

*Sunnyslope County Water District*



*Financial Statements*



*June 30, 2017*

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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, 2017, 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, 2017, 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 2016 financial statements, and our report dated November 2, 2016, 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, 2016, 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, the schedule of funding progress for post-employment health insurance benefits, the schedule of proportionate share of the net pension liability, and the schedule of pension plan contributions, 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 supplementary information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



McGilloway, Ray, Brown & Kaufman  
Salinas, California  
October 6, 2017

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

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, 2017 (with 2016 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 5,770 water accounts, of which 99.9% are residential customers, and approximately 1,228 sewer accounts, of which 99.3% are residential customers.

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

### *The Basic Financial Statements*

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

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

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

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

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

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 6 and 7.

The **Notes to the Financial Statements** provide the reader additional information that is necessary to understand all of the data provided in the basic financial statements. The notes to the financial statements are included immediately following the financial statements and can be found on pages 8 to 35.

### *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, 2017	June 30, 2016	Dollar Change	Percent Change
<b>Assets</b>				
Capital assets, net	\$ 24,435,735	\$ 24,955,997	\$ (520,262)	-2.1%
Other assets	29,248,786	29,011,257	237,529	0.8%
Deferred outflows of resources	2,563,224	2,195,430	367,794	16.8%
	<b>56,247,745</b>	<b>56,162,684</b>	<b>85,061</b>	<b>0.2%</b>
<b>Less: Liabilities</b>				
Long-term liabilities	31,186,803	31,953,515	(766,712)	-2.4%
Other liabilities	3,133,544	4,254,534	(1,120,990)	-26.3%
Deferred inflows of resources	138,219	253,594	(115,375)	-45.5%
	<b>34,458,566</b>	<b>36,461,643</b>	<b>(2,003,077)</b>	<b>-5.5%</b>
	<b>\$ 21,789,179</b>	<b>\$ 19,701,041</b>	<b>\$ 2,088,138</b>	<b>10.6%</b>
<b>Net Position</b>				
Net investment in capital assets	\$ 11,570,668	\$ 10,025,270	\$ 1,545,398	15.4%
Restricted for debt service and capacity fees	2,061,103	1,779,961	281,142	15.8%
Unrestricted	8,157,408	7,895,810	261,598	3.3%
	<b>\$ 21,789,179</b>	<b>\$ 19,701,041</b>	<b>\$ 2,088,138</b>	<b>10.6%</b>

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. Sunnyslope County Water District's assets exceeded liabilities by \$21,789,179 at June 30, 2017, which is the District's net position. The largest portion of the District's net position (53.1%) reflects its investment in capital assets of \$11,570,668 (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.

### Statement of Net Position

June 30, 2017



After restricting net position for capacity fees and debt service of \$2,061,103 (9.5%), the remaining net position of \$8,157,408 (37.4%) is unrestricted and may be used at the Board's discretion to continue meeting the needs of the District. See the Notes to the Financial Statements, Note 14 – Net Position, for more details on the District's net position.

The District's net position increased \$2,088,138 from the prior fiscal year. The increase is primarily a result of the income from operations plus 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 (68.2% of operating revenue) and wastewater sales (27.1% of operating revenue), which together constitutes 95.3% 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 42.4% and the Lessalt WTP providing approximately 57.6% of the water sold to customers. The Board approved water rate increases by Ordinance No. 73 in August, 2013, which phases 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



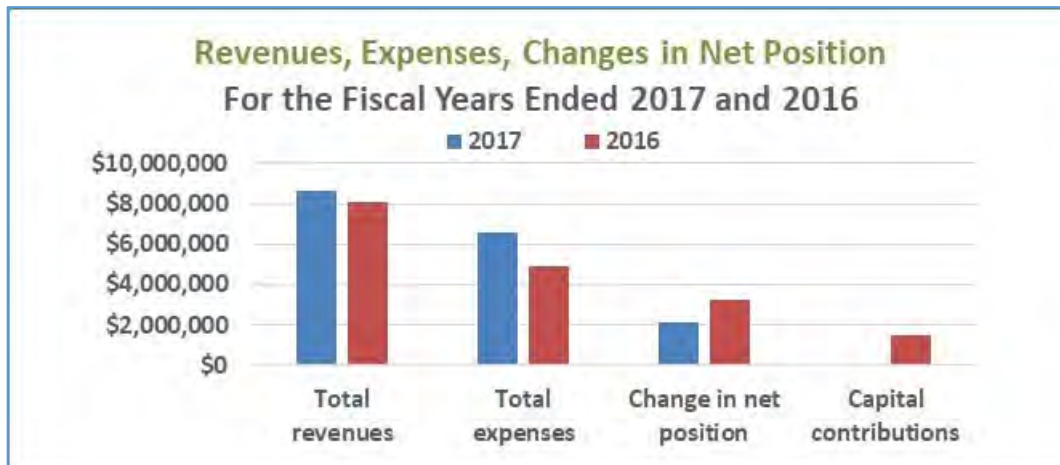
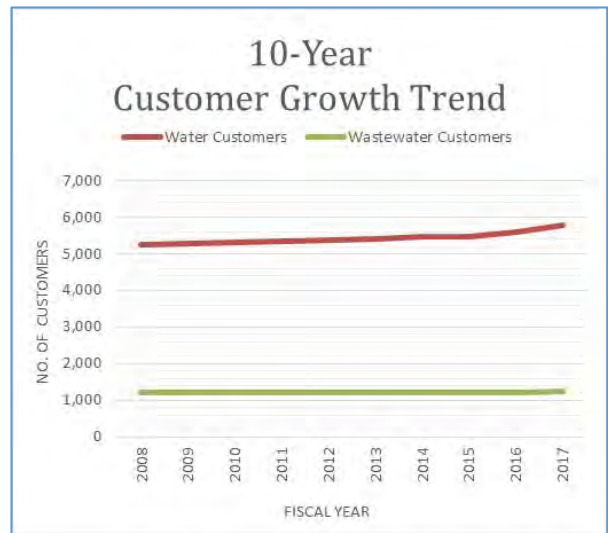
# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

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, or are under construction, 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 has been fairly flat for the past few years, even though we have implemented four years of rate increases of approximately 11.5% each year, primarily due to slow customer growth and customer water conservation during the California drought. We expect to see water use vary with the seasons and the amount of rainfall, and water use increase over time as the customer base grows with new housing growth. We believe the increase in water sales revenue this fiscal year was primarily attributable to relaxing conservation measures in April, 2017, and impacted slightly by the increase of 130 water customers last fiscal year and 163 water customers this fiscal year. A small component of the sewer rate is variable, based on water consumption, which is adjusted each April, causing the slight drop in wastewater sales revenue this fiscal year.





# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

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

	June 30, 2017	June 30, 2016	Dollar Change	Percent Change
Operating revenues	\$ 7,000,290	\$ 6,268,013	\$ 732,277	11.7%
Non-operating revenues	1,683,276	1,848,957	(165,681)	-9.0%
<b>Total revenues</b>	<b>8,683,566</b>	<b>8,116,970</b>	<b>566,596</b>	<b>7.0%</b>
Operating expenses	6,202,357	4,458,741	1,743,616	39.1%
Non-operating expenses	393,071	424,237	(31,166)	-7.3%
<b>Total expenses</b>	<b>6,595,428</b>	<b>4,882,978</b>	<b>1,712,450</b>	<b>35.1%</b>
<b>Income before capital contrib.</b>	<b>2,088,138</b>	<b>3,233,992</b>	<b>(1,145,854)</b>	<b>-35.4%</b>
Contributed capital	-	1,483,650	(1,483,650)	-100.0%
<b>Change in net position</b>	<b>2,088,138</b>	<b>4,717,642</b>	<b>(2,629,504)</b>	<b>-55.7%</b>
<b>Net position - beginning</b>	<b>19,701,041</b>	<b>14,983,399</b>	<b>4,717,642</b>	<b>31.5%</b>
<b>Net position - ending</b>	<b>\$ 21,789,179</b>	<b>\$ 19,701,041</b>	<b>\$ 2,088,138</b>	<b>10.6%</b>

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 second year of strong capacity fee numbers. We received 152 water capacity fees this fiscal year, compared to 159 last year, and we received 2 wastewater capacity fees this fiscal year, compared to 10 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 22 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. Most operating expense line items are comparable to 2016, but are up 10.3% overall. Repair and maintenance costs are up primarily due to lift station pump repairs and maintenance of the old sewer ponds.

Non-operating expenses include interest expense on our debt, and the unrealized loss on investments. 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. This fiscal year we did not receive any completed subdivisions to add to our system.

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

### *Capital Assets and Debt Administration*

#### **Capital Assets**

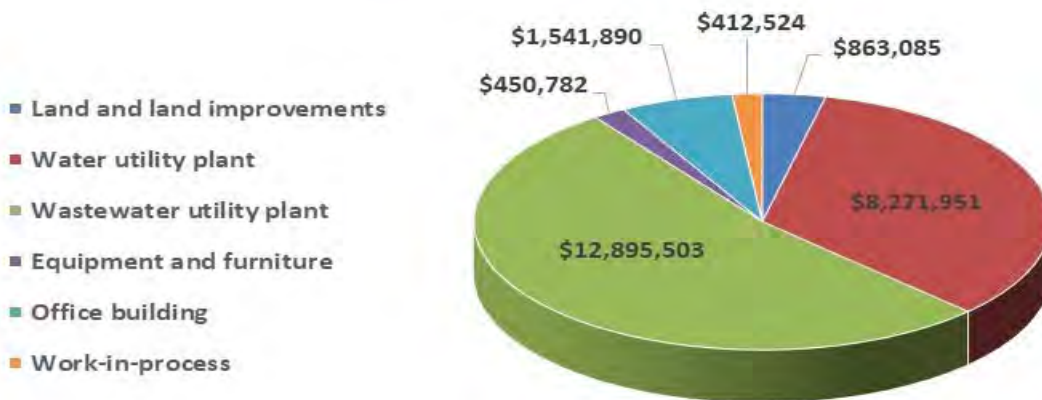
Capital assets include the District's water infrastructure, wastewater infrastructure, land, buildings, equipment, furniture, and work-in-process projects.

Sunnyslope County Water District's investment in capital assets as of June 30, 2017 was \$24,435,735, net of accumulated depreciation. The \$574,000 in major capital asset additions for the current year primarily included 481 new and replacement water meters installed, an update to the Hollister Urban Area Water/Wastewater Master Plan, a used Kubota tractor and loader, two new maintenance trucks, a new auto, and a new section of 16" pipeline in work-in-process for the Santana Ranch development. The capital additions were offset primarily by depreciation expense of \$1,089,761.

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

	June 30, 2017	June 30, 2016	Dollar Change	Percent Change
Land and land improvements	\$ 863,085	\$ 863,551	\$ (466)	-0.1%
Water utility plant	8,271,951	8,544,313	(272,362)	-3.2%
Wastewater utility plant	12,895,503	13,271,882	(376,379)	-2.8%
Equipment and furniture	450,782	413,671	37,111	9.0%
Office building	1,541,890	1,633,150	(91,260)	-5.6%
Work-in-process	412,524	229,430	183,094	79.8%
<b>Capital assets, net</b>	<b>\$ 24,435,735</b>	<b>\$ 24,955,997</b>	<b>\$ (520,262)</b>	<b>-2.1%</b>

**Capital Assets, net**  
June 30, 2017



# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

### **Long-Term Debt**

At June 30, 2017, the District had long-term debt and long-term liabilities, totaling \$31,186,803.

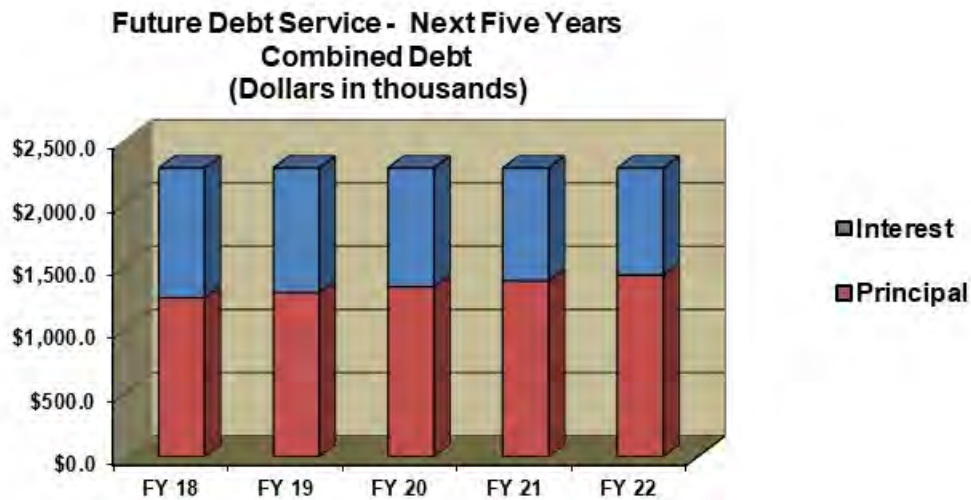
The decrease in loans and commitments payable is due to principal payments on the outstanding debt. The decrease in deposits from customers is primarily due to refunding the deposits on the two subdivisions completed last fiscal year. The increase in net pension liability is primarily due to the net difference between the projected and actual return on investments 2014 to 2016 in the miscellaneous risk pool. More information on the District's pension plan can be found in Note 11 – Pension Plan of the financial statements.

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

	June 30, 2017	June 30, 2016	Dollar Change	Percent Change
Loans payable	\$ 13,037,478	\$ 13,752,210	\$ (714,732)	-5.2%
Commitments payable	15,243,323	15,785,912	(542,589)	-3.4%
Deposits from customers	400,864	457,780	(56,916)	-12.4%
Net pension liability	2,505,138	1,957,613	547,525	28.0%
<b>Debt &amp; long-term liabilities</b>	<b>\$ 31,186,803</b>	<b>\$ 31,953,515</b>	<b>\$ (766,712)</b>	<b>-2.4%</b>

### **Future Debt Service**

The District's debt service requirements for the next five years, through June 30, 2022, are shown on the following table, averaging \$2,282.4 thousand annually.



# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

### *Other Future Economic Factors*

From the years 2002 to 2015, the District experienced low to no housing growth, however, in fiscal years 2016 and 2017, new housing starts within the District service boundary have generated 159 and 152 new water connections, and 10 and 2 wastewater connections, respectively. The most prevalent issues affecting growth in the District have been: a housing moratorium imposed by the City of Hollister due to its limited wastewater treatment and disposal capabilities, the imposition of a 1% housing growth cap by the County of San Benito, and limited wastewater treatment and disposal capacity at our Ridgemark Estates Wastewater Treatment Facilities. The City lifted the housing moratorium in late 2008 upon completion of their upgraded wastewater facility. The District completed the upgrades to its Ridgemark Wastewater Treatment Plant in 2013, which 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 of Hollister. New water rates were passed after a public hearing was held in August, 2013. The new water rates returned the District to a three tier rate structure. The first approved increase took effect on December 21, 2013, and 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 is just coming off a period of severe drought. 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 \$10,600, effective July 1, 2017, was \$10,550, effective July 1, 2016, and is adjusted annually. The new wastewater capacity fee for a single family residential dwelling is \$19,150 per dwelling unit, effective July 1, 2017, was \$19,050 per dwelling unit, effective July 1, 2016, 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.

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

### 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 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 is near completion for a new West Hills surface water treatment plant that will increase the delivery of high quality water to District and City of Hollister customers, 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 of Hollister (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.

### Water Supply and Treatment Agreement

The District, City, and SBCWD entered into a Water Supply and Treatment Agreement in June, 2013, which defines how the three agencies will construct and operate a new surface water treatment plant named the West Hills Water Treatment Plant, upgrade the existing Lessalt Water Treatment Plant, and construct various pipelines and pump stations connecting the two water treatment plants to the District and City infrastructures. These projects are referred to as the Hollister Urban Area Water Project (HUAWP). The SBCWD will finance, build, own, and operate the upgraded Lessalt Water Treatment Plant and the new West Hills Water Treatment Plant.

The agreement commits SBCWD to finance the HUAWP facilities up to \$30 million, and commits the City and the District to reimburse SBCWD for the capital costs, for operation of the facilities, and for the costs of raw water delivered to the treatment plants. The actual project cost projection is now \$41.6 million. The excess cost of \$11.6 million will be 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 will be financed with a loan procured by SBCWD borrowing from a financial institution. The City and District will share equally in the repayment of the \$4 million loan.

The agreement also commits SBCWD to provide \$10 million (\$5 million each to the City and the District) to allow for gradual and stable water rate increases to fund the HUAWP. SBCWD has or will contribute \$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.

# Sunnyslope County Water District

## *Management's Discussion and Analysis*

For the Year Ended June 30, 2017

The remainder of the capital costs for the HUAWP will be split equally between the City and the District. The Water Supply and Treatment Agreement is for a term of 30 years, with subsequent 10-year renewal options, and required the execution of an Operations and Maintenance Agreement with the District for operating the two surface water treatment plants. The Operations and Maintenance Agreement between the District and SBCWD was executed in August, 2013.

### *Contacting the District Financial Management*

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

## **BASIC FINANCIAL STATEMENTS**



**Sunnyslope County Water District**  
**Statement of Net Position**  
**June 30, 2017**  
(with prior year data for comparative purposes only)

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u>
<i>CURRENT ASSETS</i>		
Cash	\$ 4,374,123	\$ 3,608,133
Time certificates	2,525,243	2,513,054
Invested funds, at fair value	3,033,054	4,964,504
Accounts receivable from customers, less allowance for uncollectible accounts of \$17,726 and \$15,178	1,554,438	1,063,143
Interest receivable	8,001	7,112
Inventory supplies	314,759	254,214
Prepaid expenses	25,569	36,970
Total Current Assets	11,835,187	12,447,130
<i>CAPITAL ASSETS</i>		
Land and land improvements	871,948	871,948
Water utility plant	16,284,420	16,094,089
Wastewater utility plant	15,483,177	15,476,914
Equipment and furniture	2,151,273	2,034,450
Office building	2,737,613	2,737,613
Work-in-process	412,524	229,430
	37,940,955	37,444,444
Less accumulated depreciation	(13,505,220)	(12,488,447)
Total Capital Assets	24,435,735	24,955,997
<i>INTANGIBLE ASSETS</i>		
Water rights for Lessalt Water Treatment Plant, net of amortization of \$830,556 and \$613,889	5,669,444	5,886,111
Water rights for West Hills Water Treatment Plant amortization of \$1,196,388 and \$562,500	11,003,612	9,937,500
Total Intangible Asset, net	16,673,056	15,823,611
<i>OTHER NON-CURRENT ASSETS</i>		
Prepaid post-employment health benefits (OPEB)	160,162	160,135
Idle assets, net of accumulated depreciation of \$30,634 and \$30,634	580,381	580,381
Total Other Non-Current Assets	740,543	740,516
<i>DEFERRED OUTFLOWS OF RESOURCES</i>		
Deferred pension outflows	2,563,224	2,195,430
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 56,247,745</b>	<b>\$ 56,162,684</b>

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Net Position**  
**June 30, 2017**  
(with prior year data for comparative purposes only)

**LIABILITIES AND NET POSITION**

	<u>2017</u>	<u>2016</u>
<i>CURRENT LIABILITIES</i>		
Accounts payable	\$ 1,516,025	\$ 2,680,633
Current portion of long-term debt	1,257,322	1,216,216
Accrued expenses	360,197	357,685
Total Current Liabilities	<u>3,133,544</u>	<u>4,254,534</u>
<i>LONG-TERM LIABILITIES</i>		
Bank loan payable	3,192,782	3,416,274
State Revolving Fund loan payable	9,844,696	10,335,936
Commitment payable for water rights	15,243,323	15,785,912
Deposits received	400,864	457,780
Net pension liability	2,505,138	1,957,613
Total Non-Current Liabilities	<u>31,186,803</u>	<u>31,953,515</u>
<i>DEFERRED INFLOWS OF RESOURCES</i>		
Deferred pension inflows	138,219	253,594
Total Liabilities and Deferred Inflows	<u>34,458,566</u>	<u>36,461,643</u>
<i>NET POSITION</i>		
Net investment in capital assets	11,570,668	10,025,270
Restricted for connection fees	1,301,103	1,019,961
Restricted for debt service	760,000	760,000
Unrestricted	8,157,408	7,895,810
Total Net Position	<u>21,789,179</u>	<u>19,701,041</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 56,247,745</u></b>	<b><u>\$ 56,162,684</u></b>

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**June 30, 2017**

(with prior year data for comparative purposes only)

	<b>2017</b>	<b>2016</b>
<i>OPERATING REVENUES</i>		
Water sales	\$ 4,772,902	\$ 3,906,473
Wastewater service	1,896,654	2,022,469
Late fees	64,488	66,231
Customer fees	139,182	145,977
Other	127,064	126,863
Total Operating Revenues	7,000,290	6,268,013
<i>OPERATING EXPENSES</i>		
Salaries and benefits	2,632,743	2,275,660
Operations and maintenance	4,663,390	4,229,637
Water rate stabilization credit	(1,093,776)	(2,046,556)
Total Operating Expenses	6,202,357	4,458,741
<i>INCOME FROM OPERATIONS</i>	797,933	1,809,272
<i>NON-OPERATING REVENUES (EXPENSES)</i>		
Water connections	1,604,200	1,614,155
Wastewater connections	38,100	184,000
Interest income	37,926	27,101
Unrealized gain (loss) on investments	(6,299)	3,082
Other income	-	20,619
Gain (loss) on disposal of assets	3,050	(12,691)
Interest expense	(386,772)	(411,546)
Total Non-operating Revenues (Expenses), net	1,290,205	1,424,720
<i>INCOME BEFORE CAPITAL CONTRIBUTION</i>	2,088,138	3,233,992
<i>CAPITAL CONTRIBUTION</i>		
Donated assets	-	1,483,650
<i>CHANGE IN NET POSITION</i>	2,088,138	4,717,642
<i>NET POSITION - BEGINNING OF YEAR</i>	19,701,041	14,983,399
<i>NET POSITION - END OF YEAR</i>	\$ 21,789,179	\$ 19,701,041

See accompanying notes to basic financial statements

**Sunnyslope County Water District**

**Statement of Cash Flows**

**June 30, 2017**

(with prior year data for comparative purposes only)

	<u>2017</u>	<u>2016</u>
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash received from customers	\$ 6,508,995	\$ 6,095,600
Cash paid to suppliers and employees	<u>(5,449,779)</u>	<u>(2,871,495)</u>
Net Cash Provided by Operating Activities	<u>1,059,216</u>	<u>3,224,105</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i>		
Water and wastewater connection fees received	1,642,300	1,798,155
Other income for capital asset	-	20,619
Proceeds from sale of capital assets	3,050	-
Acquisition and construction of capital assets	(569,499)	(1,262,487)
Acquisition of intangible assets	(1,700,000)	-
Loan and commitment payments	(1,216,215)	(1,125,985)
Interest paid	<u>(402,861)</u>	<u>(422,179)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,243,225)</u>	<u>(991,877)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Purchase of time certificates of deposit	(12,189)	(10,059)
Sale (purchase) of LAIF funds	1,925,151	(963,614)
Interest received	<u>37,037</u>	<u>23,673</u>
Net Cash Used by Investing Activities	<u>1,949,999</u>	<u>(950,000)</u>
<i>NET INCREASE IN CASH</i>	765,990	1,282,228
<i>CASH AT BEGINNING OF YEAR</i>	<u>3,608,133</u>	<u>2,325,905</u>
<i>CASH AT END OF YEAR</i>	<u>\$ 4,374,123</u>	<u>\$ 3,608,133</u>

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Cash Flows**  
**June 30, 2017**  
(with prior year data for comparative purposes only)

	<b>2017</b>	<b>2016</b>
<i>Reconciliation of income from operations to net cash provided by operating activities:</i>		
Income from operations	\$ 797,933	\$ 1,809,272
Adjustments to reconcile income from operations to cash provided by operating activities:		
Depreciation and amortization	1,940,316	1,796,218
Bad debt provision	2,548	(1,036)
(Increase) decrease in:		
Accounts receivable	(493,843)	(171,377)
Inventory supplies	(60,545)	28,048
Prepaid expenses	11,401	47,979
Prepaid post-employment health benefits	(27)	(138,275)
Deferred pension outflows	(367,794)	(1,870,135)
Increase (decrease) in:		
Accounts payable	(1,164,608)	1,483,030
Accrued expenses	18,601	(7,505)
Deposits from customers	(56,916)	111,834
Net pension payable	547,525	432,655
Deferred pension inflows	(115,375)	(296,603)
Net Cash Provided by Operating Activities	\$ 1,059,216	\$ 3,224,105
 <i>SUPPLEMENTAL DISCLOSURES OF NON-CASH AND RELATED FINANCING AND INVESTING ACTIVITIES:</i>		
Contributed Assets	\$ -	\$ 1,483,650

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2017**

**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 2017, water sales constitute approximately 68.2% of operating revenues and wastewater sales are approximately 27.1% of operating revenues.

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

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

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

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

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

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2017**

**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 2017 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 of collection.

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

**F. Inventories and Prepaid Items**

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

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



**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2017**

**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**

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.

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2017**

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 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 of Hollister 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 (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 14 – 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 connection fees. The resolution establishing the authority for water and wastewater connection fees restricts the use of these fees to the construction, acquisition, or financing of capital assets. The water and wastewater connection fees are exchange transactions (non-operating revenues). The connecting party receives a benefit (connection to the system) approximately equal in value to the amount paid.

Generally, restricted resources are not commingled with unrestricted resources in financing projects and activities. The funding source for each project and activity is determined by board

**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2017**

action depending upon the type of project or activity. Restricted resources are used for specific types of projects for which such funding is designated.

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

**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 11 – Pension Plan.

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 11 – Pension Plan.

**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 11 – 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, 2016 Measurement Date:

<https://www.calpers.ca.gov/docs/forms-publications/gasb-68-accounting-valuation-miscellaneous-risk-pool-2016.pdf>

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

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

The following District rate plans are included in this report:

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

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2017**

**N. Revenue Recognition**

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

**O. Compensated Absences**

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

**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.

**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.

**P. Use of Estimates**

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

**Q. New Accounting Pronouncements**

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

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2017**

***Effective for Fiscal Year Ended June 30, 2017***

***GASB Statement No. 74*** – In June, 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement is effective for periods beginning after June 15, 2016. The District has implemented this statement effective July 1, 2016.

***GASB Statement No. 77*** – In August, 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement establishes guidance requiring state and local governments to disclose key information about tax abatement agreements. The new guidance is intended to make the financial impact of these transactions readily transparent. This statement is effective for fiscal years beginning after December 15, 2015. This statement has no financial effect on these financial statements.

***GASB Statement No. 78*** – In December, 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions* to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that have certain characteristics. This statement is effective for reporting periods beginning after December 15, 2015. This statement has no financial effect on these financial statements.

***GASB Statement No. 80*** – In January, 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This statement is effective for reporting periods beginning after June 15, 2016. This statement has no financial effect on these financial statements.

**R. Prior Year Data**

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.

**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2017**

**NOTE 2 — CASH AND INVESTMENTS**

***Cash and Investments***

At June 30, 2017, the District maintained cash at MUFG Union Bank, N.A., a commercial bank with branch offices located in Hollister, California, of \$4,370,488 and maintained cash investments in both Heritage Bank of Commerce, a commercial bank with branch office located in Hollister, California, of \$2,525,243 and in the State of California’s Local Agency Investment Funds (LAIF), which administers a pool of local government funds of \$3,033,054.

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

Current Assets (partial listing):

		<b><u>2017</u></b>
Cash	\$	4,374,123
Less: Cash and postage stamps on hand		<u>(3,635)</u>
Cash funds – at MUFG Union Bank		4,370,488
Invested funds – at Heritage Bank of Commerce	\$	2,525,243
– at LAIF (at fair value)		<u>3,033,054</u>
Cash and postage stamps on hand		<u>3,635</u>
Total cash and investments	\$	<u><u>9,932,420</u></u>

***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.

**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2017**

As of June 30, 2017, the District had the following cash and investment maturities:

	<u>Fair Value</u>	<u>Cost</u>	<u>0-3 Months</u>	<u>4-12 Months</u>	<u>13-36 Months</u>
Time Certificates of Deposit					
Heritage Bank of Commerce	\$ 2,525,243	\$ 2,525,243	\$ -	\$ 2,525,243	\$ -
Local Agency Investment Fund	3,033,054	3,036,270	3,036,270	-	-
Total	<b>\$ 5,558,297</b>	\$ 5,561,513	\$ 3,036,270	\$ 2,525,243	\$ -

***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.

MUFG Union Bank, N.A., has a credit rating of A+/A-1/Negative from Standard & Poor's (as of November 30, 2015) and A2/P-1/Stable from Moody's (as of January 17, 2017). Heritage Bank of Commerce has a credit rating of Green/\*\*\*/BB from Veribanc, Inc. (as of March 31, 2017).

***Concentration of Credit Risk***

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

***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, 2017, \$250,000 of the balance on deposit with MUFG Union Bank, N.A. was covered by federal depository insurance, and the excess of \$4,120,488 was collateralized by the pledging institution as required by Section 53652 of the California Government Code. As of June 30, 2017,



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\$250,000 of the balance on deposit with Heritage Bank of Commerce, was covered by federal depository insurance, and the excess of \$2,275,243 was collateralized by the pledging institution as required by Section 53652 of the California Government Code.

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

***Investment in State Investment Pool***

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, 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. Certificates of Deposits (CDs) are investments measured at amortized costs. Accordingly, the District's investments in LAIF and CDs at June 30, 2017 of \$3,033,054 and \$2,525,243, respectively, are uncategorized input not defined as Level 1, Level 2, or Level 3 input.

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**NOTE 3 — ACCOUNTS RECEIVABLE**

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

	Sunnyslope Water & Wastewater Sales and Services	City of Hollister Customer Billings	Other Receivables	<b>Total June 30, 2017</b>
Accounts receivable	\$ 709,029	\$ 376,662	\$ 486,473	\$ 1,572,164
Less: Allowance for uncollectible accounts	(17,726)	-	-	(17,726)
Net accounts receivable	<u>\$ 691,303</u>	<u>\$ 376,662</u>	<u>\$ 486,473</u>	<u>\$ 1,554,438</u>

Sunnyslope County Water District entered into an agency agreement with the City of Hollister to bill wastewater and street sweeping charges to Sunnyslope's water customers who receive their wastewater service from the City beginning July 1, 2007. Accounts receivable from customers includes \$376,662 due from the City of Hollister's customers as of June 30, 2017. Likewise, accounts payable includes \$376,662 due to the City of Hollister for the amount billed to their customers as of June 30, 2017. 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 items such as damages to District property and billings for the operation and maintenance of the Lessalt Water Treatment Plant and the West Hills Water Treatment Plant.

**NOTE 4 — CAPITAL ASSETS**

A summary of property, plant, and equipment at June 30, 2017, is as follows:

	Cost 6/30/16	Transfers/ Adjustments	Additions	Disposals	<b>Cost 6/30/17</b>
Land and land improve.	\$ 871,948	\$ -	\$ -	\$ -	\$ 871,948
Water utility plant	16,094,089	61,788	188,636	60,093	16,284,420
Wastewater utility plant	15,476,914	-	6,263	-	15,483,177
Equipment & furniture	2,034,450	-	129,718	12,895	2,151,273
Office building	2,737,613	-	-	-	2,737,613
Work-in-process	229,430	(61,788)	249,382	4,500	412,524
	<u>\$ 37,444,444</u>	<u>\$ -</u>	<u>\$ 573,999</u>	<u>\$ 77,488</u>	<u>\$ 37,940,955</u>

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	Accumulated Depreciation 6/30/16	Transfers/ Adjustments	Depreciation	Disposals	Accumulated Depreciation 6/30/17
Land and land improve.	\$ 8,397	\$ -	\$ 466	\$ -	\$ 8,863
Water utility plant	7,549,776	-	522,786	60,093	8,012,469
Wastewater utility plant	2,205,032	-	382,642	-	2,587,674
Equipment & furniture	1,620,779	-	92,607	12,895	1,700,491
Office building	1,104,463	-	91,260	-	1,195,723
	<u>\$ 12,488,447</u>	<u>\$ -</u>	<u>\$ 1,089,761</u>	<u>\$ 72,988</u>	<u>\$ 13,505,220</u>
<b>Net Book Value</b>	<b>\$ <u>24,955,997</u></b>				<b>\$ <u>24,435,735</u></b>

**NOTE 5 — IDLE ASSETS**

A summary of idle assets at June 30, 2017, is as follows:

	Cost 6/30/16	Transfers/ Adjustments	Additions	Disposals	Cost 6/30/17
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 6/30/16	Transfers/ Adjustments	Depreciation	Disposals	Accumulated Depreciation 6/30/17
Well #1	\$ 30,634	\$ -	\$ -	\$ -	\$ 30,634
<b>Net Book Value</b>	<b>\$ <u>580,381</u></b>				<b>\$ <u>580,381</u></b>

**NOTE 6 — ACCOUNTS PAYABLE**

Sunnyslope County Water District entered into an agency agreement with the City of Hollister to bill wastewater and street sweeping charges to Sunnyslope's water customers who receive their wastewater service from the City beginning July 1, 2007. Accounts payable includes \$376,662 due to the City of Hollister for the amount billed to their customers as of June 30, 2017. Likewise, accounts receivable from customers includes \$376,662 due from the City of Hollister's customers as of June 30, 2017. See Note 3 – Accounts Receivable.

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

	Sunnyslope Vendors	City of Hollister Customer Billings	<b>Total June 30, 2017</b>
Accounts payable	\$ 1,139,363	\$ 376,662	\$ <b>1,516,025</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. Accrued compensated absences at June 30, 2017 was \$125,248.

Five qualifying employees elected to “cash-out” unused sick leave in fiscal year ended 2017. The total amount expensed when they cashed out was \$18,453 for the year ended June 30, 2017.

**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 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.

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The outstanding SRF loan payable at June 30, 2017, is as follows:

	June 30, 2016	Borrowed	Repaid	June 30, 2017
Wastewater projects loan	\$ 11,400,000	\$ -	\$ -	\$ 11,400,000
Capitalized interest	345,037	-	-	345,037
Payments	<u>(930,309)</u>	-	<u>478,792</u>	<u>(1,409,101)</u>
Subtotal	10,814,728	<u>\$ -</u>	<u>\$ 478,792</u>	10,335,936
Less: current portion	<u>(478,792)</u>			<u>(491,240)</u>
Loan payable	<u>\$ 10,335,936</u>			<u>\$ 9,844,696</u>

The following is a summary of principal maturities of SRF loan debt as of June 30, 2017:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2018	\$ 491,240	\$ 268,735	\$ 759,975
2019	504,012	255,963	759,975
2020	517,117	242,858	759,975
2021	530,562	229,413	759,975
2022	<u>544,356</u>	<u>215,619</u>	<u>759,975</u>
Next 5 years maturity sub-total	2,587,287	1,212,588	3,799,875
2023-2027	2,941,587	858,286	3,799,873
2028-2032	3,344,401	455,472	3,799,873
2033-2034	<u>1,462,661</u>	<u>57,285</u>	<u>1,519,946</u>
<b>Total debt outstanding June 30, 2017</b>	<b><u>\$ 10,335,936</u></b>	<b><u>\$ 2,583,631</u></b>	<b><u>\$ 12,919,567</u></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, 2017, is as follows:

	June 30, 2016	Borrowed	Repaid	June 30, 2017
Refinance Bonds payable	\$ 3,943,126	\$ -	\$ -	\$ 3,943,126
Payments	(310,769)	-	216,082	(526,851)
Subtotal	3,632,357	\$ -	\$ 216,082	3,416,275
Less: current portion	(216,083)			(223,493)
Loan payable	\$ 3,416,274			\$ <b>3,192,782</b>

The following is a summary of principal maturities for City National Bank loan debt as of June 30, 2017:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2018	\$ 223,493	\$ 114,270	\$ 337,763
2019	231,156	106,606	337,762
2020	239,083	98,680	337,763
2021	247,280	90,482	337,762
2022	255,759	82,004	337,763
Next 5 years maturity sub-total	1,196,771	492,042	1,688,813
2023-2027	1,416,512	272,299	1,688,811
2028-2030	802,992	41,413	844,405
<b>Total debt outstanding June 30, 2017</b>	<b>\$ 3,416,275</b>	<b>\$ 805,754</b>	<b>\$ 4,222,029</b>

**NOTE 9 — COMMITMENTS PAYABLE**

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

The San Benito County Water District 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 to be 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 is estimated to exceed \$30 million by \$11.6 million, and these additional project costs are to be financed with a combination of \$4.2 million in Proposition 84 Grant Funds, \$3.4 million from reserves of the District and the City of Hollister and a \$4 million loan procured by San Benito County Water District. The District paid its \$1.7 million share from reserves during fiscal year 2017, which was capitalized as water rights and is being amortized accordingly. The new loan commitment of \$4 million by San Benito County Water District becomes tranche 3, and was made available on January 1, 2016. The District and the City of Hollister 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 17 – Significant Commitments.

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

The outstanding Tranche 1 commitment payable at June 30, 2017 is as follows:

	June 30, 2016	Commitment	Redeemed	June 30, 2017
Lessalt Water Treat. Plant				
Upgrades/Water Rights	\$ 6,500,000	\$ -	\$ -	\$ 6,500,000
Payments	(309,773)	-	119,091	(428,864)
Subtotal	<u>6,190,227</u>	<u>\$ -</u>	<u>\$ 119,091</u>	<u>6,071,136</u>
Less: current portion	(119,091)			(124,562)
Commitment payable	<u>\$ 6,071,136</u>			<u>\$ 5,946,574</u>

The following is a summary of principal maturities of Tranche 1 commitment payable as of June 30, 2017:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2018	\$ 124,562	\$ 270,653	\$ 395,215
2019	130,284	264,931	395,215
2020	136,269	258,946	395,215
2021	142,530	252,684	395,214
2022	<u>149,077</u>	<u>246,138</u>	<u>395,215</u>
Next 5 years maturity sub-total	682,722	1,293,352	1,976,074
2023-2027	854,628	1,121,445	1,976,073
2028-2032	1,069,820	906,253	1,976,073
2033-2037	1,339,198	636,875	1,976,073
2038-2042	1,676,400	299,673	1,976,073
2043-2044	<u>448,368</u>	<u>12,711</u>	<u>461,079</u>
<b>Total debt outstanding June 30, 2017</b>	<b><u>\$ 6,071,136</u></b>	<b><u>\$ 4,270,309</u></b>	<b><u>\$ 10,341,445</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, 2017 is as follows:

	<u>June 30, 2016</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30, 2017</u>
West Hills Water Treat. Plant				
Constr./Water Rights	\$ 8,500,000	\$ -	\$ -	\$ 8,500,000
Payments	(331,575)	-	296,764	(628,339)
Subtotal	<u>8,168,425</u>	<u>\$ -</u>	<u>\$ 296,764</u>	<u>7,871,661</u>
Less: current portion	<u>(296,764)</u>			<u>(308,855)</u>
Commitment payable	<u>\$ 7,871,661</u>			<u>\$ 7,562,806</u>

The following is a summary of principal maturities of Tranche 2 commitment payable as of June 30, 2017:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2018	\$ 308,855	\$ 309,245	\$ 618,100
2019	321,438	296,662	618,100
2020	334,534	283,566	618,100
2021	348,165	269,935	618,100
2022	<u>362,348</u>	<u>255,752</u>	<u>618,100</u>
Next 5 years maturity sub-total	1,675,340	1,415,160	3,090,500
2023-2027	2,045,583	1,044,917	3,090,500
2028-2032	2,497,651	592,849	3,090,500
2033-2035	<u>1,653,087</u>	<u>98,195</u>	<u>1,751,282</u>
<b>Total debt outstanding June 30, 2017</b>	<b><u>\$ 7,871,661</u></b>	<b><u>\$ 3,151,121</u></b>	<b><u>\$ 11,022,782</u></b>

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

The outstanding Tranche 3 commitment payable at June 30, 2017 is as follows:

	<u>June 30, 2016</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30, 2017</u>
West Hills Water Treat. Plant				
Constr./Water Rights	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Payments	(51,399)	-	105,486	(156,885)
Subtotal	<u>1,948,601</u>	<u>\$ -</u>	<u>\$ 105,486</u>	<u>1,843,115</u>
Less: current portion	<u>(105,486)</u>			<u>(109,172)</u>
Commitment payable	<u>\$ 1,843,115</u>			<u>\$ 1,733,943</u>



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The following is a summary of principal maturities of Tranche 3 commitment payable as of June 30, 2017:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2018	\$ 109,172	\$ 62,185	\$ 171,357
2019	112,988	58,369	171,357
2020	116,936	54,421	171,357
2021	121,023	50,335	171,358
2022	125,253	46,105	171,358
Next 5 years maturity sub-total	585,372	271,415	856,787
2023-2027	695,067	161,720	856,787
2028-2031	562,676	37,075	599,751
<b>Total debt outstanding June 30, 2017</b>	<b><u>\$ 1,843,115</u></b>	<b><u>\$ 470,210</u></b>	<b><u>\$ 2,313,325</u></b>

**NOTE 10 —OPERATING LEASE**

The District leases a copier under an operating lease with Konica Minolta. The agreement expires on February 10, 2021 and the rent expense for the year ended June 30, 2017 was \$5,013.

The following is a schedule of the future minimum rental payments required under the above non-cancelable operating lease:

<u>Year ending June 30:</u>	
2018	\$ 5,012
2019	5,013
2020	5,012
2021	2,982
<b>Total</b>	<b><u>\$ 18,019</u></b>

**NOTE 11 —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 (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

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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, and employees hired after December 31, 2012 and who do not qualify as “classic” members are in Tier 2. The benefit formula for employees in Tier 1 is 2.7% at 55, and the benefit formula for employees in Tier 2 is 2% at 62. At June 30, 2017, there are 17 current full-time employees in Tier 1, and 5 current full-time employees in Tier 2.

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

The Plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u><b>Miscellaneous</b></u>
Benefit formula: “classic” (hire date prior to 1/1/13)	2.7% @ 55
“PEPRA” (hire date on or after 1/1/13)	2% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	20 – 55
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%
Final compensation period: “classic”	1 year
“PEPRA”	3 year
Required employee contribution rates: “classic”	8.000%
“PEPRA”	6.250%
Required employer contribution rates: “classic”	
FY 2016-17 Normal cost rate	11.634%
FY 2016-17 Payment of unfunded liability	\$106,677
Required employer contribution rates: “PEPRA”	
FY 2016-17 Normal cost rate	6.555%
FY 2016-17 Payment of unfunded liability	\$0

**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

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any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer 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, 2017, the District's contributions were as follows:

	<b>Fiscal Year Paid 2016/17</b>
Misc. Classic	\$ 271,582
Misc. PEPRA	15,600
Additional Contribution for UAL	1,655,673
Total Contributions	\$ 1,942,855

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

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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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.

For the year ended June 30, 2017, the District recognized pension expense of \$351,536. At June 30, 2017, 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	\$ 8,766	\$ 2,009
Changes of assumptions	-	82,936
Net differences between projected and actual earnings on plan investments	431,652	-
Change in employer's proportion	153,730	10,782
Differences between the employer's contributions and the employer's proportionate share of contributions	26,222	42,492
Pension contributions subsequent to measurement date	1,942,854	-
Total Outflows / Inflows of Resources	\$ 2,563,224	\$ 138,219

**Sunnyslope County Water District**  
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**June 30, 2017**

The \$2,563,224 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, 2017. Recognition of 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>
2018	\$ 101,274
2019	79,740
2020	189,335
2021	111,803
2022	-
Thereafter	-

**Actuarial Assumptions** – The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2015-16 were derived from the June 30, 2014 funding valuation report.

	<b>Miscellaneous</b>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

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**Proportionate Share of Net Pension Liability (Asset) –**

	<b>Fiscal Year Ending</b>		
	<b>June 30, 2017</b>	<b>June 30, 2016</b>	
Total Pension Liability	\$ 2,505,138	\$ 1,957,613	
	<b>Percentage Share of Plan</b>		<b>Change: Increase/ (Decrease)</b>
	<b>6/30/17</b>	<b>6/30/16</b>	
Measurement Date	6/30/16	6/30/15	
Percentage of Plan (PERF C) NPL	0.028951%	0.028520%	0.000430%

***Sensitivity of Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate*** – The following presents the net pension liability for the Plan, calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<b>Discount Rate</b>		
	<b>6.65% (1% Decrease)</b>	<b>7.65% (Current Rate)</b>	<b>8.65% (1% Increase)</b>
Measurement Date		6/30/16	
Fiscal Year End		6/30/17	
Net Pension Liability	\$ 3,876,120	\$ 2,505,138	\$ 1,372,088

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

***C. Payable to the Pension Plan***

At June 30, 2017, the District reported a liability of \$2,505,138 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

All pension costs are paid timely.

**NOTE 12 — DEFERRED COMPENSATION PLAN**

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

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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, 2017, employee contributions consisting of employee deferrals, compensated absences, and cash in lieu of insurance benefits converted to deferred compensation totaled \$207,524. For the year ended June 30, 2017, the required employer contribution was \$7,157. The investment balance in the deferred compensation plan at June 30, 2017 was \$2,112,030.

**NOTE 13 — OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS**

***Plan Description***

The District rejoined CalPERS health plan for employees' health insurance coverage in January, 2011. Under the CalPERS health plan, the District is required to pay the minimum employer health premium contribution for the District's eligible retirees and eligible surviving spouses. The employee is responsible for paying the remainder of the monthly healthcare premium. The minimum employer contribution for retirees' health premiums for calendar year 2017 was \$128 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 employee must be at least 50 and have a minimum of 5 years of service.

***Funding Policy***

The District requested an actuarial valuation to determine what its OPEB obligations are under the program, and joined the CalPERS CERBT (the Trust) with the intention of contributing the annual required contribution of the employer (ARC) on an annual basis, in accordance with the parameters of GASB Statement 45, net of the pay-as-you-go benefits paid annually. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty (30) years. As of June 30, 2017, there were two retirees receiving healthcare premium benefits. These benefits are fully funded by the District and the cost of these benefits for the year ended June 30, 2017 totaled \$3,042. Additional funding contributed by the District included \$10,761 to meet the annual required contribution for the year ended June 30, 2017.

Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the actuarial accrued liability when such assets are placed in an irrevocable trust or equivalent arrangement. The activities of the Trust are accounted for in the Other Post-Employment Benefits Trust Fund. As of June 30, 2017, seven payments have been made into the Trust totaling \$372,373. The Trust's total net assets available for funding benefits for the year ended June 30, 2017 totaled \$462,951.

***Annual Cost***

The District has calculated and recorded the net OPEB asset, representing the difference between the annual required contribution of the employer (ARC), interest, adjustment to the ARC, and

**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2017**

contributions for fiscal year 2017, as presented in the following table:

Annual required contribution (ARC)	\$	13,803
Interest on net OPEB obligation		116
Adjustment to net OPEB obligation		(143)
		13,776
Annual OPEB cost (expense)		13,776
Contributions made to CERBT Trust		(10,761)
Contributions under "pay-as-you-go"		
Payment to retirees		(3,042)
		(13,803)
Subtotal		(13,803)
Change in net OPEB liability		(27)
Net OPEB asset – beginning of year		(160,135)
Net OPEB asset – end of year	\$	(160,162)

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

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Change in Net OPEB Asset	Net OPEB Obligation (Asset)
6/30/11	\$ 20,191	\$ 0	0.00%	\$ 20,191	\$ 20,191
6/30/12	\$ 46,490	\$ 88,553	190.48%	\$ (42,063)	\$ (21,872)
6/30/13	\$ 44,382	\$ 44,328	99.88%	\$ 54	\$ (21,818)
6/30/14	\$ 37,883	\$ 37,903	100.05%	\$ (20)	\$ (21,838)
6/30/15	\$ 38,627	\$ 38,649	100.06%	\$ (22)	\$ (21,860)
6/30/16	\$ 26,585	\$ 164,860	620.12%	\$ (138,275)	\$ (160,135)
6/30/17	\$ 13,776	\$ 13,803	100.01%	\$ (27)	\$ (160,162)

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

The most recent actuarial valuation report for District retiree health benefits is dated July 1, 2015. The report projects future liabilities to be \$431,179, which is theoretically the amount that the District would need to set aside as of July 1, 2015 to fully fund the OPEB promises for all current and former employees. As of July 1, 2015, the District has accumulated \$239,437 toward this liability. The next actuarial report will be prepared as of July 1, 2017, as required under Government Accounting Standards Board Statement No. 45.

***Actuarial Methods and Assumptions***

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and the plan members to that point. Consistent with the long-term perspective of actuarial calculations,

**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2017**

actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

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

Valuation date	July 1, 2015
Actuarial cost method	Entry age normal actuarial funding method
Amortization method	Level dollar amortization of the unfunded actuarial accrued liability.
Remaining amortization period	30 years, beginning July 1, 2010
Asset valuation method	30-year closed period
Actuarial assumptions:	
Investment rate of return	7.28% per year
Medical cost trend rate	4.00% per year after 2015
Coverage elections	100% of eligible employees assumed to elect coverage upon retirement.
Mortality	From 2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous".

**Other Post-Employment Benefits Trust**

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

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

Asset Class	Strategy 1		Strategy 2		Strategy 3	
	Policy Target <sup>1</sup>	Policy Range	Policy Target <sup>1</sup>	Policy Range	Policy Target <sup>1</sup>	Policy Range
Global Equity	57%	+/- 2%	40%	+/- 2%	24%	+/- 2%
Fixed Income	27%	+/- 2%	39%	+/- 2%	39%	+/- 2%
Treasury Inflation-Protected Securities (TIPS)	5%	+/- 2%	10%	+/- 2%	26%	+/- 2%
Commodities	3%	+/- 2%	3%	+/- 2%	3%	+/- 2%
Real Estate Investment Trusts (REITS)	8%	+/- 2%	8%	+/- 2%	8%	+/- 2%
Total	100%		100%		100%	

<sup>1</sup> Allocations approved by the CalPERS CERBT Investment Committee October 2014

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



**Sunnyslope County Water District  
Notes to Financial Statements  
June 30, 2017**

**NOTE 14 — 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 – Unaudited section, 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, 2017</b>
<b>Investment in capital assets, net of related debt:</b>	
Capital assets, net of accum. depreciation	\$ 24,435,735
Intangible assets, net of accum. amortization	16,673,056
Less: Current debt payable	(1,257,322)
Non-current debt payable	(28,280,801)
	<b>11,570,668</b>
<b>Legally restricted reserves:</b>	
Water capacity fees	1,262,575
Wastewater capacity fees	38,528
Debt service reserve	760,000
	<b>2,061,103</b>
<b>Unrestricted net position:</b>	
<b>Board designated reserves</b>	
Capital improvement reserve	1,800,000
Vehicle replacement	129,704
Emergency equipment replacement	100,000
Office and miscellaneous equipment replacement	216,244
Drought contingency reserve	400,000
	2,645,948
<b>Undesignated net position</b>	5,511,460
	<b>8,157,408</b>
<b>NET POSITION</b>	<b>\$ 21,789,179</b>

**NOTE 15 — RELATED PARTY TRANSACTIONS**

Several District employees live or own property in the District and all five Directors must live in the District, consequently, they purchase water and/or wastewater services from the District at standard rates. At June 30, 2017, all related parties were current on their bills payable to the District.

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2017**

**NOTE 16 — 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 17 — SIGNIFICANT COMMITMENTS**

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

In August 2013, the District, City of Hollister (COH), and San Benito County Water District (SBCWD) each approved the Hollister Urban Area Water Supply and Treatment Agreement. The agreement defines the roles and terms of financing for the project which includes: the upgrade of Lessalt Water Treatment Plant, the design and construction of the West Hills Water Treatment Plant, and associated pipelines. The SBCWD will finance, build, own, and operate the upgraded Lessalt Water Treatment Plant and the new West Hills Water Treatment Plant.

The SBCWD committed to finance up to \$30 million 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 COH over a 20-30 year period through a capital component, including interest, in the finished water rate. The actual project cost projection exceeds the \$30 million financing in place by \$11.6 million. The additional funding will consist of \$4.2 million in Prop 84 Grant Funds, \$1.7 million cash input from both the City of Hollister and Sunnyslope County Water District, and the balance of \$4 million will be financed as a third tranche loan to SBCWD from a financial institution, to be repaid equally by the City of Hollister and Sunnyslope County Water 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.

Of the project costs, SBCWD is contributing \$10 million in non-reimbursable funds; \$5 million to the District and \$5 million to the COH. The District plans to use the \$5 million to stabilize water rates and allow a gradual increase to meet future revenue needs. The water rate stabilization credit reported in the operating expenses for the year ended June 30, 2017 was \$1,093,776.

***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

**Sunnyslope County Water District**  
**Notes to Financial Statements**  
**June 30, 2017**

operator for the Lessalt Water Treatment Plant. This agreement was established for a term of 5 years with options to renew for subsequent terms of 5 years. It is anticipated that operation of the West Hills Water Treatment Plant will be added to the agreement prior to completion of the plant construction in 2017. The District began operating the Lessalt plant in September, 2013 under this agreement. For the year ended June 30, 2017, \$922,560 was billed to SBCWD for actual operations and maintenance costs, including labor and benefits, of which one-half was charged back to the District for its 50% share.

**NOTE 18 — SUBSEQUENT EVENTS**

The District evaluated subsequent events for recognition and disclosure through October 6, 2017, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in such financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Sunnyslope County Water District  
Required Supplementary Information**

**Schedule of Funding Progress – Post Employment Health Insurance Benefits  
June 30, 2017**

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The most recent trend data presented is from the July 1, 2015 valuation date.

Valuation Date	Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	Overfunded (Unfunded) Actuarial Liability
July 1, 2010	\$ 0	\$ 266,963	\$ 266,963	0%	\$ 1,713,300	15.6%
July 1, 2011	\$ 92,267	\$ 309,274	\$ 217,007	29.8%	\$ 1,498,100	14.5%
July 1, 2013	\$ 142,787	\$ 397,993	\$ 255,206	35.9%	\$ 1,597,280	16.0%
July 1, 2015	\$ 239,437	\$ 391,025	\$ 151,588	61.2%	\$ 1,435,000	10.6%

**Sunnyslope County Water District  
Required Supplementary Information**

**Schedule of the District's Proportionate Share of the Net Pension Liability  
As of June 30, 2017  
Last 10 Years<sup>^</sup>**

	<u>Fiscal Year 2016-17</u>	<u>Fiscal Year 2015-16</u>	<u>Fiscal Year 2014-15</u>
Measurement Date	<b>6/30/2016</b>	6/30/2015	6/30/2014
District's proportion of the net pension liability	<b>0.028951%</b>	0.028520%	0.024507%
District's proportionate share of the net pension liability	<b>\$2,505,138</b>	\$1,957,613	\$1,524,958
District's covered-employee payroll *	<b>\$1,488,922</b>	\$1,434,655	\$1,519,954
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	<b>168.25%</b>	136.45%	100.33%
Plan's fiduciary net position as a percentage of the plan's total pension liability	<b>74.06%</b>	78.40%	79.82%

\* For the year ending on the measurement date

<sup>^</sup> - Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only three years are shown.

**Sunnyslope County Water District  
Required Supplementary Information**

**Schedule of the District's Pension Plan Contributions  
As of June 30, 2017  
Last 10 Years<sup>^</sup>**

	<u>Fiscal Year 2016-17</u>	<u>Fiscal Year 2015-16</u>	<u>Fiscal Year 2014-15</u>
Actuarially determined contribution	\$ 287,182	\$ 245,300	\$ 233,521
Contributions in relation to the actuarially determined contribution	<u>1,942,855</u>	<u>245,300</u>	<u>233,521</u>
Contribution deficiency (excess)	<u>\$ (1,655,673)</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll *	\$ 1,687,978	\$ 1,488,922	\$ 1,434,655
Contributions as a percentage of covered-employee payroll	115.10%	16.48%	16.28%

\* For the fiscal year ending on the date shown

<sup>^</sup> - Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only three years are shown.

**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 – UNAUDITED**

### **Notes to Supplementary Information**

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



**Sunnyslope County Water District**  
**Budgetary Comparison Schedule**  
**June 30, 2017**

	<u>2017</u> <u>Actual</u>	<u>Original and</u> <u>Final Budget</u>	<u>Variance</u> <u>Fav(Unfav)</u>
<b>OPERATING REVENUES</b>			
Water and wastewater sales	\$ 6,669,556	\$ 6,500,000	\$ 169,556
Late fees	64,488	70,000	(5,512)
Customer fees	139,182	265,150	(125,968)
Other	127,064	3,000	124,064
<b>Total operating revenues</b>	<b><u>7,000,290</u></b>	<b><u>6,838,150</u></b>	<b><u>162,140</u></b>
<b>OPERATING EXPENSES</b>			
<i>SALARIES AND BENEFITS</i>			
Salaries	1,996,823	1,857,460	(139,363)
Employee benefits	332,171	270,563	(61,608)
CalPERS pension	351,536	354,426	2,890
Payroll taxes	28,419	28,701	282
Directors fees	11,200	15,000	3,800
Labor billed to others	(87,406)	(45,265)	42,141
<b>Total salaries and benefits</b>	<b><u>2,632,743</u></b>	<b><u>2,480,885</u></b>	<b><u>(151,858)</u></b>
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>			
Electrical services	288,178	258,700	(29,478)
Phone services	9,070	11,100	2,030
Professional services	60,980	65,900	4,920
Postage	28,829	32,400	3,571
Contract services	37,952	33,300	(4,652)
Office supplies	30,636	35,900	5,264
Legal advertising	8,197	4,500	(3,697)
Repair and maintenance	141,392	145,500	4,108
Diesel	1,140	2,600	1,460
Vehicle operating expenses	50,473	53,000	2,527
Professional development	5,306	8,000	2,694
Supplies	61,621	60,000	(1,621)
Meeting expense	93	500	407
Insurance	56,825	60,000	3,175
Equipment rental	-	600	600
Research and monitoring	109,261	95,000	(14,261)
Depreciation	1,089,761	985,000	(104,761)
Pumping fees	37,554	55,000	17,446
Lessalt water treatment	1,359,555	1,636,900	277,345
West Hills water treatment	1,109,716	960,600	(149,116)
Water conservation	54,908	105,000	50,092
Bad debts	831	8,300	7,469
Taxes, fees, permits	121,112	88,000	(33,112)
<b>Total operations and maint. exp.</b>	<b><u>4,663,390</u></b>	<b><u>4,705,800</u></b>	<b><u>42,410</u></b>
<b>WATER RATE STABILIZATION CREDIT</b>	<b><u>(1,093,776)</u></b>	<b><u>(1,500,000)</u></b>	<b><u>(406,224)</u></b>
<b>Total operating expenses</b>	<b><u>6,202,357</u></b>	<b><u>5,686,685</u></b>	<b><u>(515,672)</u></b>
<b>INCOME FROM OPERATIONS</b>	<b><u>797,933</u></b>	<b><u>1,151,465</u></b>	<b><u>(353,532)</u></b>
<b>OTHER NON-OPERATING REVENUES</b>			
<b>(EXPENSE), NET</b>	<b><u>1,290,205</u></b>	<b><u>(391,900)</u></b>	<b><u>1,682,105</u></b>
<b>CHANGE IN NET POSITION</b>	<b><u>\$ 2,088,138</u></b>	<b><u>\$ 759,565</u></b>	<b><u>\$ 1,328,573</u></b>

See note to supplementary information.

**Sunnyslope County Water District  
Schedule of Net Position - By Fund  
June 30, 2017**

	<b>2017</b>	<b>Water Fund</b>	<b>Wastewater Fund</b>
<b><u>ASSETS</u></b>			
<i>CURRENT ASSETS</i>			
Cash	\$ 4,374,123	\$ 2,638,964	\$ 1,735,159
Invested funds	5,558,297	4,644,920	913,377
Other current assets	1,902,767	1,705,642	197,125
Total Current Assets	11,835,187	8,989,526	2,845,661
<i>CAPITAL ASSETS</i>			
Land and land improvements	871,948	717,282	154,666
Utility plant	31,767,597	16,284,420	15,483,177
Equipment and furniture	2,151,273	1,500,509	650,764
Office building	2,737,613	2,190,090	547,523
Work-in-process	412,524	412,524	-
	37,940,955	21,104,825	16,836,130
Less accumulated depreciation	(13,505,220)	(10,225,175)	(3,280,045)
Total Capital Assets	24,435,735	10,879,650	13,556,085
<i>INTANGIBLE ASSETS, NET</i>	16,673,056	16,673,056	-
<i>OTHER NON-CURRENT ASSETS</i>	740,543	708,511	32,032
<i>DEFERRED OUTFLOWS OF RESOURCES</i>	2,563,224	2,050,579	512,645
<b>TOTAL ASSETS</b>	<b>\$ 56,247,745</b>	<b>\$ 39,301,322</b>	<b>\$ 16,946,423</b>
<b><u>LIABILITIES AND NET POSITION</u></b>			
<i>CURRENT LIABILITIES</i>	\$ 3,133,544	\$ 2,147,432	\$ 986,112
<i>LONG-TERM LIABILITIES</i>	28,681,665	18,594,272	10,087,393
<i>NET PENSION LIABILITY</i>	2,505,138	2,004,110	501,028
<i>DEFERRED INFLOWS OF RESOURCES</i>	138,219	110,575	27,644
Total Liabilities	34,458,566	22,856,389	11,602,177
<i>NET POSITION</i>			
Balance July 1, 2016	19,701,041	14,801,216	4,899,825
Change in net position	2,088,138	1,643,717	444,421
Total Net Position	21,789,179	16,444,933	5,344,246
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 56,247,745</b>	<b>\$ 39,301,322</b>	<b>\$ 16,946,423</b>

See note to supplementary information.

**Sunnyslope County Water District**  
**Schedule of Revenue, Expenses, and Changes in Net Position**  
**Year Ended June 30, 2017 (with comparative total for 2016)**

	<u>2017</u>			<u>2016</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATING REVENUES</i>				
Water sales	\$ 4,772,902	\$ -	\$ 4,772,902	\$ 3,906,473
Wastewater service	-	1,896,654	1,896,654	2,022,469
Late fees	51,590	12,898	64,488	66,231
Customer fees	123,749	15,433	139,182	145,977
Other	101,791	25,273	127,064	126,863
Total operating revenues	<u>5,050,032</u>	<u>1,950,258</u>	<u>7,000,290</u>	<u>6,268,013</u>
<i>OPERATING EXPENSES</i>				
Salaries and benefits	2,077,129	555,614	2,632,743	2,275,660
Operations and maintenance	3,949,653	713,737	4,663,390	4,229,637
Water rate stabilization credit	<u>(1,093,776)</u>	<u>-</u>	<u>(1,093,776)</u>	<u>(2,046,556)</u>
Total operating expenses	<u>4,933,006</u>	<u>1,269,351</u>	<u>6,202,357</u>	<u>4,458,741</u>
<i>INCOME FROM OPERATIONS</i>	<u>117,026</u>	<u>680,907</u>	<u>797,933</u>	<u>1,809,272</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>				
Water connections	1,604,200	-	1,604,200	1,614,155
Wastewater connections	-	38,100	38,100	184,000
Interest	31,437	6,489	37,926	27,101
Unrealized gain (loss) on investments	(5,039)	(1,260)	(6,299)	3,082
Other income	-	-	-	20,619
Interest expense	(106,347)	(280,425)	(386,772)	(411,546)
Gain (loss) on disposal of assets	<u>2,440</u>	<u>610</u>	<u>3,050</u>	<u>(12,691)</u>
Total non-operating revenues (expenses), net	<u>1,526,691</u>	<u>(236,486)</u>	<u>1,290,205</u>	<u>1,424,720</u>
<i>INCOME BEFORE CAPITAL CONTRIBUTION</i>	1,643,717	444,421	2,088,138	3,233,992
<i>CAPITAL CONTRIBUTION</i>				
Donated assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,483,650</u>
<i>CHANGES IN NET POSITION</i>	<u>\$ 1,643,717</u>	<u>\$ 444,421</u>	2,088,138	4,717,642
<i>NET POSITION - BEGINNING OF YEAR</i>			<u>19,701,041</u>	<u>14,983,399</u>
<i>NET POSITION - END OF YEAR</i>			<u>\$ 21,789,179</u>	<u>\$ 19,701,041</u>

See note to supplementary information.

**Sunnyslope County Water District**  
**Schedule of Salaries and Benefits**  
**Year Ended June 30, 2017 (with comparative total for 2016)**

	<u>2017</u>					<u>2016</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>GENERAL &amp; ADMIN</u>	<u>CUSTOMER SERVICE</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>SALARIES AND BENEFITS</i>						
Salaries	\$ 1,145,432	\$ 297,311	\$ 223,046	\$ 331,034	\$ 1,996,823	\$ 1,767,432
Employee benefits	194,329	48,784	54,055	35,003	332,171	353,345
CalPERS pension	192,364	51,134	45,918	62,120	351,536	166,890
Directors fees	-	-	11,200	-	11,200	11,200
Payroll taxes	15,509	4,159	4,039	4,712	28,419	26,841
Allocation (from) to:						
Customer service	346,295	86,574	-	(432,869)	-	-
Gen. and admin.	<u>270,606</u>	<u>67,652</u>	<u>(338,258)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	2,164,535	555,614	-	-	2,720,149	2,325,708
Labor billed to others	<u>(87,406)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87,406)</u>	<u>(50,048)</u>
Total salaries and benefits	<u>\$ 2,077,129</u>	<u>\$ 555,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,632,743</u>	<u>\$ 2,275,660</u>

See note to supplementary information.

**Sunnyslope County Water District**  
**Schedule of Operations and Maintenance Expenses**  
**Year Ended June 30, 2017 (with comparative total for 2016)**

	<u>2017</u>					<u>2016</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>GENERAL &amp; ADMIN</u>	<u>CUSTOMER SERVICE</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>						
Electrical services	\$ 212,031	\$ 61,840	\$ 14,307	\$ -	\$ 288,178	\$ 251,276
Phone services	1,908	3,077	1,470	2,615	9,070	11,025
Professional services	-	-	57,357	3,623	60,980	52,885
Postage	1,191	-	1,152	26,486	28,829	30,100
Contract services	3,257	1,566	18,489	14,640	37,952	28,101
Office supplies	1,201	367	15,596	13,472	30,636	31,078
Legal advertising	-	-	8,197	-	8,197	-
Repair and maintenance	81,843	56,403	3,146	-	141,392	106,316
Diesel	912	228	-	-	1,140	2,090
Vehicle operating expense	39,055	9,764	1,654	-	50,473	44,065
Professional development	864	201	4,241	-	5,306	4,271
Supplies	31,255	30,366	-	-	61,621	65,077
Meeting expense	-	-	93	-	93	108
Insurance	-	-	56,825	-	56,825	55,340
Research and monitoring	67,737	41,524	-	-	109,261	85,131
Depreciation	557,518	410,485	117,413	4,345	1,089,761	1,087,885
Pumping fees	37,554	-	-	-	37,554	30,900
Lessalt water treat. plant	1,359,555	-	-	-	1,359,555	1,237,552
West Hills water treat. plant	1,109,716	-	-	-	1,109,716	858,899
Water conservation	54,908	-	-	-	54,908	165,940
Bad debts	377	269	109	76	831	3,444
Taxes, fees, permits, dues, and subscriptions	54,081	13,974	30,268	22,789	121,112	78,154
Allocated from (to):						
General and admin.	264,253	66,064	(330,317)	-	-	-
Customer service	70,437	17,609	-	(88,046)	-	-
 Total operations and maint. exps.	 <u>\$ 3,949,653</u>	 <u>\$ 713,737</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 4,663,390</u>	 <u>\$ 4,229,637</u>

See note to supplementary information.