

*Sunnyslope  
County Water District*



*Financial Statements*



*June 30, 2019*

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Sunnyslope County Water District  
Hollister, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Sunnyslope County Water District (the District) as of and for the year ended June 30, 2019, 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunnyslope County Water District as of June 30, 2019, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited the Sunnyslope County Water District's 2018 financial statements, and our report dated September 26, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xi, the schedule of changes in the net other post-employment benefit liability and related ratios, the schedule of other post-employment benefit contributions, the schedule of proportionate share of the net pension liability, and the schedule of pension plan contributions on pages 40 through 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

The accompanying supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*McGilloway, Ray, Brown & Kaufman*

McGilloway, Ray, Brown & Kaufman  
Salinas, California  
September 24, 2019

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2019

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, 2019 (with 2018 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 3.9 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 6,152 water accounts, of which 99.8% are residential customers, and approximately 1,235 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 Deferred Outflows, and Liabilities and Deferred Inflows, 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 4 and 5.

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 6.

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2019

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 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 7 and 8.

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 beginning on page 9 of this report.

### *Other Information*

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and supplementary information (not required and unaudited). The required supplementary information is concerning the District's liabilities related to pension and OPEB and can be found on page 40 of this report. The other supplementary information provides budgetary comparison schedules and more detailed schedules by class and fund, which are presented immediately following the required supplementary information and can be found on page 44 of this report.

### *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, 2019	June 30, 2018	Dollar Change	Percent Change
<b>Assets</b>				
Capital assets, net	\$ 27,797,257	\$ 24,299,866	\$ 3,497,391	14.4%
Other assets	28,177,279	31,104,352	(2,927,073)	-9.4%
Deferred outflows of resources	2,565,181	2,040,263	524,918	25.7%
	<b>58,539,717</b>	57,444,481	1,095,236	1.9%

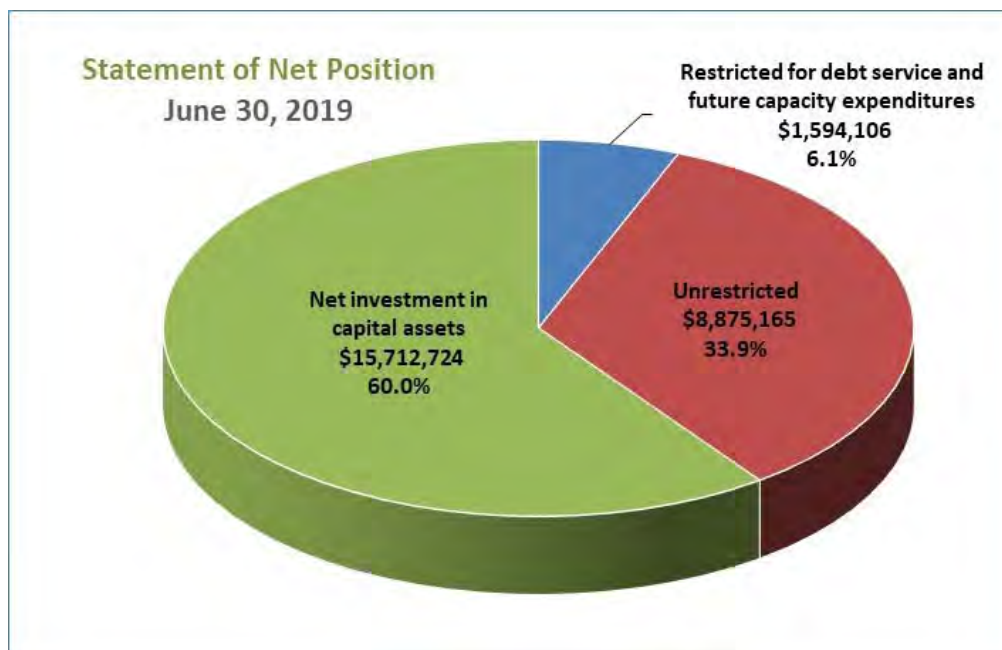
# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2019

	June 30, 2019	June 30, 2018	Dollar Change	Percent Change
<b>Less: Liabilities</b>				
Long-term liabilities	27,176,144	28,701,549	(1,525,405)	-5.3%
Other liabilities	4,215,320	3,049,385	1,165,935	38.2%
Deferred inflows of resources	966,258	1,284,410	(318,152)	-24.8%
	<b>32,357,722</b>	<b>33,035,344</b>	<b>(677,622)</b>	<b>-2.1%</b>
	<b>\$ 26,181,995</b>	<b>\$ 24,409,137</b>	<b>\$ 1,772,858</b>	<b>7.3%</b>
<b>Net Position</b>				
Net investment in capital assets	<b>\$ 15,712,724</b>	<b>\$ 11,803,788</b>	<b>\$ 3,908,936</b>	<b>33.1%</b>
Restricted for debt service and capacity fees	<b>1,594,106</b>	<b>3,397,185</b>	<b>(1,803,079)</b>	<b>-53.1%</b>
Unrestricted	<b>8,875,165</b>	<b>9,208,164</b>	<b>(332,999)</b>	<b>-3.6%</b>
	<b>\$ 26,181,995</b>	<b>\$ 24,409,137</b>	<b>\$ 1,772,858</b>	<b>7.3%</b>

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. The District's assets exceeded liabilities by \$26,181,995 at June 30, 2019, which is the District's net position. The largest portion of the District's net position (60.0%) reflects its investment in capital assets of \$15,712,724 (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 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.





# Sunnyslope County Water District

## *Management's Discussion and Analysis*

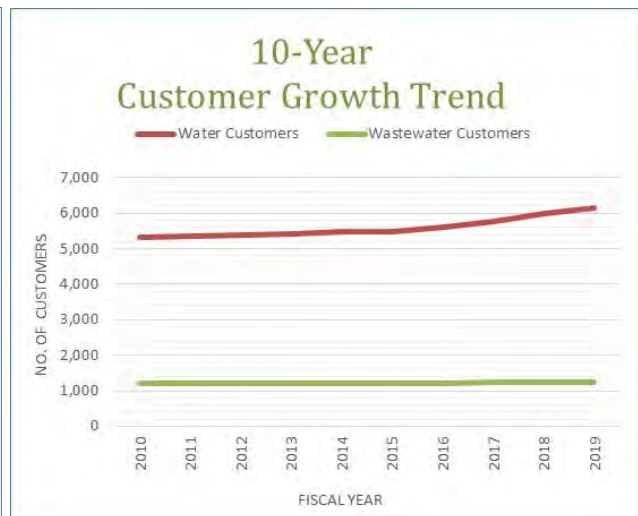
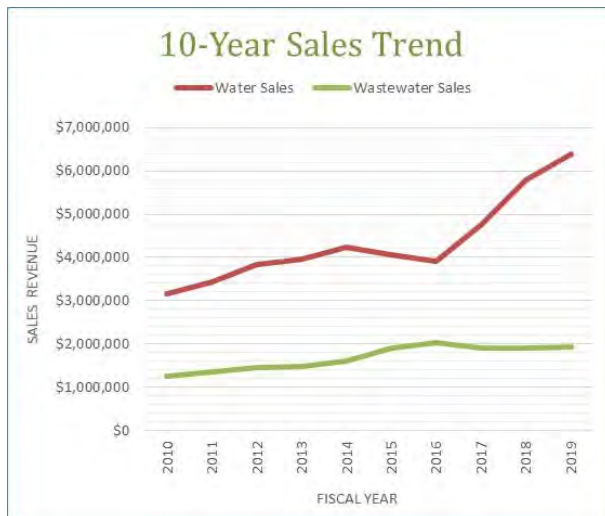
For the Year Ended June 30, 2019

After restricting net position for capacity fees and debt service of \$1,594,106 (6.1%), the remaining net position of \$8,875,165 (33.9%) is unrestricted and may be used at the Board's discretion to continue meeting the needs of the District. See the Notes to Financial Statements, Note 13 – Net Position, for more details on the District's net position.

The District's net position increased \$1,772,858 from the prior fiscal year. The increase is primarily a result of the income from operations, capacity fees collected, and interest earned, offset by interest expense.

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

The District's principal source of revenue is from water sales (73.8% of operating revenue) and wastewater sales (22.2% of operating revenue), which together constitutes 96.0% of operating revenue. The District's principal sources of water supply are from several wells owned by the District, from treated surface water received from the Lessalt Water Treatment Plant, and through interties with the City of Hollister, with the wells providing approximately 26.0% and the Lessalt WTP providing approximately 60.2% of the water pumped into the distribution system. The Board approved water rate increases by Ordinance No. 73 in August, 2013, which phased the increases over a six year period, beginning in December, 2013. The Board approved wastewater rate increases by Ordinance No. 74 in August, 2013, which phased in the increases of 19.0% each year over a two year period, beginning in December, 2013. The water and wastewater rate increases were deemed necessary to implement the Hollister Urban Area Water Project (HUAWP). Several projects recommended in the HUAWP have been constructed that improve drinking water quality for residents and help the District meet state and federal regulations for water and wastewater. The wastewater rate increase was also implemented to pay for the construction of the new Sequencing Batch Reactor at the Ridgemark Wastewater Treatment Plant.



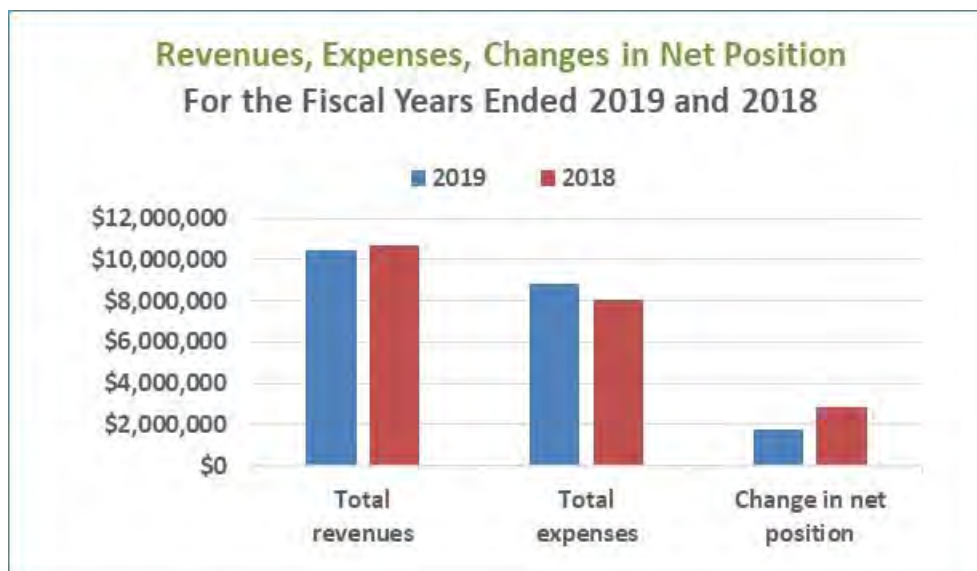
Water sales revenue remained flat through the first few years of rate increases, even though we implemented five years of rate increases of approximately 11.5% each year beginning in December 2013 and ending with the final increase of 3% in December 2018. The primary reason for slow revenue growth, in spite of the rate increases, was due to slow customer growth and customer water conservation during the California drought. Water sales revenue has started showing a steady increase over the past two years as construction of new homes has increased

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2019

in our District. We also expect to see water use vary with the seasons and the amount of rainfall. We believe the increase in water sales revenue over the past two fiscal years was primarily attributable to relaxing conservation measures in April, 2017, water used for residential construction projects, and by the increase of 159 water customers this fiscal year and 223 water customers last fiscal year. We believe the small increase in wastewater sales revenue this fiscal year was due to adding five new customers and the adjustment of the variable component of the sewer rate, which is based on water consumption, and adjusted each April.



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

	June 30, 2019	June 30, 2018	Dollar Change	Percent Change
Operating revenues	\$ 8,661,079	\$ 8,065,708	\$ 595,371	7.4%
Non-operating revenues	1,781,093	2,636,743	(855,650)	-32.5%
<b>Total revenues</b>	<b>10,442,172</b>	10,702,451	(260,279)	-2.4%
Operating expenses	8,482,905	7,691,894	791,011	10.3%
Non-operating expenses	352,564	383,848	(31,284)	-8.2%
<b>Total expenses</b>	<b>8,835,469</b>	8,075,742	759,727	9.4%
<b>Income before capital contrib.</b>	<b>1,606,703</b>	2,626,709	(1,020,006)	-38.8%
Contributed capital	166,155	191,502	(25,347)	-13.2%
<b>Change in net position</b>	<b>1,772,858</b>	2,818,211	(1,045,353)	-37.1%
<b>Net position - beginning</b>	<b>24,409,137</b>	21,789,179	2,619,958	12.0%
New accounting pronouncements	-	(198,253)	198,253	-100.0%
<b>Net position - ending</b>	<b>\$ 26,181,995</b>	\$ 24,409,137	\$ 1,772,858	7.3%

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2019

The primary source of non-operating revenues are water and wastewater capacity fees and investment income. Development of new housing has been picking up momentum, and we had another year of strong capacity fee numbers. We received 136 water capacity fees this fiscal year, compared to 233 last year, and we received 3 wastewater capacity fees this fiscal year, the same as last year. With the improvements to the Lessalt (surface) Water Treatment Plant and the addition of a new well back 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.

Operating expenses include salaries and benefits for 23 full-time employees, including water and wastewater system operations. The water department's expenses include electricity for pumping water, well water pumping fees, surface water cost and treatment, repairs and maintenance of the production and distribution systems, and an 80% share of customer service and general and administrative costs. The wastewater department's expenses include electricity for sewer pumping stations, repair and maintenance of the sewer manholes and mainline pipes, treatment costs, operation and maintenance of the Sequencing Batch Reactor (SBR), sludge disposal, and a 20% share of customer service and general and administrative costs. Operating expenses are up 10.3% compared to last fiscal year, due primarily to operation and maintenance costs for the West Hills Water Treatment Plant.

Non-operating expenses include interest expense on our debt, and the loss on disposal of assets. Non-operating expenses were down primarily due to reduced interest expense.

Contributed capital usually comes from water and wastewater system infrastructure constructed by developers and turned over to the District for operation and maintenance. In fiscal year 2019, we accepted the water infrastructure and appurtenances of one completed subdivision into our system; the Hillcrest Meadows Development with a fair value of \$166,155.

### *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.

The District's investment in capital assets as of June 30, 2019 was \$27,797,257, net of accumulated depreciation. The \$4,568,944 in major capital asset additions for the current year included 584 new and replacement water meters installed (\$169,602), the acceptance of a new subdivision water infrastructure (\$166,155), a storm drain extension at the Fairview Tanks (\$15,000), purchase of a used forklift (\$15,135), work-in-process expenditures for the crosstown pipeline to connect the District to the West Hills Water Treatment Plant (\$4,147,927), and other work-in-process projects (\$55,125). The capital additions were offset by depreciation expense (\$1,069,195) and loss on disposal of a test well pump (\$2,358).

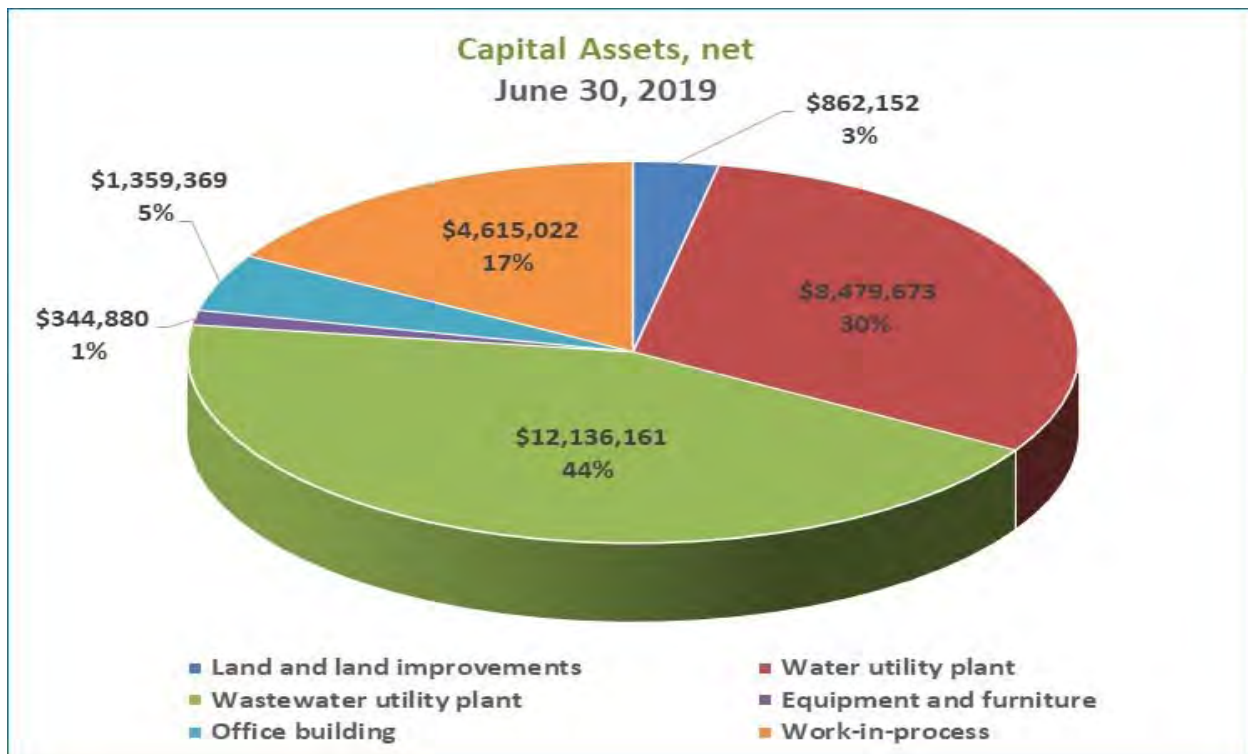
# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2019

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

	June 30, 2019	June 30, 2018	Dollar Change	Percent Change
Land and land improvements	\$ 862,152	\$ 862,619	\$ (467)	-0.1%
Water utility plant	8,479,673	8,640,320	(160,647)	-1.9%
Wastewater utility plant	12,136,161	12,515,832	(379,671)	-3.0%
Equipment and furniture	344,880	418,496	(73,616)	-17.6%
Office building	1,359,369	1,450,630	(91,261)	-6.3%
Work-in-process	4,615,022	411,969	4,203,053	1020.2%
<b>Capital assets, net</b>	<b>\$ 27,797,257</b>	<b>\$ 24,299,866</b>	<b>\$ 3,497,391</b>	<b>14.4%</b>



### **Long-Term Debt**

At June 30, 2019, the District had long-term debt and long-term liabilities, totaling \$27,176,144.

The decrease in loans and commitments payable is due to principal payments on the outstanding debt. The increase in deposits from customers is primarily due to customer turnover and new customers. The decrease in net pension liability and the net OPEB liability is primarily due to the impact of the District making additional payments toward the unfunded liabilities. More information on the District's pension plan can be found in Note 10 – Pension Plan of the financial statements. More information on the District's OPEB plan can be found in Note 12 – Other Post-Employment Benefit Plan of the financial statements.

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

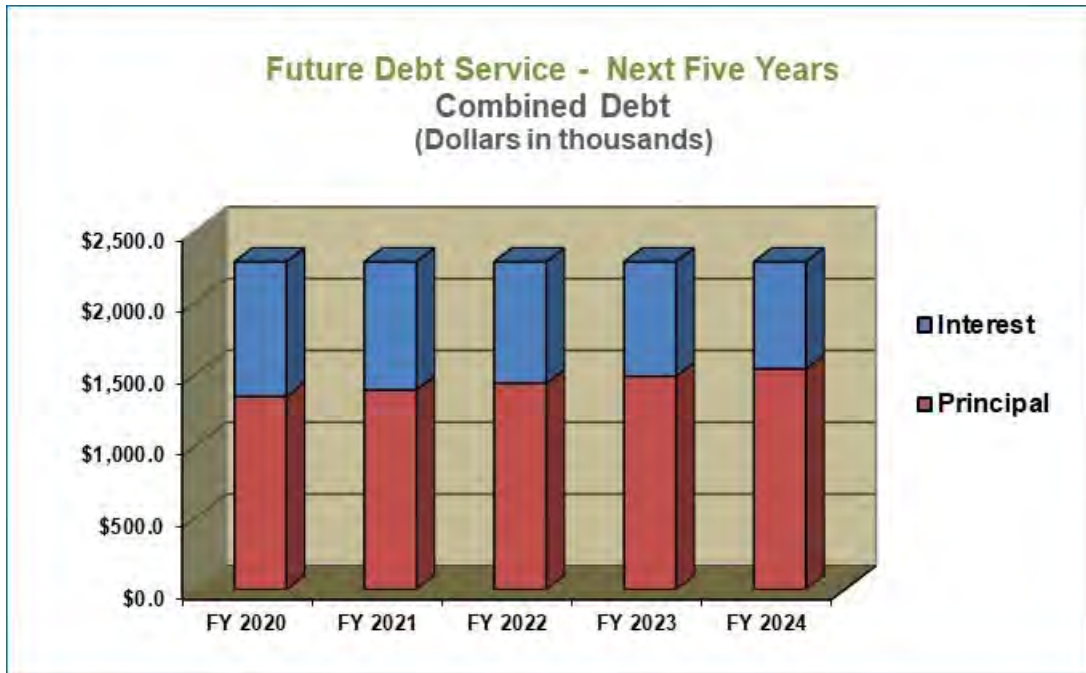
For the Year Ended June 30, 2019

### *Schedule of Long-Term Debt & Long-Term Liabilities*

	June 30, 2019	June 30, 2018	Dollar Change	Percent Change
Accrued compensated absences	\$ 139,291	\$ 126,170	\$ 13,121	10.4%
Loans payable	11,546,110	12,302,309	(756,199)	-6.1%
Commitments payable	14,090,874	14,678,613	(587,739)	-4.0%
Deposits from customers	497,064	458,512	38,552	8.4%
Net pension liability	888,029	1,099,308	(211,279)	-19.2%
Net OPEB liability	14,776	36,637	(21,861)	-59.7%
<b>Debt &amp; long-term liabilities</b>	<b>\$ 27,176,144</b>	<b>\$ 28,701,549</b>	<b>\$ (1,525,405)</b>	<b>-5.3%</b>

### *Future Debt Service*

The District's debt service requirements for the next five years, through June 30, 2024, are shown on the following table, averaging \$2,282.4 thousand annually.



### *Other Future Economic Factors*

From the years 2002 to 2015, the District experienced low to no housing growth, however, in fiscal years 2019 and 2018, new housing starts within the District service boundary have generated 136 and 233 new water connections, and 3 and 3 wastewater connections, respectively. In past years, the most prevalent issues affecting growth in the District have been: a housing moratorium imposed by the City of Hollister (City) due to its limited wastewater treatment and disposal



# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2019

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 allows for future development within the Ridgemark area.

### Rates and Fees

The District conducted a water rate study in 2013, in conjunction with the City. 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 occurs 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, finishing with a 3% increase in fiscal year 2019.

The state of California recently experienced a period of severe drought (ending roughly in fiscal year 2017). During the drought, the state imposed certain levels of mandatory water conservation in all water service municipalities and special districts throughout the state. Our customers were mandated to reduce their water consumption by 28% compared to their use in 2013, and were achieving better than a 28% reduction. In late June, 2016, the District was able to relax the water conservation mandate to 15%, then in April, 2017, the District was able to relax the conservation measures imposed on customers. The reduced water consumption, while good for the drought, translated into reduced revenues for the District. If a drought reoccurs in the near future, prolonged reduction in revenues could trigger the need to increase water rates.

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 took effect on December 21, 2014, increasing by 19.0% each year. No increases in wastewater rates are anticipated for fiscal years 2017 through 2019.

Finally, the District 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 \$10,975, effective July 1, 2018, was \$10,600, effective July 1, 2017, and is adjusted annually. The new wastewater capacity fee for a single family residential dwelling is \$19,825 per dwelling unit, effective July 1, 2018, was \$19,150 per dwelling unit, effective July 1, 2017, and is adjusted annually. The capacity fees 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, and as part of the effort to get customers to stop using their salt discharging water softeners, the existing Lessalt surface water treatment plant has been

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2019

renovated and a pipeline installed to connect this high quality water to the Ridgemark Estates, Oak Creek, and Quail Hollow subdivisions (the District's wastewater customers). Construction of the new West Hills surface water treatment plant is complete, and the City customers are already receiving this high quality water. Once the new crosstown pipeline to connect the plant to the District is completed (expected by late August or early September 2019), we expect to increase the delivery of high quality water to District customers as well, which should also improve wastewater quality and help the District meet the imposed discharge requirements. These projects were recommended by RMC Water and Environment, a Sanitary Engineering Consulting firm that completed a Long-Term Wastewater Management Plan and Salts Management Program for the District.

### Lessalt Water Treatment Plant

In September 2013, as agreed to in the Hollister Urban Area Water Master Plan, the Lessalt Water Treatment Plant ownership was transferred to San Benito County Water District (SBCWD), the wholesale water supplier for this area, by the District and the City. While SBCWD is now the owner, the District and the City are still each responsible for 50% of the costs to operate the Lessalt plant. 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, and was extended on May 15, 2018 for five years.

### West Hills Water Treatment Plant

In September 2017, the newly completed plant began supplying treated water into the City's water distribution system. The plant was constructed as agreed to in the Hollister Urban Area Water Master Plan, and is owned by SBCWD. The District and the City are each responsible for 50% of the costs to operate the West Hills plant. The Agreement for Operations and Maintenance Services between the District and SBCWD was amended to include the West Hills Plant, and extended on May 15, 2018 for five years.

### 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 the new surface water treatment plant called the West Hills Water Treatment Plant (completed in September 2017), upgrade the existing Lessalt Water Treatment Plant (completed in November 2014), and construct various pipelines and pump stations connecting the two water treatment plants to the District and City infrastructures (final crosstown connection completion expected in September 2019). These projects are referred to as the Hollister Urban Area Water Project (HUAWP). The SBCWD will finance, build, own, and operate the upgraded Lessalt Water Treatment Plant and the West Hills Water Treatment Plant.

The agreement committed SBCWD to finance the HUAWP facilities up to \$30 million, and committed 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 actual project cost projection was amended to \$41.6 million. The excess cost of \$11.6 million was funded with \$4.2 million in Prop 84 Grant Funds, with \$1.7 million cash input from both the City and District, and the balance of \$4 million was financed with a loan procured by SBCWD borrowing from a financial institution. The City and District share equally in the repayment of the \$4 million loan.

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2019

The agreement also committed 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, \$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, and was extended in May, 2018 for five years.

### *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, 2019**  
(with prior year data for comparative purposes only)

**ASSETS**

	<b>2019</b>	<b>2018</b>
<i>CURRENT ASSETS</i>		
Cash	\$ 4,829,179	\$ 4,673,554
Invested funds, at fair value	5,235,268	8,086,516
Accounts receivable from customers, less allowance for uncollectible accounts of \$19,361 and \$19,823	2,046,718	1,382,481
Interest receivable	40,497	33,725
Inventory supplies	455,335	395,010
Prepaid expenses	93,512	167,963
Total Current Assets	12,700,509	14,739,249
<i>CAPITAL ASSETS</i>		
Land and land improvements	871,948	871,948
Water utility plant	17,465,192	17,153,740
Wastewater utility plant	15,483,177	15,483,177
Equipment and furniture	2,231,073	2,215,939
Office building	2,737,613	2,737,613
Work-in-process	4,615,022	411,969
	43,404,025	38,874,386
Less accumulated depreciation	(15,606,768)	(14,574,520)
Total Capital Assets	27,797,257	24,299,866
<i>INTANGIBLE ASSETS</i>		
Water rights for Lessalt Water Treatment Plant, net of amortization of \$1,263,889 and \$1,047,222	5,236,111	5,452,778
Water rights for West Hills Water Treatment Plant amortization of \$2,539,722 and \$1,868,056	9,660,278	10,331,944
Total Intangible Assets, net	14,896,389	15,784,722
<i>OTHER NON-CURRENT ASSETS</i>		
Idle assets, net of accumulated depreciation of \$30,634 and \$30,634	580,381	580,381
Total Other Non-Current Assets	580,381	580,381
<i>DEFERRED OUTFLOWS OF RESOURCES</i>		
Deferred outflows - pension	2,518,140	2,010,460
Deferred outflows - OPEB	47,041	29,803
Total Deferred Outflows of Resources	2,565,181	2,040,263
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 58,539,717</b>	<b>\$ 57,444,481</b>

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Net Position**  
**June 30, 2019**  
(with prior year data for comparative purposes only)

**LIABILITIES AND NET POSITION**

	<b>2019</b>	<b>2018</b>
<i>CURRENT LIABILITIES</i>		
Accounts payable	\$ 2,662,300	\$ 1,530,274
Accrued expenses	209,082	219,232
Current portion of long-term debt	1,343,938	1,299,879
Total Current Liabilities	4,215,320	3,049,385
<i>LONG-TERM LIABILITIES</i>		
Accrued compensated absences	139,291	126,170
Bank loan payable	2,722,544	2,961,626
State Revolving Fund loan payable	8,823,566	9,340,683
Commitment payable for water rights	14,090,874	14,678,613
Deposits received	497,064	458,512
Net pension liability	888,029	1,099,308
Net OPEB liability	14,776	36,637
Total Non-Current Liabilities	27,176,144	28,701,549
<i>DEFERRED INFLOWS OF RESOURCES</i>		
Deferred inflows - pension	950,826	1,271,008
Deferred inflows - OPEB	15,432	13,402
Total Deferred Inflows of Resources	966,258	1,284,410
Total Liabilities and Deferred Inflows	32,357,722	33,035,344
<i>NET POSITION</i>		
Net investment in capital assets	15,712,724	11,803,788
Restricted for connection fees	834,106	2,637,185
Restricted for debt service	760,000	760,000
Unrestricted	8,875,165	9,208,164
Total Net Position	26,181,995	24,409,137
<i>TOTAL LIABILITIES AND NET POSITION</i>	\$ 58,539,717	\$ 57,444,481

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**June 30, 2019**

(with prior year data for comparative purposes only)

	<b>2019</b>	<b>2018</b>
<i>OPERATING REVENUES</i>		
Water sales	\$ 6,388,181	\$ 5,792,363
Wastewater service	1,927,095	1,899,620
Late fees	69,241	66,798
Customer fees	135,360	171,845
Other	141,202	135,082
	<b>8,661,079</b>	<b>8,065,708</b>
<i>OPERATING EXPENSES</i>		
Salaries and benefits	3,128,312	3,097,578
Operations and maintenance	5,354,593	5,010,983
Water rate stabilization credit	-	(416,667)
	<b>8,482,905</b>	<b>7,691,894</b>
	<b>178,174</b>	<b>373,814</b>
<i>NON-OPERATING REVENUES (EXPENSES)</i>		
Water connections	1,516,825	2,484,800
Wastewater connections	59,475	57,450
Interest income	180,671	94,493
Unrealized gain (loss) on investments	24,122	(11,959)
Loss on disposal of assets	(1,412)	-
Interest expense	(351,152)	(371,889)
	<b>1,428,529</b>	<b>2,252,895</b>
	<b>1,606,703</b>	<b>2,626,709</b>
<i>CAPITAL CONTRIBUTION</i>		
Donated assets	166,155	191,502
	<b>1,772,858</b>	<b>2,818,211</b>
<i>CHANGE IN NET POSITION</i>		
	<b>24,409,137</b>	<b>21,789,179</b>
<i>NEW ACCOUNTING PRONOUNCEMENTS</i>		
	<b>-</b>	<b>(198,253)</b>
	<b>\$ 26,181,995</b>	<b>\$ 24,409,137</b>

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Cash Flows**  
**June 30, 2019**  
(with prior year data for comparative purposes only)

	<b>2019</b>	<b>2018</b>
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash received from customers	\$ 7,996,842	\$ 8,237,665
Cash paid to suppliers	(3,885,078)	(3,331,390)
Cash paid to employees	(2,517,418)	(2,295,430)
Net Cash Provided by Operating Activities	1,594,346	2,610,845
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i>		
Water and wastewater connection fees received	1,576,300	2,542,250
Proceeds from sale of capital assets	946	-
Acquisition and construction of capital assets	(4,402,789)	(741,929)
Loan and commitment payments	(1,299,879)	(1,257,322)
Interest paid	(362,568)	(383,004)
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,487,990)	159,995
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Sale of time certificates of deposit	-	2,525,243
Sale (purchase) of LAIF funds	2,875,370	(5,065,421)
Interest received	173,899	68,769
Net Cash Provided (Used) by Investing Activities	3,049,269	(2,471,409)
<i>NET INCREASE IN CASH</i>	155,625	299,431
<i>CASH AT BEGINNING OF YEAR</i>	4,673,554	4,374,123
<i>CASH AT END OF YEAR</i>	\$ 4,829,179	\$ 4,673,554

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Cash Flows**  
**June 30, 2019**  
(with prior year data for comparative purposes only)

	<b>2019</b>	<b>2018</b>
<i>Reconciliation of income from operations to net cash provided by operating activities:</i>		
Income from operations	\$ 178,174	\$ 373,814
Adjustments to reconcile income from operations to cash provided by operating activities:		
Depreciation and amortization	1,957,528	1,957,634
Bad debt provision	(462)	2,097
(Increase) decrease in:		
Accounts receivable	(663,775)	169,860
Inventory supplies	(60,325)	(80,251)
Prepaid expenses	74,451	(142,394)
Prepaid post-employment health benefits	-	160,162
Deferred outflows - pension	(507,680)	552,764
Deferred outflows - OPEB	(17,238)	(228,056)
Increase (decrease) in:		
Accounts payable	1,132,026	14,249
Accrued expenses	14,387	(3,680)
Deposits from customers	38,552	57,648
Net pension liability	(211,279)	(1,405,830)
Net OPEB liability	(21,861)	36,637
Deferred inflows - pension	(320,182)	1,132,789
Deferred inflows - OPEB	2,030	13,402
Net Cash Provided by Operating Activities	\$ 1,594,346	\$ 2,610,845
 <i>SUPPLEMENTAL DISCLOSURES OF NON-CASH RELATED FINANCING AND INVESTING ACTIVITIES:</i>		
Donated Assets	\$ 166,155	\$ 191,502

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2019**

**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 3.9 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 2019, water sales constitute approximately 73.8% of operating revenues and wastewater sales are approximately 22.2% 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, 2019**

**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.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

**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 2019 is calculated as 2.5% of the outstanding receivable balance on District accounts. The bad debt allowance is held low due to the District's strict shut-off policy for accounts that reach 3 months past due, and the District's deposit requirement policy. 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 at 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 or a TransUnion credit score of 700 or greater (a fee applies) 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 \$125 if a water only customer, or a deposit of \$400 if a water and wastewater customer (less any amount currently held on deposit), prior to the start or reinstatement of service. New customers also may opt to pay 50% of the required deposit if they also sign up for the District's automatic electronic payment program for a minimum of three years.

**F. Inventories and Prepaid Items**

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

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



**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2019**

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

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

<b>Capital Asset Category:</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>Capital Asset Category:</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. Idle Assets – Temporarily Impaired**

Idle assets consist of Well #1; a potential site for Well #9 or a water treatment plant on Union Road; a potential site for Well #12 on Southside Road, including some engineering and design work, hydrogeology and water quality testing, environmental review work, drilling a test well, and a 2-acre parcel lot line adjustment; and a potential site for expansion of the West Hills Water Treatment Plant.

Well #1 was placed in service in 1956, but was taken out of service in 1999 as new wells were constructed. The Well #9 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 Well #12 test well

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2019**

was taken out of service in 2012 because the project is on hold until such future time as we need additional groundwater, and the cost of the 2-acre lot line adjustment was taken out of service in 2016. In 1999, two adjoining parcels of land were purchased jointly with the City as a future site for a surface water treatment plant. One of the parcels was ultimately chosen for the site of the West Hills Water Treatment Plant, which was jointly donated in 2015 to San Benito County Water District (SBCWD) under the Hollister Urban Area Water Supply and Treatment Agreement. The remaining adjoining parcel is being held for possible future expansion needs and was taken out of service in 2016.

**I. 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.

**J. 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 the Supplementary Information – Unaudited section, Schedule of Net Position – By Fund.

**K. Net Position**

Net position represent the difference between assets and liabilities. When both restricted and unrestricted resources are available for expenses, the District expends the restricted funds and then the unrestricted funds. The District's net position is detailed in Note 13 – Net Position, and is further described 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 capacity (connection) fees. The resolution establishing the authority for water and wastewater capacity fees restricts the use of these fees to the construction, acquisition, or financing of capital assets. The water and wastewater capacity 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.

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2019**

***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.

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

In addition to assets, the statement of net position contains 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 not be recognized as an outflow of resources (expenses) until then. The District has deferred pension outflows as described further in Note 10 – Pension Plan. The District also has deferred OPEB outflows as described further in Note 12 – Other Post-Employment Benefits.

In addition to liabilities, the statement of net position contains 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 deferred pension inflows as described further in Note 10 – Pension Plan. The District also has deferred OPEB inflows as described further in Note 12 – Other Post-Employment Benefits.

***M. Pensions***

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Sunnyslope County Water District's California Public Employees' Retirement System (CalPERS) plans (PERF C or the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS finance office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 10 – Pension Plan for the CalPERS Plan disclosures. Additional information presented in the Notes and Required Supplementary Information (RSI) can be found on CalPERS website in the CalPERS Risk Pool reports as of the June 30, 2018 Measurement Date and CalPERS CAFR (Comprehensive Annual Financial Report):

<https://www.calpers.ca.gov/docs/forms-publications/gasb-68-accounting-valuation-miscellaneous-risk-pool-2018.pdf>

<https://www.calpers.ca.gov/docs/forms-publications/cafr-2018.pdf>

GASB No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For fiscal year ending June 30, 2019, the following timeframes are used:

Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018
Actuarial Valuation Date (VD)	June 30, 2017

**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2019**

The following District rate plans are included in this report:

	<u>Rate Plan #</u>	<u>Risk Pool</u>
Misc. Classic	620	Miscellaneous
Misc. PEPRA	26656	Miscellaneous

**N. Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 12 – Other Post-Employment Benefits (OPEB) Plan for additional disclosures.

GASB No. 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018
Actuarial Valuation Date	June 30, 2017

Update procedures were used to roll forward the total OPEB liability from the valuation date (June 30, 2017) to the measurement date (June 30, 2018).

**O. 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.

**P. Compensated Absences**

***Vacation***

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

**Compensated Absences**

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.

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2019**

***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.

**Q. 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.

**R. New Accounting Pronouncements**

The District applies all applicable GASB (Governmental Accounting Standards Board) pronouncements for certain accounting and financial reporting guidance.

***Pending Accounting Standards***

GASB has issued the following statement, which may impact the District’s financial reporting requirement in the future:

**GASB Statement No. 87** – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the effect of the statement.

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**S. Comparative Prior Year Financial Information**

Selected information regarding the prior year has been included in the accompanying financial statements and notes to the basic financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

**NOTE 2 — CASH AND INVESTMENTS**

***Cash and Investments***

At June 30, 2019, the District maintained cash at Heritage Bank of Commerce, a commercial bank with branch offices located in Hollister, California, of \$4,826,652, including a money market account totaling \$1,240,885, and cash investment in the State of California's Local Agency Investment Funds (LAIF), which administers a pool of local government funds of \$5,235,268.

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

Current Assets (partial listing):

	<b>2019</b>
Cash	\$ 4,829,179
Less: Cash and postage stamps on hand	(2,527)
Cash funds – at Heritage Bank of Commerce	4,826,652
Invested funds – at LAIF (at fair value)	5,235,268
Plus: Cash and postage stamps on hand	2,527
Total cash and investments	\$ 10,064,447

***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.

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As of June 30, 2019, the District had the following investment maturities:

	<u>Fair Value</u>	<u>Cost</u>	<u>0-3 Months</u>	<u>4-12 Months</u>	<u>13-36 Months</u>
LAIF	\$ 5,235,268	\$ 5,226,321	\$ 5,226,321	\$ -	\$ -
Total	<u>\$ 5,235,268</u>	<u>\$ 5,226,321</u>	<u>\$ 5,226,321</u>	<u>\$ -</u>	<u>\$ -</u>

***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.

Heritage Bank of Commerce has a credit rating of Green/\*\*\*/BB from Veribanc, Inc. (as of March 1, 2019).

***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. Currently, all investments are in LAIF.

***Custodial Credit Risk for Deposits and Investments***

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.

As of June 30, 2019, \$250,000 of the balance on deposit with Heritage Bank of Commerce was covered by federal depository insurance, and the excess of \$4,576,652 was collateralized by the pledging institution as required by Section 53652 of the California Government Code.

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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, which approximates the fair value.

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.

***Disclosures Related to Fair Value Measurement***

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- *Level 1:* Quoted prices in active markets for identical assets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

Deposits and withdrawals in the California Local Agency Investment Fund (LAIF) are made on the basis of \$1, and not fair value. Accordingly, the District's investment in LAIF at June 30, 2019 of \$5,235,268 is uncategorized input not defined as Level 1, Level 2, or Level 3 input.

**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 as of June 30, 2019, including applicable allowances for uncollectible accounts:



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	Sunnyslope Water & Wastewater Sales and Services	City of Hollister Customer Billings	Other Receivables	<b>Total June 30, 2019</b>
Accounts receivable	\$ 774,454	\$ 375,411	\$ 916,214	\$ 2,066,079
Less: Allowance for uncollectible accounts	<u>(19,361)</u>	<u>-</u>	<u>-</u>	<u>(19,361)</u>
Net accounts receivable	<u>\$ 755,093</u>	<u>\$ 375,411</u>	<u>\$ 916,214</u>	<u>\$ 2,046,718</u>

The District entered into an agency agreement with the City 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 \$375,411 due from the City's customers as of June 30, 2019. Likewise, accounts payable includes \$375,411 due to the City for the amount billed to their customers as of June 30, 2019. See Note 6 – Accounts Payable. 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 billings for the operation and maintenance of the Lessalt Water Treatment Plant and the West Hills Water Treatment Plant and items such as damages to District property.

**NOTE 4 — CAPITAL ASSETS**

A summary of property, plant, and equipment at June 30, 2019, is as follows:

	Cost 6/30/18	Transfers/ Adjustments	Additions	Disposals	Cost 6/30/19
Land and land improve.	\$ 871,948	\$ -	\$ -	\$ -	\$ 871,948
Water utility plant	17,153,740	-	350,757	39,305	17,465,192
Wastewater utility plant	15,483,177	-	-	-	15,483,177
Equipment & furniture	2,215,939	-	15,134	-	2,231,073
Office building	2,737,613	-	-	-	2,737,613
Work-in-process	411,969	-	4,203,053	-	4,615,022
	<u>\$ 38,874,386</u>	<u>\$ -</u>	<u>\$ 4,568,944</u>	<u>\$ 39,305</u>	<u>\$ 43,404,025</u>

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	Accumulated Depreciation 6/30/18	Transfers/ Adjustments	Depreciation	Disposals	Accumulated Depreciation 6/30/19
Land and land improve. \$	9,329	-	\$ 467	-	\$ 9,796
Water utility plant	8,513,420	-	509,046	36,947	8,985,519
Wastewater utility plant	2,967,345	-	379,671	-	3,347,016
Equipment & furniture	1,797,443	-	88,750	-	1,886,193
Office building	1,286,983	-	91,261	-	1,378,244
	<u>\$ 14,574,520</u>	<u>\$ -</u>	<u>\$ 1,069,195</u>	<u>\$ 36,947</u>	<u>\$ 15,606,768</u>
<b>Net Book Value</b>	<u>\$ 24,299,866</u>				<u>\$ 27,797,257</u>

**NOTE 5 — IDLE ASSETS – TEMPORARILY IMPAIRED**

Idle assets are valued at cost. Management believes that, based on Level 3 inputs, there is no impairment in value at this time, and that cost is equivalent to fair value of the idle assets. Fair value measurements of impaired capital assets are categorized based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

A summary of idle assets at June 30, 2019, is as follows:

	Cost 6/30/18	Transfers/ Adjustments	Additions	Disposals	Cost 6/30/19
Well #1	\$ 69,884	\$ -	\$ -	\$ -	\$ 69,884
Site for Well #9 or Water Treat. Plant	69,790	-	-	-	69,790
Site for Well #12	115,194	-	-	-	115,194
Well #12 Test Well	176,676	-	-	-	176,676
Site for Future W. Hills Water Treat. Plant Expan.	179,471	-	-	-	179,471
	<u>\$ 611,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 611,015</u>
	Accumulated Depreciation 6/30/18	Transfers/ Adjustments	Depreciation	Disposals	Accumulated Depreciation 6/30/19
Well #1	\$ 30,634	\$ -	\$ -	\$ -	\$ 30,634
<b>Net Book Value</b>	<u>\$ 580,381</u>				<u>\$ 580,381</u>

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**NOTE 6 — ACCOUNTS PAYABLE**

The District entered into an agency agreement with the City 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 \$375,411 due to the City for the amount billed to their customers as of June 30, 2019. Likewise, accounts receivable from customers includes \$375,411 due from the City’s customers as of June 30, 2019. See Note 3 – Accounts Receivable.

Amounts are aggregated into a single accounts payable total on the financial statements. Below is the detail of the payable amounts as of June 30, 2019:

	<u>Sunnyslope Vendors</u>	<u>Developer Credit for Infrastructure Construction</u>	<u>City of Hollister Customer Billings</u>	<u><b>Total June 30, 2019</b></u>
Accounts payable	\$ 2,228,089	\$ 58,800	\$ 375,411	\$ <b>2,662,300</b>

**NOTE 7 — 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, and based on District’s historical experience, is considered to be a long-term liability. Accrued compensated absences at June 30, 2019 was \$139,291.

Of the three qualifying employees, two employees elected to “cash-out” unused sick leave in fiscal year ended 2019. The total amount expensed when they cashed out was \$7,406 for the year ended June 30, 2019.

Below is the detail of the compensated absence payable amounts as of June 30, 2019:

	<u>Total June 30, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u><b>Total June 30, 2019</b></u>
Vacation leave payable	\$ 104,914	\$ 11,139	\$ -	\$ 116,053
Qualifying sick leave payable	21,256	9,388	7,406	23,238
Total	\$ <u>126,170</u>	\$ <u>20,527</u>	\$ <u>7,406</u>	\$ <b><u>139,291</u></b>

**NOTE 8 — LOANS PAYABLE**

***A. 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 term of the agreement is from December 14, 2010 to September 30, 2033. The construction completion date was extended to

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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. Principal and interest is to be paid from pledged future revenues.

The SRF Loan is collateralized by a pledge of revenues derived and to be derived from the operations of the District after deduction therefrom of the amounts necessary to pay all operating and maintenance charges of the District. The District is also required to establish and maintain a reserve fund equal to one year's debt service from available cash.

The outstanding SRF loan payable at June 30, 2019, is as follows:

	June 30, 2018	Borrowed	Repaid	June 30, 2019
Wastewater projects loan	\$ 11,400,000	\$ -	\$ -	\$ 11,400,000
Capitalized interest	345,037	-	-	345,037
Payments	(1,900,341)	-	504,013	(2,404,354)
Subtotal	9,844,696	\$ -	\$ 504,013	9,340,683
Less: current portion	(504,013)			(517,117)
Loan payable	\$ 9,340,683			\$ <b>8,823,566</b>

The following is a summary of principal maturities of SRF loan debt as of June 30, 2019:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2020	\$ 517,117	\$ 242,858	\$ 759,975
2021	530,562	229,413	759,975
2022	544,356	215,619	759,975
2023	558,510	201,465	759,975
2024	573,031	186,944	759,975
Next 5 years maturity sub-total	2,723,576	1,076,299	3,799,875
2025-2029	3,096,538	703,335	3,799,873
2030-2034	3,520,569	279,301	3,799,870
<b>Total debt outstanding June 30, 2019</b>	<b>\$ 9,340,683</b>	<b>\$ 2,058,935</b>	<b>\$ 11,399,618</b>

**B. Municipal Finance Corporation – City National Bank Loan**

On October 1, 2014, the District entered into a loan agreement with Municipal Finance Corporation in the amount of \$3,943,126, for the purpose of refinancing the Capital Project Bond. The loan was immediately assigned to City National Bank. Loan repayment is over a term of 15 years at the rate of 3.4% interest and is payable in semiannual loan payments of \$168,881, beginning on April 16, 2015, and maturing on October 16, 2029. Principal and interest is to be paid from pledged future revenues.

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The outstanding City National Bank loan payable at June 30, 2019, is as follows:

	June 30, 2018	Borrowed	Repaid	June 30, 2019
Refinance Bonds payable	\$ 3,943,126	\$ -	\$ -	\$ 3,943,126
Payments	(750,344)	-	231,156	(981,500)
Subtotal	3,192,782	\$ -	\$ 231,156	2,961,626
Less: current portion	(231,156)			(239,082)
Loan payable	\$ 2,961,626			\$ <b>2,722,544</b>

The following is a summary of principal maturities for City National Bank loan debt as of June 30, 2019:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2020	\$ 239,082	\$ 98,680	\$ 337,762
2021	247,280	90,483	337,763
2022	255,759	82,003	337,762
2023	264,530	73,233	337,763
2024	273,600	64,162	337,762
Next 5 years maturity sub-total	1,280,251	408,561	1,688,812
2025-2029	1,515,317	173,494	1,688,811
2030	166,058	2,823	168,881
<b>Total debt outstanding June 30, 2019</b>	<b>\$ 2,961,626</b>	<b>\$ 584,878</b>	<b>\$ 3,546,504</b>

**NOTE 9 — COMMITMENTS PAYABLE**

***San Benito County Water District – Surface Water Treatment Facilities***

The San Benito County Water District (SBCWD) committed to finance up to \$30 million 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 called the West Hills Water Treatment Plant. These funds were committed in two tranches. The first tranche of \$13 million was made available on the effective date of the agreement, September 1, 2013. The second tranche of \$17 million was made available effective May 1, 2015, the start of the construction phase of the West Hills Water Treatment Plant.

The actual project cost exceeded \$30 million by \$11.6 million, and these additional project costs were financed with a combination of \$4.2 million in Proposition 84 Grant Funds, \$3.4 million from reserves of the District and the City, and a \$4 million loan procured by SBCWD. The District paid it's \$1.7 million share from reserves during fiscal year 2017, which was capitalized as water rights and is being amortized accordingly. The loan commitment of \$4 million by SBCWD became tranche 3, and was made available on January 1, 2016. The District and the City are committed to share equally in the costs associated with these two surface water treatment plants and share in the rights to receive the treated water produced.

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The District's share of the first tranche capital cost is \$6.5 million and is spread in equal monthly payments over thirty years at an interest rate of 4.5%. The District's share of the second tranche capital cost is \$8.5 million and is spread in equal monthly payments over twenty years at an interest rate of 4.0%. The District's share of the third tranche capital cost is \$2 million, which is being repaid quarterly over a 15 year period at an interest rate of 3.45%, with the District's monthly payment based on one-third of its share of the quarterly payment. For more information, see Note 15 – Significant Commitments.

**A. Water Rights for Lessalt Water Treatment Plant – Tranche 1**

The outstanding Tranche 1 commitment payable at June 30, 2019 is as follows:

	<u>June 30,</u> <u>2018</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30,</u> <u>2019</u>
Lessalt Water Treat. Plant				
Upgrades/Water Rights	\$ 6,500,000	\$ -	\$ -	\$ 6,500,000
Payments	(553,426)	-	130,284	(683,710)
Subtotal	<u>5,946,574</u>	<u>\$ -</u>	<u>\$ 130,284</u>	<u>5,816,290</u>
Less: current portion	<u>(130,284)</u>			<u>(136,269)</u>
Commitment payable	<u>\$ 5,816,290</u>			<u>\$ 5,680,021</u>

The following is a summary of principal maturities of Tranche 1 commitment payable as of June 30, 2019:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Payments</u>
2020	\$ 136,269	\$ 258,946	\$ 395,215
2021	142,530	252,684	395,214
2022	149,077	246,137	395,214
2023	155,926	239,289	395,215
2024	<u>163,089</u>	<u>232,126</u>	<u>395,215</u>
Next 5 years maturity sub-total	746,891	1,229,182	1,976,073
2025-2029	934,954	1,041,119	1,976,073
2030-2034	1,170,374	805,699	1,976,073
2035-2039	1,465,068	511,005	1,976,073
2040-2044	<u>1,499,003</u>	<u>147,720</u>	<u>1,646,723</u>
<b>Total debt outstanding June 30, 2019</b>	<b><u>\$ 5,816,290</u></b>	<b><u>\$ 3,734,725</u></b>	<b><u>\$ 9,551,015</u></b>

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**B. Water Rights for West Hills Water Treatment Plant – Tranche 2**

The outstanding Tranche 2 commitment payable at June 30, 2019 is as follows:

	<u>June 30, 2018</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30, 2019</u>
West Hills Water Treat. Plant				
Constr./Water Rights	\$ 8,500,000	\$ -	\$ -	\$ 8,500,000
Payments	(937,194)	-	321,438	(1,258,632)
Subtotal	<u>7,562,806</u>	<u>\$ -</u>	<u>\$ 321,438</u>	<u>7,241,368</u>
Less: current portion	(321,438)			(334,534)
Commitment payable	<u>\$ 7,241,368</u>			<u>\$ 6,906,834</u>

The following is a summary of principal maturities of Tranche 2 commitment payable as of June 30, 2019:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2020	\$ 334,534	\$ 283,566	\$ 618,100
2021	348,165	269,935	618,100
2022	362,348	255,752	618,100
2023	377,111	240,989	618,100
2024	<u>392,475</u>	<u>225,625</u>	<u>618,100</u>
Next 5 years maturity sub-total	1,814,633	1,275,867	3,090,500
2024-2028	2,215,659	874,841	3,090,500
2029-2033	2,705,313	385,187	3,090,500
2034-2035	<u>505,763</u>	<u>9,319</u>	<u>515,082</u>
<b>Total debt outstanding June 30, 2019</b>	<b><u>\$ 7,241,368</u></b>	<b><u>\$ 2,545,214</u></b>	<b><u>\$ 9,786,582</u></b>

**C. Water Rights for West Hills Water Treatment Plant – Tranche 3**

The outstanding Tranche 3 commitment payable at June 30, 2019 is as follows:

	<u>June 30, 2018</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30, 2019</u>
West Hills Water Treat. Plant				
Constr./Water Rights	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Payments	(266,057)	-	112,988	(379,045)
Subtotal	<u>1,733,943</u>	<u>\$ -</u>	<u>\$ 112,988</u>	<u>1,620,955</u>
Less: current portion	(112,988)			(116,936)
Commitment payable	<u>\$ 1,620,955</u>			<u>\$ 1,504,019</u>

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The following is a summary of principal maturities of Tranche 3 commitment payable as of June 30, 2019:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2020	\$ 116,936	\$ 54,421	\$ 171,357
2021	121,023	50,334	171,357
2022	125,253	46,105	171,358
2023	129,630	41,728	171,358
2024	134,161	37,196	171,357
Next 5 years maturity sub-total	627,003	229,784	856,787
2025-2029	744,500	112,287	856,787
2030	249,452	7,585	257,037
<b>Total debt outstanding June 30, 2019</b>	<b>\$ 1,620,955</b>	<b>\$ 349,656</b>	<b>\$ 1,970,611</b>

**NOTE 10 —PENSION PLAN**

**A. General Information about the Pension Plan**

**Plan Description** – The District’s pension plan is part of the Miscellaneous Risk Pool, of the California Public Employees Retirement System (CalPERS), which is a cost sharing multiple-employer defined benefit pension plan (PERF C or the Plan), and is administered by CalPERS. CalPERS 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 (PERL). The District’s 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 publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

**Employees Covered** – 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 (rate plan #620), and employees hired after December 31, 2012 and who do not qualify as “classic” members are in Tier 2 (rate plan #26656). At June 30, 2019, there are 23 full-time employees, with 18 in Tier 1, and 5 in Tier 2.

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

The District’s Plans’ provisions and benefits in effect at June 30, 2019, are summarized as follows:



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	<b>Miscellaneous</b>	
	<b>Classic</b>	<b>PEPRA</b>
	Hire prior to 1/1/13	Hire after 1/1/13
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Monthly benefits, as a % of eligible compensation	2.7%	2.0%
Final compensation period	1 year	3 years
Required employee contribution rates	8.000%	6.250%
Required employer contributions:		
FY 2018/19 Normal cost rate	12.212%	6.842%
FY 2018/19 Unfunded accrued liability	\$ 23,122	\$ 689

On January 1, 2013, the Public Employee’s Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members, PEPRA also effectively closed all existing active risk pools to new employees.

**Contribution Description** – Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions (EPMC) or cost sharing whether by contract amendment or by resolution of the governing board.

For the year ended June 30, 2019, the District’s contributions were as follows:

	<b>Fiscal Year 2018/19</b>
Actuarially Determined Contributions:	
Misc. Classic Retirement Cost	\$ 227,952
Misc. PEPRA Retirement Cost	29,917
Subtotal – Required Contributions	<u>257,869</u>
Additional Lump-Sum Payments:	
Unfunded Liability Payment Classic	1,085,858
Unfunded Liability Payment PEPRA	7,282
Subtotal – Additional Contributions (Excess)	<u>1,093,140</u>
Total Employer Contributions	<u>\$ 1,351,009</u>

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	<b>Fiscal Year 2018/19</b>
District's covered-employee payroll	\$ 2,104,470
Contributions as a percentage of covered-employee payroll	64.20%

***B. Pension Liabilities, Pension Expense, Deferred Pension Outflows of Resources, and Deferred Pension Inflows of Resources***

As of June 30, 2019, the District reported net pension liability for its proportionate share of the net pension liability as of June 30, 2019 and 2018 as follows:

	<b>Fiscal Year Ending</b>	
	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Total Net Pension Liability	\$ 888,029	\$ 1,099,308

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability (asset) as of June 30, 2019 and 2018 was as follows:

	<b>Percentage Share of Plan</b>		<b>Change: Increase/ (Decrease)</b>
	<b>June 30, 2019</b>	<b>June 30, 2018</b>	
Measurement Date	6/30/18	6/30/17	
Percentage of Plan (PERF C) NPL	0.00922%	0.01108%	-0.00186%

For the year ended June 30, 2019, the District recognized pension expense of \$311,868.

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 34,067	\$ 11,593
Changes of assumptions	101,224	24,808
Net differences between projected and actual earnings on plan investments	4,390	-
Change in employer's proportion	290,771	743,064
Differences between the employer's contributions and the employer's proportionate share of contributions	736,679	171,361
Pension contributions subsequent to measurement date	1,351,009	-
Total Outflows / Inflows of Resources	\$ 2,518,140	\$ 950,826

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The \$1,351,009 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Recognition of the remaining amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<b>Fiscal Year Ending June 30:</b>	<b>Deferred Outflows (Inflows) of Resources</b>
2020	\$ 123,375
2022	91,963
2022	8,953
2023	(7,986)
Total	\$ 216,305

**C. Actuarial Assumptions**

The actuarial methods and assumptions used determine the total pension liability for the measurement period ended June 30, 2018 (the measurement date), was determined by rolling forward the total pension liability determined in the June 30, 2017 actuarial accounting valuation to June 30, 2018. The June 30, 2018 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Investment rate of return	7.15%
Inflation	2.50%
Salary increases	Varies by Entry Age and Service
Mortality rate table <sup>1</sup>	Derived using CalPERS' Membership Data for all Funds
Post-retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies,

<sup>1</sup> The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

**Changes of Assumptions** – In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate for the PERF C, which remained at 7.15%.

**Discount Rate** – The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected

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future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

The expected real rates of return by asset class per the CalPERS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018 are as follows:

<b>Asset class<sup>1</sup></b>	<b>Assumed asset allocation</b>	<b>Real return years 1–10<sup>2</sup></b>	<b>Real return years 11+<sup>3</sup></b>
Global equity	50.00 %	4.80 %	5.98 %
Fixed income	28.00	1.00	2.62
Inflation assets	–	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	–	(0.92)

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

**Amortization of Deferred Outflows and Deferred Inflows of Resources** – The net difference between projected and actual investment earnings on pension plan investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining net difference between projected and actual investment earnings on pension plan investments is amortized over the remaining amortization periods. The net difference between projected and actual investment earnings on pension plan investments in the Schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement periods on a net basis.

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Deferred Outflows of Resources and Deferred Inflows of Resources relating to Differences Between Expected and Actual Experience and Changes of Assumptions are amortized over the Expected Average Remaining Service Lifetime (EARSL) of members provided with pensions through the Plan determined as of the beginning of the related measurement period. The EARSL for PERF C for the June 30, 2018 measurement date is 3.8 years, which was obtained by dividing the total service years of 516,147 (the sum of remaining service lifetimes of all active employees) by 135,474 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

***D. Sensitivity of Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate***

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using a discount rate that is one (1) percentage point lower or one (1) percentage point higher than the current rate:

	<b>Discount Rate</b>		
	<b>6.15%</b> <b>(1% Decrease)</b>	<b>7.15%</b> <b>(Current Rate)</b>	<b>8.15%</b> <b>(1% Increase)</b>
Measurement Date		6/30/18	
Fiscal Year End		6/30/19	
Net Pension Liability (Asset)	\$ 2,541,829	\$ 888,029	\$ (477,157)

***E. Pension Plan Fiduciary Net Positions***

Detailed information about each plan's fiduciary net position is available in the separately issued CalPERS financial reports. The effect of CalPERS on the District's net position has been determined on the same basis used by CalPERS.

***F. Payable to the Pension Plan***

At June 30, 2019, the District reported a liability of \$888,029 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019. All pension costs are paid timely.

***G. Subsequent Events***

There were no subsequent events that would materially affect the results presented in this disclosure.

**NOTE 11 — DEFERRED COMPENSATION PLAN**

The District offers its employees a choice between two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all employees, permit 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 outside trustees and excluded from the combined statement of net assets in conformity with Government Auditing Standards.

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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.

For the year ended June 30, 2019, employee contributions consisting of employee deferrals, compensated absences, and cash in lieu of insurance benefits converted to deferred compensation totaled \$282,712. For the year ended June 30, 2019, the required employer matching contribution was \$7,976.

The investment balance in the deferred compensation plans at June 30, 2019 was as follows:

<b>Plan Administrator</b>	<b>Investment Balance</b>
Nationwide Retirement Solutions, Inc.	\$ 2,833,292
CalPERS Supplemental Income Plan	60,838
Total	\$ 2,894,130

**NOTE 12 — OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN**

**A. General Information about the OPEB Plan**

**Plan Description** – The District rejoined the Public Employees’ Medical & Hospital Care Act (PEMHCA) in January 2011 for its employees. The healthcare plan is offered through the California Public Employees’ Retirement System (CalPERS). The Sunnyslope County Water District Retiree Healthcare Plan provides benefits as approved by the Board and subject to the requirements of California Government Code Section 22892. For purposes of reporting under GASB Statements 74 and 75, the plan is an agent multiple employer plan administered by the CalPERS Employers’ Retirement Benefit Trust (CERBT). The OPEB plan reports under GASB Statement 74 as part of CalPERS CAFR which is available here: <https://www.calpers.ca.gov/docs/forms-publications/cafr-2018.pdf>.

**Employees Covered** – As of June 30, 2018 the following current and former employees were covered by the benefit terms under the Healthcare Plan:

Active employees	23
Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to, but not yet receiving benefits	3
Total	28

**Benefits and Eligibility** – 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 retiree/surviving spouse is responsible for paying the remainder of the monthly healthcare premium. The minimum employer contribution for retirees’ health premiums for calendar year 2019 is \$136 per month. 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

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employee must be at least 50 and have a minimum of 5 years of service, and retire directly from the District.

**Contribution Description** – The District intends to contribute to the Trust the actuarially determined contribution (ADC) net of the pay-as-you-go benefits paid annually directly from employer resources. For the fiscal year ended June 30, 2019, the District’s cash contributions were \$3,228 in premium payments made on behalf of retirees, \$25,000 payments to the trust, and implied subsidy payments of \$18,813, resulting in total payments of \$47,041.

**B. OPEB Liability, OPEB Expense, Deferred OPEB Outflows of Resources, and Deferred OPEB Inflows of Resources**

As of June 30, 2019, the District reported net OPEB liability as of June 30, 2019 and 2018 as follows:

	<b>Fiscal Year Ending</b>	
	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Total Net OPEB Liability	\$ 14,776	\$ 36,637

As of June 30, 2019, the changes in the net OPEB liability are as follows:

	<b>Increase (Decrease)</b>		<b>Net OPEB Liability/ (Asset) (c)=(a)-(b)</b>
	<b>Total OPEB Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	
Balance at June 30, 2018 (Measurement Date 6/30/17)	\$ 499,588	\$ 462,951	\$ 36,637
Changes recognized for measurement period:			
Service cost	12,221	-	12,221
Interest	31,865	-	31,865
Differences between actual and expected experience	-	-	-
Contributions - employer	-	29,380	(29,380)
Net investment income	-	36,810	(36,810)
Benefit payments	(18,719)	(18,719)	-
Administrative expense	-	(243)	243
Net changes	25,367	47,228	(21,861)
Balance at June 30, 2019 (Measurement Date 6/30/18)	\$ 524,955	\$ 510,179	\$ 14,776

**OPEB Expense and Recognition of Deferred Outflows and Deferred Inflows of Resources** – Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. For the fiscal year ended June 30, 2019, the District recognized OPEB expense of \$9,549.

At fiscal year end June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(15,432)
District contributions subsequent to the measurement date	47,041	-
Total	<u>\$ 47,041</u>	<u>\$ (15,432)</u>

The \$47,041 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

<b>Fiscal Year Ended June 30:</b>	<b>Deferred Outflows (Inflows) of Resources</b>
2020	\$ (4,696)
2021	(4,696)
2022	(4,696)
2023	(1,344)
Total	<u>\$ (15,432)</u>

**C. Actuarial Assumptions**

Update procedures were used to roll forward the District's net OPEB liability from the valuation date (June 30, 2017) to the measurement date (June 30, 2018) based on the following actuarial methods and assumptions:

Discount rate	6.50%
Inflation	2.75%
Salary Increases	3% per year
Long term rate of return on investments	6.50%
Mortality rate	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous" based on the 1997-2011 experience study
Pre-Retirement turnover and retirement	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous 2.7% at 55" based on the 1997-2011 experience study
Healthcare trend rate	The CalPERS minimum required employer contribution is assumed to increase 4% per year after 2019
Participation	50% of active employees are assumed to elect health care benefits at retirement



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The long-term expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. The asset class percentages are taken from the current composition of the CERBT trust, and the expected yields are taken from a recent CalPERS publication for the Pension Fund:

	% of Fund	Real return, next 10 years
Global equity	57%	5.25%
Fixed income	27%	0.99%
Treasury securities	5%	0.45%
Real estate trusts	8%	4.50%
Commodities	3%	3.90%
	100%	

The estimated yield of 3.9% for commodities was obtained from various sources, and is a rough guess. Using these figures, the weighted-average real rate of return is estimated to be 3.73%. Adding estimated inflation of 2.75%, 6.48% is the expected rate of return, which is rounded to 6.5%.

**Discount rate** – The cash flows of the OPEB plan were projected to future years, assuming that the District will contribute an amount equal to retirees’ benefits for the next 6 years (at which point the Net OPEB Liability is expected to be \$0), and then small amounts for the following twenty years to keep the NOL at \$0. Under that projection, the plan assets are projected to be adequate to pay all benefits to retirees in all future years, so the discount rate has been set equal to the long-term expected rate of return on investments, 6.50%.

***D. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate***

The following presents the District’s net OPEB liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	Discount Rate		
	5.50% (1% Decrease)	6.50% (Current Rate)	7.50% (1% Increase)
Net OPEB Liability (Asset)	\$ 91,572	\$ 14,776	\$ (47,585)

***E. Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates***

The following presents the District’s net OPEB liability if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	Healthcare Cost Trend Rates		
	3.0% (1% Decrease)	4.0% (Current Rate)	5.0% (1% Increase)
Net OPEB Liability (Asset)	\$ (37,928)	\$ 14,776	\$ 80,659

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**F. OPEB Plan Fiduciary Net Position**

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

**NOTE 13 — 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 presented in the Supplementary Information, titled Schedule 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:

	<b>June 30, 2019</b>
<b>Investment in capital assets, net of related debt:</b>	
Capital assets, net of accum. depreciation	\$ 27,797,257
Intangible assets, net of accum. amortization	14,896,389
Less: Current debt payable	(1,343,939)
Non-current debt payable	(25,636,983)
	<b>15,712,724</b>
<b>Legally restricted reserves:</b>	
Water capacity fees	794,332
Wastewater capacity fees	39,774
Debt service reserve	760,000
	<b>1,594,106</b>
<b>Unrestricted net position:</b>	
Board designated reserves:	
Capital improvement reserve	1,800,000
Vehicle replacement	192,693
Emergency equipment replacement	100,000
Office and miscellaneous equipment replacement	284,975
Drought contingency reserve	400,000
	2,777,668
<b>Undesignated net position</b>	6,097,497
	<b>8,875,165</b>
<b>NET POSITION</b>	<b>\$ 26,181,995</b>

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**NOTE 14 — 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.

**NOTE 15 — SIGNIFICANT COMMITMENTS**

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

In August 2013, the District, the City, and SBCWD each approved the Hollister Urban Area Water Supply and Treatment Agreement. The agreement defined the roles and terms of financing for the project which included: the upgrade of Lessalt Water Treatment Plant, and the design and construction of the West Hills Water Treatment Plant including 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 of the project costs. These funds were committed in two tranches. The first tranche of \$13 million was made available on the effective date of the agreement, September 1, 2013. The second tranche of \$17 million was made available at the time of execution of the start of the construction phase for the West Hills Water Treatment Plant, May 1, 2015. The agreement calls for the SBCWD to recover its investment in the capital projects from the District and the City over a 20-30 year period through a capital component, including interest, in the finished water rate. The actual project cost exceeded the \$30 million financing in place by \$11.6 million. The additional funding consisted of \$4.2 million in Prop 84 Grant Funds, \$1.7 million cash input from both the City and the District, and the balance of \$4 million financed as a third tranche loan to SBCWD from a financial institution, to be repaid equally by the City and the District. The third tranche loan of \$4 million was borrowed January 1, 2016 at a rate of 3.45% interest, and is to be repaid quarterly over a 15 year period. For more information on the debt schedules, see Note 9 – Commitments Payable.

Of the project costs, SBCWD is contributing \$10 million in non-reimbursable funds; \$5 million to the District and \$5 million to the City. The District plans to use the \$5 million to stabilize water rates and allow a gradual increase to meet future revenue needs. The water rate stabilization credit reported in the operating expenses for the year ended June 30, 2019 is \$0, since the total credit of \$5 million was received in prior fiscal years.

***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

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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. The District began operating the Lessalt plant in September, 2013 under this agreement. The operation of the West Hills Water Treatment Plant was added to the agreement prior to completion of the plant construction in 2017. The Operation and Maintenance Agreement covering the operation of both the Lessalt and West Hills Water Treatment Plants was extended in May, 2018.

For the year ended June 30, 2019, SBCWD was billed for actual operations and maintenance costs of the Lessalt Water Treatment Plant of \$855,527 and of the West Hills Water Treatment Plant of \$1,251,647, including labor and benefits. One-half of these amounts were charged back to the District for its 50% share of the cost to operate the plants.

***Crosstown Pipeline Construction Project***

The District has entered into various contracts, Memorandums of Understanding, and Reimbursement Agreements with various vendors and agencies for the purchase of material and construction of a pipeline to connect the District to the West Hills Water Treatment Plant, which will enable the District's customers to receive treated surface water from this source. The pipeline begins on Nash Road and continues around the west and south sides of San Benito High School, where it will continue on San Benito Street to the City's Bundeson Well and Sunnyslope's Wells #2 and #11 on Southside Road. The amounts contracted for are based on the various contractor's and agencies estimated cost of construction. At June 30, 2019, the total unpaid amounts on these contracts, net of reimbursement's to be received from other agencies, are approximately \$468,747. The District plans to pay for the crosstown pipeline construction from its existing available funds.

**NOTE 16 — NEW ACCOUNTING PRONOUNCEMENTS**

As part of implementing the requirements of GASB Statement 75 in FY18, the District adjusted its beginning net position as of July 1, 2017 for the portion of other post-employment benefits (OPEB) for health insurance attributable to periods before the year ended June 30, 2017. In fiscal year ended June 30, 2017, the net OPEB asset of \$160,162 recorded under GASB Statement 45 was reversed, a net OPEB liability of \$51,894, and deferred outflows of resources related to OPEB contributions of \$13,803 were recorded as prior year adjustments. This resulted in a net decrease to net position of \$198,253.

The restatement of beginning net position is summarized as follows:

Net position at July 1, 2017, as previously stated	\$ 21,789,179
Implementation of GASB No. 75, net OPEB liability as of measurement date of June 30, 2017	(198,253)
Net position at July 1, 2017, as restated	\$ <u>21,590,926</u>

In accordance with GASB No. 75, the restatement of all deferred outflows and inflows was not practical, and therefore not included in the restatement of the beginning balance.

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 17 — SUBSEQUENT EVENTS**

During the latter part of fiscal year 2018 and early in fiscal year 2019 there were several re-occurring landslides in the same general area on Southside Road, on a parcel of land that is adjacent to our Ridgemark Wastewater Treatment Facility and treatment ponds. The first landslide occurred late-May 2018, with additional slides occurring between June and August, and with a fifth, partial slide occurring on August 17, 2018. The contractor hired to work on the slides and geotechnical consultants hired by San Benito County (County) have been trying to determine a cause, but none has been identified at this date.

The District has received two claims against it regarding the landslides. The first claim was made by the County and was received on November 16, 2018 for \$1.2 million. The County's claim was rejected on November 20, 2018, however, a Tolling Agreement was entered into with the County on April 9, 2019 to allow the District, County, and the District's insurance carrier to try to negotiate a settlement. The second claim was made by the adjacent property owners, Lynn and Susan Hilden (Hilden), and was received on May 13, 2019 for \$202,354. The Hilden's claim was denied on June 6, 2019. The District believes the ultimate outcome is not presently determinable. In the opinion of the District, this matter will not have a material adverse effect on the financial position of the District.

The District evaluated subsequent events for recognition and disclosure through September 24, 2019, the date which these financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since June 30, 2019 that required recognition or disclosure in such financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Sunnyslope County Water District  
Required Supplementary Information**

**Schedule of Changes in the Net OPEB Liability and Related Ratios  
for the Measurement Periods Ended June 30**

<i>Measurement Period</i>	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 12,221	\$ 11,865
Interest on the total OPEB liability	31,865	29,860
Actual and expected experience difference	-	-
Changes in assumptions	-	-
Changes in benefit terms	-	-
Benefit payments	<u>(18,719)</u>	<u>(3,042)</u>
<b>Net change in total OPEB liability</b>	25,367	38,683
<b>Total OPEB Liability - beginning</b>	<u>499,588</u>	<u>460,905</u>
<b>Total OPEB Liability - ending (a)</b>	<u>\$ 524,955</u>	<u>\$ 499,588</u>
<b>Plan Fiduciary Net Position</b>		
Contribution - employer	\$ 29,380	\$ 13,803
Net investment income	36,810	43,390
Benefit payments	(18,719)	(3,042)
Administrative expense	<u>(243)</u>	<u>(211)</u>
<b>Net change in plan fiduciary net position</b>	47,228	53,940
<b>Plan fiduciary net position - beginning</b>	<u>462,951</u>	<u>409,011</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 510,179</u>	<u>\$ 462,951</u>
<b>Net OPEB liability - ending (a)-(b)</b>	<u>\$ 14,776</u>	<u>\$ 36,637</u>
Plan fiduciary net position as a percentage of the total OPEB liability	97.19%	92.67%
Covered-employee payroll	\$ 1,909,079	\$ 1,687,978
Net OPEB liability as a percentage of covered-employee payroll	0.77%	2.17%

**Notes to Schedule:**

Historical information is required only for measurement periods for which GASB No. 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Sunnyslope County Water District  
Required Supplementary Information**

**Schedule of OPEB Contributions**

**Schedule of Contributions:**

This schedule is not required. No actuarially determined contribution (ADC) has been calculated, since the District does not base contributions on the ADC.



**Sunnyslope County Water District  
Required Supplementary Information**

**Schedule of the District's Proportionate Share  
of the Plan's (PERF C) Net Pension Liability**

	<u>Fiscal Year 6/30/19</u>	<u>Fiscal Year 6/30/18</u>	<u>Fiscal Year 6/30/17</u>	<u>Fiscal Year 6/30/16</u>	<u>Fiscal Year 6/30/15</u>
<u>Measurement Date</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
District's proportion of the net pension liability	<b>0.00922%</b>	0.01108%	0.02895%	0.02852%	0.02451%
District's proportionate share of the net pension liability	<b>\$888,029</b>	\$1,099,308	\$2,505,138	\$1,957,613	\$1,524,958
District's covered-employee payroll *	<b>\$1,909,079</b>	\$1,687,978	\$1,488,922	\$1,434,655	\$1,519,954
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	<b>46.52%</b>	65.13%	168.25%	136.45%	100.33%
Plan's fiduciary net position as a percentage of the plan's total pension liability	<b>75.26%</b>	73.31%	74.06%	78.40%	79.82%

\* For the year ending on the measurement date

**Notes to Schedule:**

Historical information is required only for measurement periods for which GASB No. 68 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Sunnyslope County Water District  
Required Supplementary Information**

**Schedule of the District's Pension Plan Contributions**

	<b>Fiscal Year 6/30/19</b>	Fiscal Year 6/30/18	Fiscal Year 6/30/17	Fiscal Year 6/30/16	Fiscal Year 6/30/15
Actuarially determined contribution	<b>\$ 257,869</b>	\$ 209,739	\$ 287,182	\$ 245,300	\$ 233,521
Contributions in relation to the actuarially determined contribution	<b>1,351,009</b>	209,739	1,942,855	245,300	233,521
Contribution deficiency (excess)	<b>\$ (1,093,140)</b>	\$ -	\$ (1,655,673)	\$ -	\$ -
District's covered-employee payroll *	<b>\$ 2,104,470</b>	\$ 1,909,079	\$ 1,687,978	\$ 1,488,922	\$ 1,434,655
Contributions as a percentage of covered-employee payroll	<b>64.20%</b>	10.99%	115.10%	16.48%	16.28%

\* For the fiscal year ending on the date shown

**Notes to Schedule:**

Historical information is required only for measurement periods for which GASB No. 68 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Actuarial Methods and Assumptions**

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015/16 rates, CalPERS employed an amortization and smoothing policy that pays for all gains and losses over a fixed 30-year period with the increases or decreases in rate spread directly over a 5-year period. The new amortization and smoothing policy is used in this valuation.

A change in the calculation of termination with vested benefits liability was made this year to better reflect the retirement experience. After termination with vested benefits, a miscellaneous member is assumed to retire at age 59 and a safety member at age 54 rather than at earliest retirement age. The higher benefit factors at these ages results in a higher liability and an increase in normal cost.

## **SUPPLEMENTARY INFORMATION**

### **Note 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  
Year Ended June 30, 2019**

	<b>2019</b>	<b>2019</b>	<b>Variance</b>
	<b>Actual</b>	<b>Original and Final Budget</b>	<b>Fav(Unfav)</b>
<b>OPERATING REVENUES</b>			
Water and wastewater sales	\$ 8,315,276	\$ 8,400,000	\$ (84,724)
Late fees	69,241	70,000	(759)
Customer fees	135,360	274,600	(139,240)
Other	141,202	400	140,802
<b>Total operating revenues</b>	<b>8,661,079</b>	<b>8,745,000</b>	<b>(83,921)</b>
<b>OPERATING EXPENSES</b>			
<i>SALARIES AND BENEFITS</i>			
Salaries	2,516,119	2,485,813	(30,306)
Employee benefits	314,816	274,455	(40,361)
CalPERS pension	311,868	338,700	26,832
OPEB expense	9,549	-	(9,549)
Directors fees	13,700	13,200	(500)
Payroll taxes	36,363	37,025	662
Labor billed to others	(74,103)	(19,000)	55,103
<b>Total salaries and benefits</b>	<b>3,128,312</b>	<b>3,130,193</b>	<b>1,881</b>
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>			
Electrical services	212,567	278,000	65,433
Phone services	11,982	10,300	(1,682)
Professional services	66,847	69,900	3,053
Postage	30,721	31,900	1,179
Contract services	44,624	42,600	(2,024)
Office supplies	29,340	34,200	4,860
Legal advertising	2,338	2,000	(338)
Repair and maintenance	90,691	150,000	59,309
Diesel	2,559	1,300	(1,259)
Vehicle operating expenses	73,017	52,500	(20,517)
Professional development	7,385	7,000	(385)
Supplies	33,241	60,000	26,759
Meeting expense	316	100	(216)
Insurance	64,429	63,000	(1,429)
Research and monitoring	86,307	100,000	13,693
Depreciation	1,069,195	1,037,500	(31,695)
Pumping fees	22,562	24,000	1,438
Lessalt water treatment	1,254,955	1,378,700	123,745
West Hills water treatment	2,034,047	2,130,600	96,553
Water conservation	120,302	93,000	(27,302)
Bad debts	194	2,300	2,106
Taxes, fees, permits	96,974	116,500	19,526
<b>Total operations and maint. exp.</b>	<b>5,354,593</b>	<b>5,685,400</b>	<b>330,807</b>
<b>Total operating expenses</b>	<b>8,482,905</b>	<b>8,815,593</b>	<b>332,688</b>
<b>INCOME FROM OPERATIONS</b>	<b>178,174</b>	<b>(70,593)</b>	<b>248,767</b>
<b>OTHER NON-OPERATING REVENUES</b>			
<b>(EXPENSE), NET</b>	<b>1,428,529</b>	<b>(351,200)</b>	<b>1,779,729</b>
<b>INCOME BEFORE CAPITAL CONTRIBUTION</b>	<b>1,606,703</b>	<b>(421,793)</b>	<b>2,028,496</b>
<b>CAPITAL CONTRIBUTION</b>	<b>166,155</b>	<b>-</b>	<b>166,155</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 1,772,858</b>	<b>\$ (421,793)</b>	<b>\$ 2,194,651</b>

See note to supplementary information.

**Sunnyslope County Water District**  
**Schedule of Net Position - By Fund**  
**June 30, 2019**

	<b>2019</b>	<b>Water Fund</b>	<b>Wastewater Fund</b>
<b><u>ASSETS</u></b>			
<i>CURRENT ASSETS</i>			
Cash	\$ 4,829,179	\$ 2,697,942	\$ 2,131,237
Invested funds	5,235,268	3,787,261	1,448,007
Other current assets	2,636,062	2,419,654	216,408
Total Current Assets	12,700,509	8,904,857	3,795,652
<i>CAPITAL ASSETS</i>			
Land and land improvements	871,948	717,282	154,666
Utility plant	32,948,369	17,465,192	15,483,177
Equipment and furniture	2,231,073	1,564,350	666,723
Office building	2,737,613	2,190,090	547,523
Work-in-process	4,615,022	4,555,709	59,313
	43,404,025	26,492,623	16,911,402
Less accumulated depreciation	(15,606,768)	(11,459,298)	(4,147,470)
Total Capital Assets	27,797,257	15,033,325	12,763,932
<i>INTANGIBLE ASSETS, NET</i>	14,896,389	14,896,389	-
<i>OTHER NON-CURRENT ASSETS</i>	580,381	580,381	-
<i>DEFERRED OUTFLOWS OF RESOURCES</i>	2,565,181	2,052,145	513,036
<b>TOTAL ASSETS</b>	<b>\$ 58,539,717</b>	<b>\$ 41,467,097</b>	<b>\$ 17,072,620</b>
<b><u>LIABILITIES AND NET POSITION</u></b>			
<i>CURRENT LIABILITIES</i>	\$ 4,215,320	\$ 3,039,333	\$ 1,175,987
<i>LONG-TERM LIABILITIES</i>	26,273,339	17,215,000	9,058,339
<i>NET PENSION LIABILITY</i>	888,029	710,423	177,606
<i>NET OPEB LIABILITY</i>	14,776	11,821	2,955
<i>DEFERRED INFLOWS OF RESOURCES</i>	966,258	773,006	193,252
Total Liabilities	32,357,722	21,749,583	10,608,139
<i>NET POSITION</i>			
Balance July 1, 2018	24,409,137	16,444,933	7,964,204
Change in net position	1,772,858	3,272,580	(1,499,722)
Total Net Position	26,181,995	19,717,513	6,464,482
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 58,539,717</b>	<b>\$ 41,467,096</b>	<b>\$ 17,072,621</b>

See note to supplementary information.

**Sunnyslope County Water District**  
**Schedule of Revenue, Expenses, and Changes in Net Position**  
**Year Ended June 30, 2019 (with comparative total for 2018)**

	<u>2019</u>			<u>2018</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATING REVENUES</i>				
Water sales	\$ 6,388,181	\$ -	\$ 6,388,181	\$ 5,792,363
Wastewater service	-	1,927,095	1,927,095	1,899,620
Late fees	55,393	13,848	69,241	66,798
Customer fees	119,940	15,420	135,360	171,845
Other	113,300	27,902	141,202	135,082
Total operating revenues	<u>6,676,814</u>	<u>1,984,265</u>	<u>8,661,079</u>	<u>8,065,708</u>
<i>OPERATING EXPENSES</i>				
Salaries and benefits	2,590,381	537,931	3,128,312	3,097,578
Operations and maintenance	4,666,401	688,192	5,354,593	5,010,983
Water rate stabilization credit	-	-	-	(416,667)
Total operating expenses	<u>7,256,782</u>	<u>1,226,123</u>	<u>8,482,905</u>	<u>7,691,894</u>
<i>INCOME FROM OPERATIONS</i>	<u>(579,968)</u>	<u>758,142</u>	<u>178,174</u>	<u>373,814</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>				
Water connections	1,516,825	-	1,516,825	2,484,800
Wastewater connections	-	59,475	59,475	57,450
Interest	149,668	31,003	180,671	94,493
Unrealized gain (loss) on investments	19,298	4,824	24,122	(11,959)
Interest expense	(97,012)	(254,140)	(351,152)	(371,889)
Gain (loss) on disposal of assets	(1,601)	189	(1,412)	-
Total non-operating revenues (expenses), net	<u>1,587,178</u>	<u>(158,649)</u>	<u>1,428,529</u>	<u>2,252,895</u>
<i>INCOME BEFORE CAPITAL CONTRIBUTION</i>	1,007,210	599,493	1,606,703	2,626,709
<i>CAPITAL CONTRIBUTION</i>				
Donated assets	166,155	-	166,155	191,502
<i>CHANGES IN NET POSITION</i>	<u>\$ 1,173,365</u>	<u>\$ 599,493</u>	1,772,858	2,818,211
<i>NET POSITION - BEGINNING OF YEAR</i>			24,409,137	21,789,179
<i>NEW ACCOUNTING PRONOUNCEMENTS - NOTE 18</i>			-	(198,253)
<i>NET POSITION - END OF YEAR</i>			<u>\$ 26,181,995</u>	<u>\$ 24,409,137</u>

See note to supplementary information.

**Sunnyslope County Water District**  
**Schedule of Salaries and Benefits**  
**Year Ended June 30, 2019 (with comparative total for 2018)**

	<u>2019</u>					<u>2018</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>CUSTOMER SERVICE</u>	<u>GENERAL &amp; ADMIN</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>SALARIES AND BENEFITS</i>						
Salaries	\$ 1,613,828	\$ 281,375	\$ 390,665	\$ 230,251	\$ 2,516,119	\$ 2,269,532
Employee benefits	190,846	40,729	45,010	38,231	314,816	302,585
CalPERS pension	178,420	47,335	51,234	34,879	311,868	489,463
OPEB expense	5,420	1,145	1,620	1,364	9,549	11,682
Directors fees	-	-	-	13,700	13,700	10,100
Payroll taxes	22,378	3,949	5,641	4,395	36,363	33,051
Allocation (from) to:						
Customer service	395,336	98,834	(494,170)	-	-	-
Gen. and admin.	258,256	64,564	-	(322,820)	-	-
Subtotal	2,664,484	537,931	-	-	3,202,415	3,116,413
Labor billed to others	(74,103)	-	-	-	(74,103)	(18,835)
Total salaries and benefits	\$ <u>2,590,381</u>	\$ <u>537,931</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,128,312</u>	\$ <u>3,097,578</u>

See note to supplementary information.

**Sunnyslope County Water District**  
**Schedule of Operations and Maintenance Expenses**  
**Year Ended June 30, 2019 (with comparative total for 2018)**

	<b>2019</b>				<b>2018</b>	
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>CUSTOMER SERVICE</u>	<u>GENERAL &amp; ADMIN</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>						
Electrical services	\$ 133,129	\$ 64,143	\$ -	\$ 15,295	\$ 212,567	\$ 255,767
Phone services	873	4,242	5,535	1,332	11,982	9,751
Professional services	2,500	1,085	1,318	61,944	66,847	52,676
Postage	1,340	-	28,349	1,032	30,721	29,638
Contract services	7,237	1,749	13,757	21,881	44,624	45,303
Office supplies	241	15	12,942	16,142	29,340	27,200
Legal advertising	-	-	-	2,338	2,338	420
Repair and maintenance	51,379	37,003	96	2,213	90,691	94,512
Diesel	2,039	520	-	-	2,559	641
Vehicle operating expense	55,853	13,972	-	3,192	73,017	46,538
Professional development	1,493	655	-	5,237	7,385	8,506
Supplies	14,574	18,667	-	-	33,241	39,406
Meeting expense	-	-	-	316	316	169
Insurance	-	-	-	64,429	64,429	59,618
Research and monitoring	46,612	39,695	-	-	86,307	99,038
Depreciation	526,473	407,022	4,189	131,511	1,069,195	1,069,300
Pumping fees	22,562	-	-	-	22,562	32,879
Less salt water treat. plant	1,254,955	-	-	-	1,254,955	1,234,075
West Hills water treat. plant	2,034,047	-	-	-	2,034,047	1,684,838
Water conservation	120,302	-	-	-	120,302	119,739
Bad debts	(59)	49	155	49	194	6,672
Taxes, fees, permits, dues, and subscriptions	49,080	13,933	25,681	8,280	96,974	94,297
Allocated from (to):						
General and admin.	268,153	67,038	-	(335,191)	-	-
Customer service	73,618	18,404	(92,022)	-	-	-
 Total operations and maint. exps.	 <u>\$ 4,666,401</u>	 <u>\$ 688,192</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 5,354,593</u>	 <u>\$ 5,010,983</u>

See note to supplementary information.