The minimum employer contribution for retirees' health premiums for calendar years 2014 and 2013 was \$119 and \$115 per month, respectively. The amount will increase in subsequent years to reflect inflation in the cost of healthcare. These benefits are being paid through the CalPERS California Employers' Retirement Benefit Trust (CERBT). To be eligible for retirement medical, an active employee must be at least 50 and have a minimum of 5 years of service.

In accordance with a previous agreement, the District paid the health insurance premiums for a retired employee who elected post-retirement health benefits in lieu of raises prior to retirement. In January, 2003, the employee died, but the District continued the healthcare benefits for his surviving spouse. The spouse/beneficiary passed away in August, 2013. The District contribution for the healthcare benefit paid out of current operating funds for the years ended June 30, 2014 and 2013, was \$255 and \$3,390, respectively.

***Funding Policy***

The District requested an actuarial valuation to determine what its OPEB obligations under the program are, and joined the CalPERS CERBT (the Trust) with the intention of contributing the annual required contribution of the employer (ARC) on an annual basis, in accordance with the parameters of GASB Statement 45, net of the pay-as-you-go benefits paid annually. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty (30) years. As of June 30, 2014, there were two retirees receiving healthcare premium benefits. These benefits are fully funded by the District and the cost of these benefits for the years ended June 30, 2014 and 2013, totaled \$2,061 and \$2,730, respectively.

Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the actuarial accrued liability when such assets are placed in an irrevocable trust or equivalent arrangement. The activities of the Trust are accounted for in the Other Post-Employment Benefits Trust Fund. As of June 30, 2014, four payments have been made into the Trust totaling \$163,997. The Trust's total net assets available for funding benefits for the years ended June 30, 2014 and 2013 totaled \$205,151 and \$142,787, respectively.

**Sunnyslope County Water District  
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**Annual Cost**

The District has calculated and recorded the net OPEB asset, representing the difference between the annual required contribution of the employer (ARC), interest, adjustment to the ARC, and contributions, as presented in the following table:

Annual required contribution (ARC)	\$	37,903
Interest on net OPEB obligation		127
Adjustment to net OPEB obligation		(147)
Annual OPEB cost (expense)		37,883
Contributions made to CERBT Trust		(35,842)
Contributions under "pay-as-you-go"		
Payment to retirees		(2,061)
Subtotal		(37,903)
Change in net OPEB liability		(20)
Net OPEB asset – beginning of year		(21,818)
Net OPEB asset – end of year	\$	(21,838)

The District's annual OPEB cost and actual OPEB cost contributed is as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Change in Net OPEB Asset	Net OPEB Obligation (Asset)
6/30/11	\$ 20,191	\$ 0	0.0%	\$ 20,191	\$ 20,191
6/30/12	\$ 46,490	\$ 86,557	186.2%	\$ (42,063)	\$ (21,872)
6/30/13	\$ 44,382	\$ 44,328	99.9%	\$ 54	\$ (21,818)
6/30/14	\$ 37,883	\$ 37,903	100.1%	\$ (20)	\$ (21,838)

**Funded Status and Funding Progress of the Plan**

The most recent actuarial valuation report for District retiree health benefits is dated July 1, 2013. The report projects future liabilities to be \$446,730. This \$446,730 is theoretically the amount that the District would need to set aside as of July 1, 2013 to fully fund the OPEB promises for all current and former employees. As of July 1, 2013, the District has funded \$142,787 toward this liability. The next actuarial report will be prepared as of July 1, 2015, as required under Government Accounting Standards Board Statement No. 45.

**Actuarial Methods and Assumptions**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive

**Sunnyslope County Water District  
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June 30, 2014 and 2013**

plan at the time of each valuation and the pattern of sharing of costs between the employer and the plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

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

Valuation date	July 1, 2013
Actuarial cost method	Entry age normal actuarial funding method
Amortization method	Level dollar amortization of the unfunded actuarial accrued liability
Remaining amortization period	30 years as of the valuation date
Asset valuation method	30-year closed period
Actuarial assumptions:	
Investment rate of return	7.61% per year
Medical cost trend rate	5.00% per year after 2014

***Other Post-Employment Benefits Trust***

Investments Authorized by the Trust's Investment Policy – The CERBT's investment policies authorize three separate Portfolio Strategies ("Strategy 1", "Strategy 2", and "Strategy 3"). Levels of expected return and risk vary among the Portfolios.

The Policy asset allocation targets and permissible ranges are as follows:

Asset Class	Strategy 1		Strategy 2		Strategy 3	
	Policy Allocation	Policy Range	Policy Allocation	Policy Range	Policy Allocation	Policy Range
U.S. Inflation Linked Bonds	5%	+/- 2%	15%	+/- 4%	15%	+/- 4%
U.S. Normal Bonds	18%	+/- 5%	24%	+/- 5%	42%	+/- 5%
Global Equity	66%	+/- 5%	50%	+/- 5%	32%	+/- 5%
Global Public Real Estate	8%	+/- 2%	8%	+/- 2%	8%	+/- 2%
Commodities	3%	+/- 2%	3%	+/- 2%	3%	+/- 2%
Expected Return	7.10%		6.50%		5.75%	
Expected Risk	11.73%		9.46%		7.27%	
Return/Risk	0.61%		0.69%		0.79%	

*Approved by the Investment Committee August 15, 2011*

The District has opted to invest its assets using Strategy 1.

**NOTE 16 — NET POSITION**

The District reports its two proprietary funds as a combined total in the financial statements; however, the year-end water and wastewater proprietary fund balance and change in fund balance are

**Sunnyslope County Water District**  
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**June 30, 2014 and 2013**

presented in the Supplementary Information – Unaudited section, titled Statement of Net Position – By Fund.

The calculation of the net investment in capital assets and additional information regarding legally restricted reserves and spending designations set by the Board of Directors are detailed as follows:

	June 30, 2014	June 30, 2013
<b>Investment in capital assets, net of related debt:</b>		
Capital assets, net of accum. depreciation	\$ 23,446,994	\$ 24,139,382
Intangible assets, net of accum. amortization	6,319,444	-
Less: Current debt payable	(707,510)	(130,000)
Non-current debt payable	(21,447,500)	(13,761,306)
	<b>7,611,428</b>	<b>10,248,076</b>
<b>Legally restricted reserves:</b>		
Water capacity fees	641,306	658,797
Wastewater capacity fees	51,061	16,955
Debt service reserve	760,000	-
	<b>1,452,367</b>	<b>675,752</b>
<b>Unrestricted net position:</b>		
<b>Board designated reserves</b>		
Capital improvement reserve	1,800,000	-
Vehicle replacement	183,252	-
Emergency equipment replacement	100,000	-
Office and miscellaneous equipment replacement	72,643	-
Drought contingency reserve	400,000	-
	2,555,895	-
<b>Undesignated net position</b>	3,870,009	2,383,075
	<b>6,425,904</b>	<b>2,383,075</b>
<b>NET POSITION</b>	<b>\$ 15,489,699</b>	<b>\$ 13,306,903</b>

**NOTE 17 — RELATED PARTY TRANSACTIONS**

Several District employees live or own property in the District and all five Directors must live in the District, consequently, they purchase water and/or wastewater services from the District at standard rates. At June 30, 2014, all related parties were current. At June 30, 2013, all except one account balance from related parties due to the District were current. One employee tends to fall a little behind in the summer months, but then catches back up in the winter; their last zero balance was in May, 2013.

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**NOTE 18 — HOLLISTER-SUNNYSLOPE WATER TREATMENT AGENCY**

On November 19, 2003, City of Hollister and Sunnyslope County Water District formed the *Joint Exercise of Powers Agreement* creating the Hollister-Sunnyslope Water Treatment Agency (WTA). The purpose of this agency is to create a separate public agency to undertake and implement the common power and authority of its members to study, plan for, design, construct, own, operate, maintain, and use a water treatment facility within San Benito County Water District's Zone 6 boundaries. Both agencies have provided funding for the construction of the water treatment plant. Those assets were contributed to the water treatment agency per the *Joint Exercise of Powers Agreement*. On February 28, 2003, Sunnyslope County Water District contributed \$2,229,837 of property, plant and equipment to the Hollister-Sunnyslope Water Treatment Agency, as a charge to equity.

In September, 2013, the City of Hollister and Sunnyslope County Water District, as joint owners of Hollister-Sunnyslope Water Treatment Agency (operating the Lessalt Water Treatment Plant), transferred ownership of the Lessalt plant to San Benito County Water District, as agreed among the members of the Governance Committee and in the Hollister Urban Area Water and Wastewater Master Plan. The Hollister-Sunnyslope Water Treatment Agency was dissolved by both the City's and Sunnyslope's governing boards effective February 28, 2014. See Note 20 for more information.

Until dissolution, City of Hollister and Sunnyslope County Water District funded the operating expenses equally. At June 30, 2014 and 2013, the operating expenses incurred by the District were \$100,078 and \$513,853.

As part of the agreement with San Benito County Water District, the District and City were each reimbursed for certain expenditures made through the WTA relating to the upgrades needed at Lessalt Water Treatment Plant, of which the District's share was \$324,405. The distribution of assets upon dissolution of the WTA included prepaid water of \$92,274 and cash reserves of \$561,004. These refunded amounts total \$977,682 and are reported as a capital contribution in the basic financial statements.

**NOTE 19 — RISK MANAGEMENT**

The District is exposed to various risks of loss related to limited torts; theft of, damage to, and destruction of assets; errors and omissions and natural disaster for which the District carries commercial insurance. The District is a member of the ACWA/Joint Powers Insurance Authority (JPIA) for workers' compensation coverage. The JPIA covers any workers' compensation claims. The financial statements of ACWA can be obtained at 910 K Street, Suite 100, Sacramento, CA 95814.

Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the District has coverage for such claims. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**NOTE 20 — SIGNIFICANT COMMITMENTS**

***Hollister Urban Area Water Supply and Treatment Agreement***

In August 2013, the District, City of Hollister (COH), and San Benito County Water District (SBCWD) each approved the Hollister Urban Area Water Supply and Treatment Agreement. The agreement defines the roles and terms of financing for the project which includes: the upgrade of Lessalt Water Treatment Plant, the design and construction of the West Hills Water Treatment Plant, and associated pipelines. The SBCWD will finance, build, own, and operate the upgraded Lessalt Water Treatment Plant and the new West Hills Water Treatment Plant. The SBCWD committed to finance up to \$30 million dollars of the project costs. These funds were committed in two tranches. The first tranche of \$13 million dollars was made available on the effective date of the agreement. The second tranche of \$17 million dollars will be made available at the time of execution of a contract for construction of the West Hills Water Treatment Plant. The agreement calls for the SBCWD to recover its investment in the capital projects from the District and COH over a 20-30 year period through a capital component, including interest, in the finished water rate. Of the project costs, SBCWD is contributing \$10 million in non-reimbursable funds; \$5 million to the District and \$5 million to the COH. The District plans to use the \$5 million to stabilize water rates and allow a gradual increase to meet future revenue needs. For the year ended June 30, 2014, \$500,000 was reported in the operating expenses as water rate stabilization credit.

***Hollister Urban Area Agreement for Operation and Maintenance Services***

In August 2013, the District and SBCWD each approved the Hollister Urban Area Agreement for Operation and Maintenance Services. This agreement establishes the District as the contract operator for the Lessalt Water Treatment Plant. This agreement was established for a term of 5 years with options to renew for subsequent terms of 5 years. It is anticipated that operation of the West Hills Water Treatment Plant will be added to the agreement prior to completion of the plan construction in 2016. The District began operating the plant in September, 2013 under this agreement. For the year ended June 30, 2014, actual expenses were passed through to SBCWD and no revenue was recognized.

**NOTE 21 — PRIOR PERIOD ADJUSTMENT – CHANGE IN ACCOUNTING PRINCIPLE**

The District wrote off the remaining unamortized cost of debt issuance for the District's bonds in accordance with the implementation of GASB Statement No. 65. The effect of this change on the beginning net position is a reduction of \$114,478 for the year ended June 30, 2013.

**NOTE 22 — SUBSEQUENT EVENTS**

The District evaluated subsequent events for recognition and disclosure through December 18, 2014, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements. The District refinanced the Revenue Bond debt with private placement at City National Bank, which occurred on October 16, 2014.

**REQUIRED SUPPLEMENTARY INFORMATION**



**Sunnyslope County Water District  
Required Supplementary Information  
Schedule of Funding Progress – Post Employment Health Insurance Benefits  
June 30, 2014 and 2013**

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The most recent trend data presented is from the July 1, 2013 valuation date.

Valuation Date	Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	Overfunded (Unfunded) Actuarial Liability
July 1, 2010	\$ 0	\$ 266,963	\$ 266,963	0%	\$ 1,724,620	15%
July 1, 2011	\$ 92,267	\$ 309,274	\$ 217,007	30%	\$ 1,777,501	12%
July 1, 2013	\$ 142,787	\$ 397,993	\$ 255,206	36%	\$ 1,857,326	14%

## **SUPPLEMENTARY INFORMATION – UNAUDITED**

### **Notes to Supplementary Information**

The budget is adopted by the governing Board as an operating plan. The budgetary comparison schedule is presented as supplementary information as there is no legal requirement to present budgetary basis financial information as part of the basic financial statements.

**Sunnyslope County Water District  
Budgetary Comparison Schedule  
June 30, 2014**

	<u>2014 Actual</u>	<u>Original and Final Budget</u>	<u>Variance Fav (Unfav)</u>
<b>OPERATING REVENUES</b>			
Water and wastewater sales	\$ 5,834,467	\$ 5,510,000	\$ 324,467
Late fees	67,426	70,000	(2,574)
Customer fees	216,560	208,800	7,760
Other	18,462	-	18,462
<b>Total operating revenues</b>	<b><u>6,136,915</u></b>	<b><u>5,788,800</u></b>	<b><u>348,115</u></b>
<b>OPERATING EXPENSES</b>			
<i>SALARIES AND BENEFITS</i>			
Salaries	1,765,762	1,880,861	115,099
Employee benefits	236,952	258,403	21,451
PERS retirement	463,910	383,326	(80,584)
Payroll taxes	25,985	29,109	3,124
Directors fees	15,300	24,000	8,700
Labor billed to others	(165,430)	(216,000)	(50,570)
<b>Total salaries and benefits</b>	<b><u>2,342,479</u></b>	<b><u>2,359,699</u></b>	<b><u>17,220</u></b>
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>			
Electrical services	318,314	288,000	(30,314)
Phone services	11,833	7,100	(4,733)
Professional services	74,863	100,650	25,787
Postage	29,168	31,000	1,832
Contract services	43,187	41,200	(1,987)
Office supplies	30,147	36,200	6,053
Legal advertising	6,983	5,000	(1,983)
Repair and maintenance	152,857	128,000	(24,857)
Diesel	1,862	3,100	1,238
Vehicle operating expenses	48,899	64,000	15,101
Professional development	6,121	11,000	4,879
Supplies	48,239	33,000	(15,239)
Meeting expense	118	1,500	1,382
Insurance	48,619	60,000	11,381
Equipment rental	-	1,100	1,100
Research and monitoring	104,573	120,000	15,427
Depreciation	996,355	1,008,300	11,945
Tank lease	(1,200)	5,000	6,200
Pumping fees	51,136	67,000	15,864
Lessalt water treatment	862,721	1,384,000	521,279
Water conservation	88,954	89,000	46
Bad debts	6,623	10,000	3,377
Taxes, fees, permits	55,142	53,400	(1,742)
<b>Total operations and maint. exp.</b>	<b><u>2,985,514</u></b>	<b><u>3,547,550</u></b>	<b><u>562,036</u></b>
<b>WATER RATE STABILIZATION CREDIT</b>	<b><u>(500,000)</u></b>	<b><u>(500,000)</u></b>	<b><u>-</u></b>
<b>Total operating expenses</b>	<b><u>4,827,993</u></b>	<b><u>5,407,249</u></b>	<b><u>579,256</u></b>
<b>INCOME FROM OPERATIONS</b>	<b><u>1,308,922</u></b>	<b><u>381,551</u></b>	<b><u>927,371</u></b>
<b>OTHER NON-OPERATING REVENUES (EXPENSE), NET</b>	<b><u>(103,808)</u></b>	<b><u>(214,700)</u></b>	<b><u>110,892</u></b>
<b>INCOME BEFORE CAPITAL CONTRIBUTION</b>	<b><u>1,205,114</u></b>	<b><u>166,851</u></b>	<b><u>1,038,263</u></b>
<b>CAPITAL CONTRIBUTION</b>	<b><u>977,682</u></b>	<b><u>-</u></b>	<b><u>977,682</u></b>
<b>CHANGE IN NET POSITION</b>	<b><u>\$ 2,182,796</u></b>	<b><u>\$ 166,851</u></b>	<b><u>\$ 2,015,945</u></b>

See note to supplementary information.

**Sunnyslope County Water District**  
**Statement of Net Position - By Fund**  
**June 30, 2014**

	<b>2014</b>	<b>Water Fund</b>	<b>Wastewater Fund</b>
<b><u>ASSETS</u></b>			
<i>CURRENT ASSETS</i>			
Cash	\$ 1,598,755	\$ 1,406,671	\$ 192,084
Invested funds - LAIF funds	5,385,760	4,113,975	1,271,785
Other current assets	1,384,356	1,193,447	190,909
Total Current Assets	8,368,871	6,714,093	1,654,778
<i>CAPITAL ASSETS</i>			
Land and land improvements	1,095,481	940,815	154,666
Utility plant	27,998,424	12,622,880	15,375,544
Equipment and furniture	1,860,294	1,282,711	577,583
Office building	2,737,613	2,190,090	547,523
Work-in-process	119,383	119,383	-
	33,811,195	17,155,879	16,655,316
Less accumulated depreciation	(10,364,201)	(8,447,505)	(1,916,696)
Total Capital Assets	23,446,994	8,708,374	14,738,620
<i>INTANGIBLE ASSETS</i>			
Total Intangible Asset, net	6,319,444	6,319,444	-
<i>OTHER NON-CURRENT ASSETS</i>			
Total Other Non-Current Assets	1,089,987	940,751	149,236
<i>TOTAL ASSETS</i>	\$ 39,225,296	\$ 22,682,662	\$ 16,542,634
<b><u>LIABILITIES AND NET POSITION</u></b>			
<i>CURRENT LIABILITIES</i>			
Total Current Liabilities	\$ 1,947,610	\$ 1,132,725	\$ 814,885
<i>LONG-TERM LIABILITIES</i>			
Total Non-Current Liabilities	21,787,987	10,212,727	11,575,260
Total Liabilities	23,735,597	11,345,452	12,390,145
<i>NET POSITION</i>			
Balance June 30, 2013, as restated, Note 21	13,306,903	9,503,932	3,802,971
Change in net position	2,182,796	1,833,279	349,517
Total Net Position	15,489,699	11,337,211	4,152,488
<i>TOTAL LIABILITIES AND NET POSITION</i>	\$ 39,225,296	\$ 22,682,663	\$ 16,542,633

See note to supplementary information.

**Sunnyslope County Water District**  
**Schedule of Revenue, Expenses, and Changes in Net Position**  
**Year Ended June 30, 2014 (with comparative total for 2013)**

	<u>2014</u>			<u>2013</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATING REVENUES</i>				
Water sales	\$ 4,229,177	\$ -	\$ 4,229,177	\$ 3,961,498
Wastewater service	-	1,605,290	1,605,290	1,486,944
Late fees	53,941	13,485	67,426	63,953
Customer fees	175,486	41,074	216,560	215,321
Other	2,958	15,504	18,462	3,115
Total operating revenues	<u>4,461,562</u>	<u>1,675,353</u>	<u>6,136,915</u>	<u>5,730,831</u>
<i>OPERATING EXPENSES</i>				
Salaries and benefits	1,851,996	490,483	2,342,479	2,282,697
Operations and maintenance	2,353,900	631,614	2,985,514	2,208,020
Water rate stabilization credit	(500,000)	-	(500,000)	-
Total operating expenses	<u>3,705,896</u>	<u>1,122,097</u>	<u>4,827,993</u>	<u>4,490,717</u>
<i>INCOME FROM OPERATIONS</i>	<u>755,666</u>	<u>553,256</u>	<u>1,308,922</u>	<u>1,240,114</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>				
Water connections	315,242	-	315,242	310,715
Wastewater connections	-	34,064	34,064	16,955
Interest	7,109	1,300	8,409	6,078
Other income	40	10	50	50
Other expense	-	(2,186)	(2,186)	-
Interest expense	(189,594)	(236,617)	(426,211)	(234,155)
Debt handling fees	(3,089)	(254)	(3,343)	(3,131)
Loss on disposal of assets	(29,777)	(56)	(29,833)	(16,675)
Loss on abandoned capital projects	-	-	-	(21,541)
Total non-operating revenues (expenses), net	<u>99,931</u>	<u>(203,739)</u>	<u>(103,808)</u>	<u>58,296</u>
<i>INCOME BEFORE CAPITAL CONTRIBUTION</i>	855,597	349,517	1,205,114	1,298,410
<i>CAPITAL CONTRIBUTION</i>				
Donated assets	<u>977,682</u>	<u>-</u>	<u>977,682</u>	<u>-</u>
<i>CHANGES IN NET POSITION</i>	<u>\$ 1,833,279</u>	<u>\$ 349,517</u>	2,182,796	1,298,410
<i>NET POSITION - BEGINNING OF YEAR</i>			13,306,903	12,122,972
<i>PRIOR PERIOD ADJUSTMENT - NOTE 21</i>			-	(114,479)
<i>NET POSITION - END OF YEAR</i>			<u>\$ 15,489,699</u>	<u>\$ 13,306,903</u>

See note to supplementary information.

**Sunnyslope County Water District  
Schedule of Salaries and Benefits  
Year Ended June 30, 2014 (with comparative total for 2013)**

	<u>2014</u>					<u>2013</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>GENERAL &amp; ADMIN</u>	<u>CUSTOMER SERVICE</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>SALARIES AND BENEFITS</i>						
Salaries	\$ 991,949	\$ 280,055	\$ 199,430	\$ 294,328	\$ 1,765,762	\$ 1,857,326
Employee benefits	122,239	34,855	62,721	17,137	236,952	241,651
PERS retirement	202,316	55,592	147,421	58,581	463,910	491,841
Payroll taxes	13,494	3,978	4,248	4,265	25,985	27,121
Directors fees	-	-	15,300	-	15,300	16,600
Allocation (from) to:						
Customer service	299,301	74,825	-	(374,126)	-	-
Gen. and admin.	342,689	85,673	(428,362)	-	-	-
Subtotal	1,971,988	534,978	758	185	2,507,909	2,634,539
Labor billed to others	(119,992)	(44,495)	(758)	(185)	(165,430)	(351,842)
Total salaries and benefits	<u>\$ 1,851,996</u>	<u>\$ 490,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,342,479</u>	<u>\$ 2,282,697</u>

See note to supplementary information.

**Sunnyslope County Water District**  
**Schedule of Operations and Maintenance Expenses**  
**Year Ended June 30, 2014 (with comparative total for 2013)**

	<u>2014</u>					<u>2013</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>GENERAL &amp; ADMIN</u>	<u>CUSTOMER SERVICE</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>						
Electrical services	\$ 237,751	\$ 67,798	\$ 12,765	\$ -	\$ 318,314	\$ 274,845
Phone services	3,612	3,331	1,945	2,945	11,833	6,016
Professional services	1,806	5,313	66,092	1,652	74,863	68,686
Postage	1,226	-	1,466	26,476	29,168	31,121
Contract services	2,950	4,647	18,573	17,017	43,187	28,119
Office supplies	613	-	19,518	10,016	30,147	32,387
Legal advertising	1,101	1,101	4,781	-	6,983	91
Repair and maintenance	123,415	28,340	1,102	-	152,857	89,874
Diesel	1,490	372	-	-	1,862	4,633
Vehicle operating exps.	37,230	9,306	2,363	-	48,899	48,429
Professional develop.	1,428	326	4,151	216	6,121	8,582
Supplies	27,152	20,956	131	-	48,239	26,418
Meeting expense	-	-	118	-	118	104
Insurance	-	-	48,619	-	48,619	59,640
Research and monitoring	58,505	46,068	-	-	104,573	133,449
Depreciation	511,971	353,723	127,451	3,210	996,355	700,411
Tank lease	(1,200)	-	-	-	(1,200)	4,800
Pumping fees	51,136	-	-	-	51,136	43,859
Less salt water treatment	862,721	-	-	-	862,721	513,853
Water conservation	88,954	-	-	-	88,954	89,878
Bad debts	5,208	1,415	-	-	6,623	(3,535)
Taxes, fees, permits, dues, and subscriptions	28,522	11,841	5,826	8,953	55,142	46,360
Allocated from (to):						
General and admin.	251,921	62,980	(314,901)	-	-	-
Customer service	56,388	14,097	-	(70,485)	-	-
Total operations and maint. exps.	<u>\$ 2,353,900</u>	<u>\$ 631,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,985,514</u>	<u>\$ 2,208,020</u>

See note to supplementary information.