

Sunnyslope County Water District



Financial Statements



June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sunnyslope County Water District
Hollister, California

We have audited the accompanying financial statements of Sunnyslope County Water District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Jesus Montemayor, CPA, Smriti Shrestha, CPA, Wei Ding, CPA*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sunnyslope County Water District as of June 30, 2015, and the 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.

Other Matters

Emphasis of Matter

Implementation of New Accounting Standard

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No.27*, during the year ended June 30, 2015. Statement No. 68 expands disclosures related to pensions and requires the District to report the net pension liability in the statement of net position. The adoption of this statement reduced net position by \$1,881,896 as of July 1, 2014 as disclosed in Note 11. Our opinion is not modified with respect to this matter.

Restated Summarized Comparative Information

We have previously audited the Sunnyslope County Water District's 2014 financial statements, and our report dated December 18, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the restated summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary information

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

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

Other Information

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

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

McGilloway, Ray, Brown & Kaufman

McGilloway, Ray, Brown & Kaufman
Salinas, California
December 10, 2015

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2015

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, 2015 (with 2014 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 5,483 water accounts, of which 98.2% are residential customers, and approximately 1,219 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 4 and 5.

The **Statement of Revenues, Expenses, and Changes in Net Position** presents information illustrating how net position changed during the fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The Statement of Revenues, Expenses, and Changes in Net Position can be found on page 6.

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, 2015

and associated cash receipts and payments; and the effects of the District's financial position from its non-capital and capital related financing and its investing transactions during the year. This statement answers questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period. The Statement of Cash Flows can be found on pages 7 and 8.

The **Notes to the Financial Statements** provide the reader additional information that is necessary to understand all of the data provided in the basic financial statements. The notes to the financial statements are included immediately following the financial statements and can be found on pages 9 to 37.

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

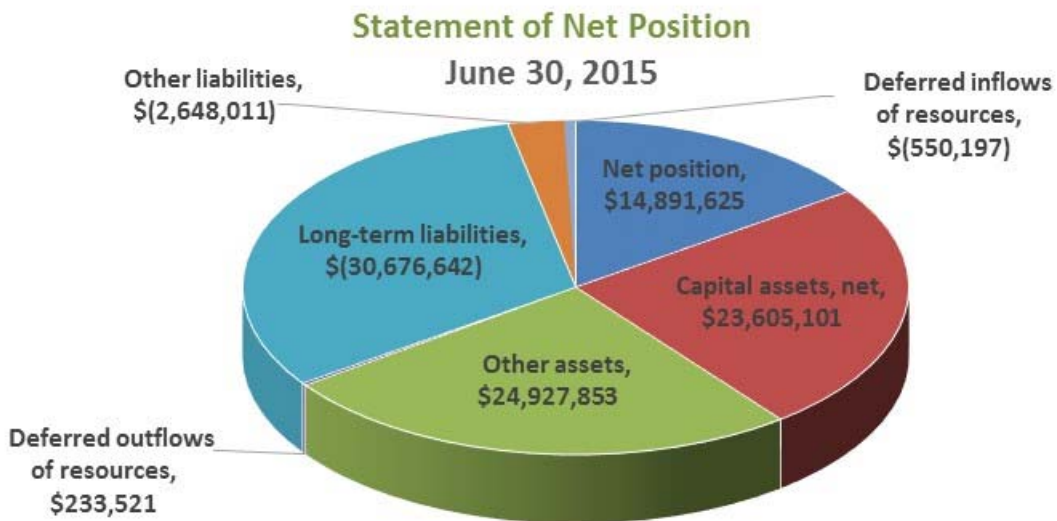
	June 30, 2015	June 30, 2014	Dollar Change	Percent Change
Assets				
Capital assets, net	\$ 23,605,101	\$ 23,446,994	\$ 158,107	0.7%
Other assets	24,927,853	15,778,302	9,149,551	58.0%
Deferred outflows of resources	233,521	-	233,521	N/A
	\$ 48,766,475	\$ 39,225,296	\$ 9,541,179	24.3%
Liabilities				
Long-term liabilities	\$ 30,676,642	\$ 21,787,987	\$ 8,888,655	40.8%
Other liabilities	2,648,011	1,947,610	700,401	36.0%
Deferred inflows of resources	550,197	-	550,197	N/A
	33,874,850	23,735,597	10,139,253	42.7%
Net Position				
Net investment in capital assets Restricted for connection fees and debt service	8,256,723	7,611,428	645,295	8.5%
Unrestricted	1,147,039	1,452,367	(305,328)	-21.0%
	5,487,863	6,425,904	(938,041)	-14.6%
	14,891,625	15,489,699	(598,074)	-3.9%
	\$ 48,766,475	\$ 39,225,296	\$ 9,541,179	24.3%

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2015

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 \$14,891,625 at June 30, 2015, which is the District's net position. The largest portion of the District's net position (55.4%) reflects its investment in capital assets of \$8,256,723 (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.



After restricting net position for connection fees and debt service of \$1,147,039 (7.7%), the remaining net position of \$5,487,863 (36.9%) 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 for more details on the District's net position.

The District's net position decreased \$598,074 from the prior fiscal year. The decrease is a result of the income from operations plus connection fees collected, interest earned, and a donated asset received from San Benito County Water District (SBCWD) of a 16" pipeline from the Lessalt Water Treatment Plant needed to serve the Ridgemark Estates, Oak Creek, and Quail Hollow subdivisions with higher quality water, offset by an asset donation to SBCWD of land for the new West Hills Water Treatment Plant, interest expense, debt issue expense, and an adjustment to net position due to the implementation of the new GASB 68 accounting standard to record pension liability.

Sunnyslope County Water District

Management's Discussion and Analysis

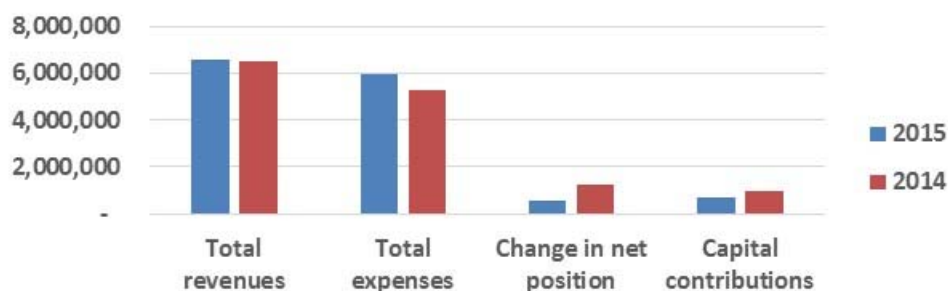
For the Year Ended June 30, 2015

Statement of Revenues, Expenses, and Change in Net Position

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

	June 30, 2015	June 30, 2014	Dollar Change	Percent Change
Operating revenues	\$ 6,253,668	\$ 6,136,915	\$ 116,753	1.9%
Non-operating revenues	294,666	357,765	(63,099)	-17.6%
Total revenues	6,548,334	6,494,680	53,654	0.8%
Operating expenses	5,336,310	4,827,993	508,317	10.5%
Non-operating expenses	653,202	461,573	191,629	41.5%
Total expenses	5,989,512	5,289,566	699,946	13.2%
Income before capital contrib.	558,822	1,205,114	(646,292)	-53.6%
Contributed capital	725,000	977,682	(252,682)	-25.8%
Change in net position	1,283,822	2,182,796	(898,974)	-41.2%
Net position - beginning	15,489,699	13,306,903	2,182,796	16.4%
Accounting standard (GASB 68) implementation adjustment	(1,881,896)	-	(1,881,896)	0.0%
Net position - ending	\$ 14,891,625	\$ 15,489,699	\$ (598,074)	-3.9%

Revenues, Expenses, Change in Net Position
For the Fiscal Years Ended 2015 and 2014



The District's principal source of revenue is from water sales, which on average constitutes about 67% of operating revenues. The District's principal sources of water supply are from several wells owned by the District, through interties with the City of Hollister, and are supplemented by treated surface water from the Lessalt Water Treatment Plant. We expect to see water use vary with the seasons and the amount of rainfall, however, we are currently in a drought and have been asking customers to conserve water use, resulting in a decrease in water sales revenue. We have experienced a reduction in water sales revenue even though we have implemented two years of rate increases of approximately 11.5% each. 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. We believe the increase in operating revenue was primarily attributable to the increase in wastewater sales revenue. The Board approved wastewater rate increases by Ordinance No. 74 in August, 2013, which phased the increases in over a two year period, beginning in December, 2013.

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2015

The primary source of non-operating revenues are water and wastewater connection fees and investment income. In recent years, due to both the poor economy and the 1% growth cap that was imposed by the County of San Benito, new service connections remain fairly low. With the addition of 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. The decrease in non-operating revenue was primarily due to reduced water connection fees collected.

Operating expenses include salaries and benefits for 18 full-time employees, and water and wastewater system operations. Water department expenses include electricity for pumping water, well water pumping fees, surface water cost and treatment, repairs & maintenance of the production and distribution systems, and an 80% share of customer service and general & administrative costs. Wastewater department expenses include electricity for sewer pumping stations, repair & maintenance of the sewer manholes and mainline pipes, treatment costs, operation and maintenance of the Sequencing Batch Reactor (SBR), sludge disposal, and a 20% share of customer service and general & administrative costs. Most operating expense line items are comparable to 2014, but are up 15.3% overall. Repair and maintenance costs are up due primarily to bearing failure on all three of the blowers operating at the SBR plant, causing us to incur emergency costs to keep the plant operational while the problem was analyzed and the blowers repaired; depreciation expense is also up due to new assets purchased, donated and constructed this year.

Non-operating expenses include interest expense on our debt, a debt handling fee for acquiring a new loan used to refinance the bond debt, and the value of land donated for the construction site of the new West Hills Water Treatment Plant. Non-operating expenses were up primarily due to interest expense, and the new water rights commitment related to the start of construction of the new West Hills Water Treatment Plant.

Contributed capital usually comes from water and wastewater system infrastructure constructed by developers and turned over to the District for operation and maintenance. Due to the low growth in the past few years, there has been no contributed facilities to recognize in the financial statements. However, this fiscal year we received a 16" pipeline constructed by San Benito County Water District (SBCWD) that extends the area we can serve with water from the Lessalt Water Treatment Plant, and last fiscal year we received a refund of reserves from SBCWD related to the Lessalt Water Treatment Plant upgrades and dissolution of the Hollister-Sunnyslope Water Treatment Agency.

In June, 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The District implemented this statement July 1, 2014, and has recognized the unfunded pension liability, deferred outflows of pension resources, deferred inflows of pension resources, and pension expense.

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

Management's Discussion and Analysis

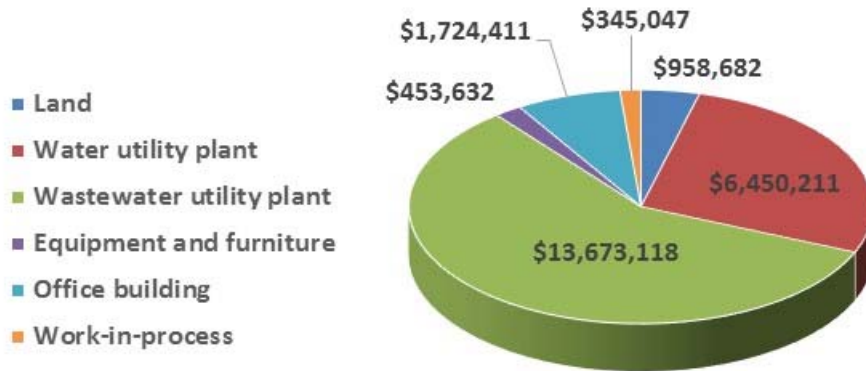
For the Year Ended June 30, 2015

Schedule of Capital Assets, net of depreciation

	June 30, 2015	June 30, 2014	Dollar Change	Percent Change
Land	\$ 958,682	\$ 1,088,040	\$ (129,358)	-11.9%
Water utility plant	6,450,211	6,004,381	445,830	7.4%
Wastewater utility plant	13,673,118	13,977,614	(304,496)	-2.2%
Equipment and furniture	453,632	441,905	11,727	2.7%
Office building	1,724,411	1,815,671	(91,260)	-5.0%
Work-in-process	345,047	119,383	225,664	189.0%
Capital assets, net	\$ 23,605,101	\$ 23,446,994	\$ 158,107	0.7%

Sunnyslope County Water District's investment in capital assets as of June 30, 2015 was \$23,605,101, net of accumulated depreciation. The major capital asset additions for the current year was for the design (paid for by us) and construction of the 16" pipeline from Lessalt (paid for by SBCWD and donated to us), rebuilding 4 sewer manholes, and the acquisition of two new service trucks. Work-in-process increased by \$225,664 over the last year, due primarily to recognition of construction of a 16" main pipeline upgrade to a section of the water infrastructure pipeline in the Santana Ranch development, constructed but not accepted into use at year-end.

Capital Assets, net June 30, 2015



Long-Term Debt

At June 30, 2015, the District had debt and long-term liabilities, totaling \$31,751,227.

The increase in loans payable is due to new borrowing of \$3,943,126 used to refinance the revenue bond debt at a lower interest rate and also shorten the remaining repayment period from 18 years to 15 years. The increase in commitments payable is due to triggering the second tranche of financing under the Water Supply and Treatment Agreement for participation rights for the West Hills Water Treatment Plant, which is starting construction. The increase in net pension liability was discussed earlier, and is due to the implementation of GASB 68. More information on the District's pension plan can be found in Note 11 of the financial statements.

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2015

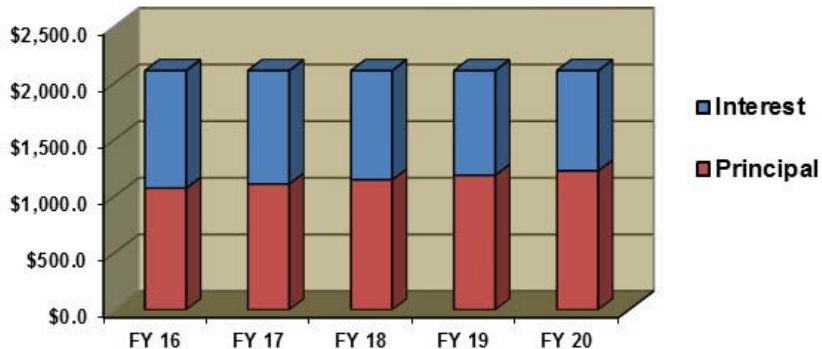
Schedule of Debt & Long-Term Liabilities

	June 30, 2015	June 30, 2014	Dollar Change	Percent Change
Revenue bonds	\$ -	\$ 4,045,000	\$ (4,045,000)	-100.0%
Unamortized bond discount	-	(47,973)	47,973	-100.0%
Revenue bonds, net of discount	-	3,997,027	(3,997,027)	-100.0%
Loans payable	15,122,664	11,745,037	3,377,627	28.8%
Commitments payable	14,757,659	6,412,946	8,344,713	130.1%
Deposits from customers	345,946	340,487	5,459	1.6%
Net pension liability	1,524,958	-	1,524,958	N/A
Debt & long-term liabilities	\$ 31,751,227	\$ 22,495,497	\$ 9,255,730	41.1%

Future Debt Service

The District's debt service requirements for the next five years, through June 30, 2020, are shown on the following table, averaging \$2,111.1 thousand annually.

**Future Debt Service - Next Five Years
Combined Debt
(Dollars in thousands)**



Other Future Economic Factors

Since 2002, the District has experienced low to no housing growth, however, in fiscal years 2015 and 2014, new housing starts within the District service boundary have generated 19 and 40 new connections, respectively. The previous five years averaged 24 new connections per year. 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 will allow for future development within the Ridgemark area.

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2015

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 currently experiencing a severe drought. The state has imposed certain levels of mandatory water conservation in all water service municipalities and special districts throughout the state. Our customers have been mandated to reduce their water consumption by 28% compared to their use in 2013, and have been achieving better than a 28% reduction. This reduced water consumption, while good for the drought, translates to reduced revenues for the District. A prolonged reduction in revenues could trigger the need to increase water rates, however, we feel that with our current reserves we will be able to manage our resources and avert additional rate increases, should the drought continue for no longer than another year or two.

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% each year. No increases in wastewater rates are anticipated for fiscal years 2016 through 2019.

Finally, the District also conducted a water and wastewater capacity charge rate study in 2013. The new water and wastewater capacity charges were passed after a public hearing in August, 2013, effective October 6, 2013. These fees are charges imposed as a condition of providing new or increased water and wastewater services through new connections. The new water capacity fee for a 5/8", 3/4", or 1" meter size is \$10,200, effective July 1, 2015, was \$9,950, effective July 1, 2014, and is adjusted annually. The new wastewater capacity fee for a single family residential dwelling is \$18,400 per dwelling unit, effective July 1, 2015, was \$17,925 per dwelling unit, effective July 1, 2014, and is adjusted annually. The capacity fees increase on July 1 of each year by the San Francisco Construction Index for the prior year as published in the Engineering News Record.

Waste Discharge Requirements

As a result of approval of the Waste Discharge Report and Monitoring from the California Regional Water Quality Control Board (December 3, 2004) for the Ridgemark Estates Wastewater Treatment Facilities, stringent discharge requirements must be achieved. To meet these new requirements, the Ridgemark Estates Wastewater Treatment Facilities were upgraded to include a Sequencing Batch Reactor plant, and as part of the effort to get customers to stop using their salt discharging water softeners, the existing Lessalt surface water treatment plant has been 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). Future projects anticipated include building a new West Hills surface water treatment plant that will increase the delivery of high quality water to the District's and City of Hollister's customers, which should also improve wastewater quality and help the District meet the imposed discharge requirements. RMC Water and Environment, a Sanitary Engineering Consulting firm, completed a Long-Term Wastewater Management Plan and Salts Management Program. Estimated costs have been identified to implement these projects.

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2015

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 (to be known as the West Hills Water Treatment Plant), upgrade the existing Lessalt Water Treatment Plant, and construct various pipelines and pump stations connecting the two water treatment plants to the District and City infrastructures. These projects are referred to as the Hollister Urban Area Water Project (HUAWP). They are estimated to cost approximately \$30 million and will be constructed over the next five years.

The agreement commits SBCWD to finance the HUAWP facilities up to \$30 million, and commits the City and the District to reimburse SBCWD for the capital costs, for operation of the facilities, and for the costs of raw water delivered to the treatment plants. The agreement commits SBCWD to provide \$10 million (\$5 million each to the City and the District) to allow for gradual and stable water rate increases to fund the HUAWP. SBCWD 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. 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.

The actual construction costs of the facilities anticipated by the HUAWP will exceed the \$30 million estimate by \$11.6 million. The additional funding will consist of a combination of \$1.7 million cash input from each the City of Hollister and Sunnyslope County Water District, \$4.2 million in Prop 84 grant funds, with the balance of \$4.0 million to be financed as a third tranche loan with a financial institution, to be repaid 50% each by the District and the City.

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, 2015
(with prior year data for comparative purposes only)

<u>ASSETS</u>		
	<u>2015</u>	<u>2014</u>
<i>CURRENT ASSETS</i>		
Cash	\$ 2,325,905	\$ 1,598,755
Time certificates	2,502,995	-
Invested funds	3,997,808	5,385,761
Accounts receivable from customers, less allowance for uncollectible accounts of \$16,214 and \$20,086	890,730	1,032,892
Interest receivable	3,684	2,736
Inventory supplies	282,262	210,847
Prepaid expenses	84,949	34,403
Current portion of prepaid CalPERS contribution	-	103,477
Total Current Assets	<u>10,088,333</u>	<u>8,368,871</u>
<i>CAPITAL ASSETS</i>		
Land and land improvements	966,613	1,095,481
Water utility plant	13,516,154	12,622,880
Wastewater utility plant	15,476,914	15,375,544
Equipment and furniture	1,963,322	1,860,294
Office building	2,737,613	2,737,613
Work-in-process	345,047	119,383
	<u>35,005,663</u>	<u>33,811,195</u>
Less accumulated depreciation	(11,400,562)	(10,364,201)
Total Capital Assets	<u>23,605,101</u>	<u>23,446,994</u>
<i>INTANGIBLE ASSETS</i>		
Water rights for Lessalt Water Treatment Plant, net of amortization of \$397,223 and \$180,556	6,102,777	6,319,444
Water rights for West Hills Water Treatment Plant amortization of \$70,833 and \$0	8,429,167	-
Total Intangible Asset, net	<u>14,531,944</u>	<u>6,319,444</u>
<i>OTHER NON-CURRENT ASSETS</i>		
Prepaid post-employment health benefits (OPEB)	21,860	21,838
Prepaid CalPERS contribution	-	724,340
Annexation fees receivable	-	56,333
Idle assets, net of accumulated depreciation of \$30,634 and \$30,634	285,716	287,476
Total Other Non-Current Assets	<u>307,576</u>	<u>1,089,987</u>
<i>DEFERRED OUTFLOWS OF RESOURCES</i>		
Deferred pension outflows	233,521	-
<i>TOTAL ASSETS AND DEFERRED OUTFLOWS</i>	<u><u>\$ 48,766,475</u></u>	<u><u>\$ 39,225,296</u></u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Net Position
June 30, 2015
(with prior year data for comparative purposes only)

LIABILITIES AND NET POSITION

	2015	2014
<i>CURRENT LIABILITIES</i>		
Accounts payable	\$ 1,197,603	\$ 843,526
Current portion of long-term debt	1,074,585	707,510
Accrued expenses	375,823	396,574
Total Current Liabilities	2,648,011	1,947,610
<i>LONG-TERM LIABILITIES</i>		
Bonds payable, net of discount of \$0 and \$47,973	-	3,862,027
Bank loan payable	3,632,358	-
State Revolving Fund loan payable	10,814,728	11,281,386
Commitment payable for water rights	14,358,652	6,304,087
Deposits received	345,946	340,487
Net pension liability	1,524,958	-
Total Non-Current Liabilities	30,676,642	21,787,987
<i>DEFERRED INFLOWS OF RESOURCES</i>		
Deferred pension inflows	550,197	-
Total Liabilities and Deferred Inflows	33,874,850	23,735,597
<i>NET POSITION</i>		
Net investment in capital assets	8,256,723	7,611,428
Restricted for connection fees	387,039	692,367
Restricted for debt service	760,000	760,000
Unrestricted	5,487,863	6,425,904
Total Net Position	14,891,625	15,489,699
<i>TOTAL LIABILITIES AND NET POSITION</i>	\$ 48,766,475	\$ 39,225,296

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Revenues, Expenses, and Change in Net Position
June 30, 2015
(with prior year data for comparative purposes only)

	<u>2015</u>	<u>2014</u>
<i>OPERATING REVENUES</i>		
Water sales	\$ 4,057,162	\$ 4,229,177
Wastewater service	1,905,245	1,605,290
Late fees	71,595	67,426
Customer fees	92,386	96,171
Other	<u>127,280</u>	<u>138,851</u>
Total Operating Revenues	<u>6,253,668</u>	<u>6,136,915</u>
<i>OPERATING EXPENSES</i>		
Salaries and benefits	3,030,626	2,342,479
Operations and maintenance	3,440,691	2,985,514
Water rate stabilization credit	<u>(1,135,007)</u>	<u>(500,000)</u>
Total Operating Expenses	<u>5,336,310</u>	<u>4,827,993</u>
<i>INCOME FROM OPERATIONS</i>	<u>917,358</u>	<u>1,308,922</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>		
Water connections	189,050	315,242
Wastewater connections	89,625	34,064
Interest income	15,991	8,409
Other income	-	50
Gain (loss) on disposal of assets	(126,868)	(29,833)
Other expense	-	(2,186)
Interest expense	(501,334)	(426,211)
Debt handling fees	<u>(25,000)</u>	<u>(3,343)</u>
Total Non-operating Revenues (Expenses), net	<u>(358,536)</u>	<u>(103,808)</u>
<i>INCOME BEFORE CAPITAL CONTRIBUTION</i>	558,822	1,205,114
<i>CAPITAL CONTRIBUTION</i>		
Donated assets	<u>725,000</u>	<u>977,682</u>
<i>CHANGE IN NET POSITION</i>	1,283,822	2,182,796
<i>NET POSITION - BEGINNING OF YEAR</i>	15,489,699	13,306,903
<i>PRIOR PERIOD ADJUSTMENT - NOTE 19</i>	<u>(1,881,896)</u>	<u>-</u>
<i>NET POSITION - END OF YEAR</i>	<u>\$ 14,891,625</u>	<u>\$ 15,489,699</u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Cash Flows
June 30, 2015
(with prior year data for comparative purposes only)

	2015	2014
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash received from customers	\$ 6,395,830	\$ 6,036,886
Cash paid to suppliers and employees	(2,906,843)	(4,609,529)
Net Cash Provided by Operating Activities	3,488,987	1,427,357
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</i>		
Other income (expense)	-	(2,136)
Debt handling expenses	-	(3,343)
Net Cash Used by Non-Capital Activities	-	(5,479)
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i>		
Water and wastewater connection fees received	278,675	349,306
Proceeds from new borrowing	3,943,126	1,978,081
Proceeds from sale of capital assets	3,760	455,416
Donated assets	-	977,682
Debt issue costs	(25,000)	-
Acquisition and construction of capital assets	(624,587)	(1,067,163)
Bond payments	(4,045,000)	(130,000)
Loan and commitment payments	(720,786)	(87,054)
Interest paid	(472,026)	(203,933)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,661,838)	2,272,335
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Sale (purchase) of time certificates of deposit	(2,502,995)	844,438
Sale (purchase) of LAIF funds	1,387,953	(4,253,306)
Interest received	15,043	6,083
Net Cash Used by Investing Activities	(1,099,999)	(3,402,785)
<i>NET INCREASE (DECREASE) IN CASH</i>	727,150	291,428
<i>CASH AT BEGINNING OF YEAR</i>	1,598,755	1,307,327
<i>CASH AT END OF YEAR</i>	\$ 2,325,905	\$ 1,598,755

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Cash Flows
June 30, 2015
(with prior year data for comparative purposes only)

	2015	2014
<i>Reconciliation of income from operations to net cash provided by operating activities:</i>		
Income from operations	\$ 917,358	\$ 1,308,922
Adjustments to reconcile income from operations to cash provided by operating activities:		
Depreciation and amortization	1,350,112	1,176,911
Bad debt provision	(3,872)	3,630
Pension liability	(40,262)	-
(Increase) decrease in:		
Accounts receivable	146,034	(104,389)
Annexation fees receivable	56,333	(34,302)
Inventory supplies	(71,415)	35,366
Prepaid expenses	(50,546)	(21,258)
Prepaid post-employment health benefits	(22)	(20)
Prepaid CalPERS retirement side fund	827,817	103,477
Deposits with vendors	-	70,567
Increase (decrease) in:		
Accounts payable	354,077	(1,114,656)
Accrued expenses	(2,086)	2,379
Deposits from customers	5,459	730
Net Cash Provided by Operating Activities	\$ 3,488,987	\$ 1,427,357
<i>SUPPLEMENTAL DISCLOSURES OF NON-CASH AND RELATED FINANCING AND INVESTING ACTIVITIES:</i>		
Contributed Assets	\$ 725,000	\$ -

See accompanying notes to basic financial statements

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

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 2015, water sales constitute approximately 64.9% of operating revenues and wastewater sales are approximately 30.5% 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, 2015

C. Budgetary Reporting

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

D. Cash and Cash Equivalents

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

E. Uncollectible Accounts and Credit/Market Risk

The District provides an allowance for doubtful accounts for all accounts deemed uncollectible. The allowance for fiscal year 2015 is calculated as 3.0% 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. 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.

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.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

The interest capitalized for the projects under construction was \$0 for the year ended June 30, 2015.

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

<u>Capital Asset Category:</u>	<u>Minimum Dollar Amount:</u>
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:

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

H. Bond Discounts and Debt Issuance Costs

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

I. Idle Assets

Idle assets consist of Well No. 1, which was placed in service in 1956, a potential site for Well #9 or a Water Treatment Plant on Union Road, and a potential site for Well #12 on Southside Road, including some engineering and design work, hydrogeology and water quality testing, environmental review work and drilling a test well. Well #1 was taken out of service in 1999 as new wells were constructed. The site on Union Road was taken out of service in 2010 because it is not currently being pursued for a well location or water treatment plant site. The potential

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

site for Well #12 was taken out of service in 2012 since the project is on hold until such future time as we need additional groundwater.

J. Use of Restricted Resources

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

K. Proprietary Fund Accounting

The District reports its two proprietary funds as a combined total in the financial statements; however, the year-end water and wastewater proprietary fund balances and change in fund balances are detailed in Note 14 – Net Position.

L. 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 classified as follows:

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

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

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

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

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

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The District has deferred pension outflows as described further in Note 11.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has deferred pension inflows as described further in Note 11.

N. 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 (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 12 for the CalPERS Plan disclosures. 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, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	June 30, 2013 to June 30, 2014

O. Revenue Recognition

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

P. Compensated Absences

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

Compensated Absences

0 - 5 years of service	10 paid days
6 - 10 years of service	15 paid days
11 - 15 years of service	20 paid days
16 + years of service	22 paid days

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

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.

Q. Use of Estimates

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

R. New Accounting Pronouncements

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

Effective for Fiscal Year Ended June 30, 2015

GASB Statement No. 68 – In June, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses relating to financial reporting by state and local governments for pensions. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014. This statement was implemented July 1, 2013, and the District has recognized the unfunded liability and expense related to the District’s pension obligation, see Note 11.

GASB Statement No. 69 – In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2013. This statement has no financial effect on these financial statements.

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

GASB Statement No. 70 – In April, 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement is effective for periods beginning after June 15, 2013. This statement has no financial effect on these financial statements.

GASB Statement No. 71 – In November, 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The provisions of this statement are effective for financial statements for fiscal year beginning after June 15, 2014. This statement has been applied simultaneously with statement No. 68.

S. Reclassifications

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

T. 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.

NOTE 2 — CASH AND INVESTMENTS

Cash and Investments

At June 30, 2015, the District maintained cash at MUFG Union Bank, N.A., a commercial bank with branch offices located in Hollister, California, of \$2,322,654 and maintained cash investments in both Heritage Bank of Commerce, a commercial bank with branch office located in Hollister, California, of \$2,502,995 and in the State of California's Local Agency Investment Funds (LAIF), which administers a pool of local government funds of \$3,997,808.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

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

Current Assets (partial listing):

	2015
Cash	\$ 2,325,905
Less: cash and postage stamps on hand	(3,251)
Cash funds – at MUFG Union Bank	2,322,654
Invested funds – at Heritage Bank of Commerce	2,502,995
Invested funds – at LAIF	3,997,808
Cash and postage stamps – on hand	3,251
Total cash and investments	\$ 8,826,708

Investments Authorized by the District's Investment Policy

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

Disclosures Relating to Interest Rate Risk

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

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

As of June 30, 2015, the District had the following cash and investment maturities:

	Fair Value	Cost	0-3 Months	4-12 Months	13-36 Months
Time Certificates					
Heritage Bank of Commerce	\$2,502,995	\$2,502,995	\$ -	\$2,502,995	\$ -
Local Agency Investment Fund	3,997,808	3,997,808	3,997,808	-	-
Total	\$6,500,803	\$6,500,803	\$3,997,808	\$2,502,995	\$ -

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

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

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/Stable from Standard & Poor's (as of January 25, 2006) and A2/P-1/Stable from Moody's (as of June 19, 2015). Heritage Bank of Commerce has a credit rating of Green/***/BB from Veribanc, Inc. (as of February 27, 2015).

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

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, 2015, \$250,000 of the balance on deposit with MUFG Union Bank, N.A. was covered by federal depository insurance, and the excess of \$2,072,654 was collateralized by the pledging institution as required by Section 53652 of the California Government Code. As of June 30, 2015, \$250,000 of the balance on deposit with Heritage Bank of Commerce, was covered by federal depository insurance, and the excess of \$2,252,995 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).

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

Investment in State Investment Pool

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

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

NOTE 3 — ACCOUNTS RECEIVABLE

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

	Sunnyslope Water & Wastewater Sales and Services	City of Hollister Customer Billings	Other Receivables	Total June 30, 2015
Accounts receivable	\$ 540,456	\$ 366,126	\$ 362	\$ 906,944
Less: Allowance for uncollectible accounts	<u>(16,214)</u>	<u>-</u>	<u>-</u>	<u>(16,214)</u>
Net accounts receivable	<u>\$ 524,242</u>	<u>\$ 366,126</u>	<u>\$ 362</u>	<u>\$ 890,730</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 \$366,126 due from the City of Hollister's customers as of June 30, 2015. Likewise, accounts payable includes \$366,126 due to the City of Hollister for the amount billed to their customers as of June 30, 2015. See Note 6. 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.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

NOTE 4 — CAPITAL ASSETS

A summary of property, plant, and equipment at June 30, 2015, is as follows:

	<u>Cost 6/30/14</u>	<u>Transfers/ Adjustments</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/15</u>
Land and land improve. \$	1,095,481	\$ -	\$ -	\$ 128,868	\$ 966,613
Water utility plant	12,622,880	96,112	797,162	-	13,516,154
Wastewater utility plant	15,375,544	-	101,370	-	15,476,914
Equipment & furniture	1,860,294	-	129,279	26,251	1,963,322
Office building	2,737,613	-	-	-	2,737,613
Work-in-process	119,383	(96,112)	321,776	-	345,047
	<u>\$ 33,811,195</u>	<u>\$ -</u>	<u>\$ 1,349,587</u>	<u>\$ 155,119</u>	<u>\$ 35,005,663</u>
	Accumulated Depreciation	Transfers/ Adjustments	Depreciation	Disposals	Accumulated Depreciation
	<u>6/30/14</u>	<u>Adjustments</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>6/30/15</u>
Land and land improve. \$	7,441	\$ -	\$ 490	\$ -	\$ 7,931
Water utility plant	6,618,499	-	447,444	-	7,065,943
Wastewater utility plant	1,397,930	-	405,866	-	1,803,796
Equipment & furniture	1,418,390	-	117,551	26,251	1,509,690
Office building	921,941	-	91,261	-	1,013,202
	<u>\$ 10,364,201</u>	<u>\$ -</u>	<u>\$ 1,062,612</u>	<u>\$ 26,251</u>	<u>\$ 11,400,562</u>
Net Book Value	<u>\$ 23,446,994</u>				<u>\$ 23,605,101</u>

NOTE 5 — IDLE ASSETS

A summary of idle assets at June 30, 2015, is as follows:

	<u>Cost 6/30/14</u>	<u>Transfers/ Adjustments</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/15</u>
Well #1	\$ 69,884	\$ -	\$ -	\$ -	\$ 69,884
Site for Well #9 or Water Treat. Plant	69,790	-	-	-	69,790
Well #12 Test Well	178,436	-	-	1,760	176,676
	<u>\$ 318,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,760</u>	<u>\$ 316,350</u>
	Accumulated Depreciation	Transfers/ Adjustments	Depreciation	Disposals	Accumulated Depreciation
	<u>6/30/14</u>	<u>Adjustments</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>6/30/15</u>
Well #1	\$ 30,634	\$ -	\$ -	\$ -	\$ 30,634
Net Book Value	<u>\$ 287,476</u>				<u>\$ 285,716</u>

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

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 \$366,126 due to the City of Hollister for the amount billed to their customers as of June 30, 2015. Likewise, accounts receivable from customers includes \$366,126 due from the City of Hollister’s customers as of June 30, 2015. See Note 3.

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	Total June 30, 2015
Accounts payable	\$ 831,477	\$ 366,126	\$ 1,197,603

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, 2015 was \$114,042.

Three qualifying employees elected to “cash-out” unused sick leave in fiscal year ended 2015. The total amount expensed when they cashed out was \$9,242 for the year ended June 30, 2015.

NOTE 8 — BONDS PAYABLE

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

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

On October 16, 2014, the bond was refinanced with a loan from City National Bank.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

The outstanding bond debt at June 30, 2015, is as follows:

	June 30, 2014	Redeemed/ Amortized	June 30, 2015
Capital projects fund	\$ 4,045,000	\$ (4,045,000)	\$ -
Unamortized bond discount	(47,973)	47,973	-
	<u>3,997,027</u>	<u>(3,997,027)</u>	-
Less: current portion	(135,000)	135,000	-
Bond payable, net of discount	<u>\$ 3,862,027</u>	<u>\$ (3,862,027)</u>	<u>\$ -</u>

NOTE 9 — 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 May 31, 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.

The outstanding SRF loan payable at June 30, 2015, is as follows:

	June 30, 2014	Borrowed	Repaid	June 30, 2015
Wastewater projects loan	\$ 11,400,000	\$ -	\$ -	\$ 11,400,000
Capitalized interest	345,037	-	-	345,037
Payments	-	-	(463,651)	(463,651)
Subtotal	<u>11,745,037</u>	<u>\$ -</u>	<u>\$ (463,651)</u>	11,281,386
Less: current portion	(463,651)			(466,658)
Loan payable	<u>\$ 11,281,386</u>			<u>\$ 10,814,728</u>

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

The following is a summary of principal maturities of SRF loan debt as of June 30, 2015:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2016	\$ 466,658	\$ 293,317	\$ 759,975
2017	478,792	281,183	759,975
2018	491,240	268,735	759,975
2019	504,012	255,963	759,975
2020	517,117	242,858	759,975
Next 5 years maturity sub-total	2,457,819	1,342,056	3,799,875
2021-2025	2,794,389	1,005,484	3,799,873
2026-2030	3,177,047	622,826	3,799,873
2031-2034	2,852,131	187,764	3,039,895
Total debt outstanding June 30, 2015	\$ 11,281,386	\$ 3,158,130	\$ 14,439,516

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.

The outstanding City National Bank loan payable at June 30, 2015, is as follows:

	<u>June 30, 2014</u>	<u>Borrowed</u>	<u>Repaid</u>	<u>June 30, 2015</u>
Refinance Bonds payable	\$ -	\$ 3,943,126	\$ -	\$ 3,943,126
Payments	-	-	(101,848)	(101,848)
Subtotal	-	\$ 3,943,126	\$ (101,848)	3,841,278
Less: current portion	-			(208,920)
Loan payable	\$ -			\$ 3,632,358

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

The following is a summary of principal maturities for City National Bank loan debt as of June 30, 2015:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2016	\$ 208,920	\$ 128,843	\$ 337,763
2017	216,083	121,679	337,762
2018	223,493	114,270	337,763
2019	231,156	106,606	337,762
2020	239,082	98,681	337,763
Next 5 years maturity sub-total	1,118,734	570,079	1,688,813
2021-2025	1,324,148	364,663	1,688,811
2026-2030	1,398,396	121,534	1,519,930
Total debt outstanding June 30, 2015	\$ 3,841,278	\$ 1,056,276	\$ 4,897,554

NOTE 10 — COMMITMENTS PAYABLE

San Benito County Water District – Surface Water Treatment Facilities

The San Benito County Water District committed to finance up to \$30 million dollars of the project costs to upgrade the surface water treatment process at the Lessalt Water Treatment Plant to meet current water quality regulations, and to construct a second surface water treatment plant to be called the West Hills Water Treatment Plant. These funds were committed in two tranches. The first tranche of \$13 million dollars was made available on the effective date of the agreement, September 1, 2013. The second tranche of \$17 million dollars was made available effective May 1, 2015, the start of the construction phase of the West Hills Water Treatment Plant. The District and the City of Hollister are committed to share equally in the costs associated with these two surface water treatment plants and we share in the rights to receive the treated water produced. The District's share of the first tranche capital cost is \$6.5 million and is spread in equal monthly payments over thirty years 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%. For more information, see Note 18.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

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

The outstanding Tranche 1 commitment payable at June 30, 2015 and June 30, 2014 is as follows:

	<u>June 30, 2014</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30, 2015</u>
Lessalt Water Treat. Plant				
Upgrades/Water Rights	\$ 6,500,000	\$ -	\$ -	\$ 6,500,000
Payments	<u>(87,054)</u>	-	<u>(108,860)</u>	<u>(195,914)</u>
Subtotal	6,412,946	<u>\$ -</u>	<u>\$ (108,860)</u>	6,304,086
Less: current portion	<u>(108,859)</u>			<u>(113,860)</u>
Commitment payable	<u>\$ 6,304,087</u>			<u>\$ 6,190,226</u>

The following is a summary of principal maturities of Tranche 1 commitment payable as of June 30, 2015:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2016	\$ 113,860	\$ 281,355	\$ 395,215
2017	119,091	276,123	395,214
2018	124,562	270,653	395,215
2019	130,284	264,930	395,214
2020	<u>136,269</u>	<u>258,946</u>	<u>395,215</u>
Next 5 years maturity sub-total	624,066	1,352,007	1,976,073
2021-2025	781,203	1,194,870	1,976,073
2026-2030	977,906	998,167	1,976,073
2031-2035	1,224,140	751,933	1,976,073
2036-2040	1,532,373	443,700	1,976,073
2041-2044	<u>1,164,398</u>	<u>87,111</u>	<u>1,251,509</u>
Total debt outstanding June 30, 2015	<u>\$ 6,304,086</u>	<u>\$ 4,827,788</u>	<u>\$ 11,131,874</u>

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

The outstanding Tranche 2 commitment payable at June 30, 2015 is as follows:

	<u>June 30, 2014</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30, 2015</u>
West Hills Water Treat. Plant				
Constr./Water Rights	\$ -	\$ 8,500,000	\$ -	\$ 8,500,000
Payments	<u>-</u>	-	<u>(46,427)</u>	<u>(46,427)</u>
Subtotal	-	<u>\$ 8,500,000</u>	<u>\$ (46,427)</u>	8,453,573
Less: current portion	<u>-</u>			<u>(285,147)</u>
Commitment payable	<u>\$ -</u>			<u>\$ 8,168,426</u>

**Sunnyslope County Water District
Notes to Financial Statements
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The following is a summary of principal maturities of Tranche 2 commitment payable as of June 30, 2015:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2016	\$ 285,147	\$ 332,953	\$ 618,100
2017	296,764	321,336	618,100
2018	308,855	309,245	618,100
2019	321,438	296,662	618,100
2020	334,534	283,566	618,100
Next 5 years maturity sub-total	1,546,738	1,543,762	3,090,500
2021-2025	1,888,563	1,201,937	3,090,500
2026-2030	2,305,929	784,571	3,090,500
2031-2035	2,712,343	275,139	2,987,482
Total debt outstanding June 30, 2015	\$ 8,453,573	\$ 3,805,409	\$ 12,258,982

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), a cost sharing multiple-employer defined benefit pension plan administered by CalPERS. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees’ Retirement Law (PERL). The District’s Board of Directors selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through a Board Resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Employees Covered – All full-time District employees are eligible for benefits under the plan in one of two tiers. Employees hired prior to January 1, 2013, or who are hired after December 31, 2012 and qualify as “classic” members on date of hire are in Tier 1, 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, 2015, there are 16 current full-time employees in Tier 1, and 2 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

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

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, 2015, are summarized as follows:

	<u>Miscellaneous</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2.7% @ 55
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	20 – 55	20 – 55
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	2.0% to 2.7%
Required employee contribution rates	8.000%	8.000%
Required employer contribution rates	15.685%	15.685%

Contribution Description – Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2014 (the measurement date), the average active employee contribution rate is 7.947 percent of annual pay, and the average employer's contribution rate is 15.685 percent of annual payroll. 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, 2015, the contributions recognized as part of pension expense were as follows:

	<u>Miscellaneous</u>
Contributions – employer	\$ 233,521
Contributions – employee (paid by employer)	\$ 110,639
Contributions – employee (paid by employee)	\$ 15,987

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

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

As of the start of the measurement period (June 30, 2013), net pension liability was \$2,083,642. As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the net pension liability as of the measurement period ending June 30, 2014 (the measurement date) of \$1,524,958.

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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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, 2015, the District recognized pension expense of \$1,121,476. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 233,521	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between employer's contributions and the employer's proportionate share of contributions	-	-
Net differences between projected and actual earnings on plan investments	-	(512,457)
Adjustments due to differences in proportions	-	(37,740)
Total	<u>\$ 233,521</u>	<u>\$ (550,197)</u>

**Sunnyslope County Water District
Notes to Financial Statements
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The \$233,521 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, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2016	\$ (141,592)
2017	(141,592)
2018	(138,898)
2019	(128,115)
2020	-
Thereafter	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes inflation
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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

Discount Rate – The discount rate used to measure the total pension liability was 7.5% for each plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.5% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.5% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.5% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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Notes to Financial Statements
June 30, 2015**

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10⁽¹⁾</u>	<u>Real Return Years 11+⁽²⁾</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	100.0%		

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

Sensitivity of the Net Pension Liability 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:

	<u>Miscellaneous</u>
1% Decrease	6.50%
Net Pension Liability	\$ 2,717,004
Current Discount Rate	7.50%
Net Pension Liability	\$ 1,524,958
1% Increase	8.50%
Net Pension Liability	\$ 535,673

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, 2015, the District reported a payable of \$1,524,958 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

On June 17, 2013, the District made a lump sum payment of \$931,294 to pay off its side fund. The lump sum payment was being carried as a prepaid asset to be amortized over the remaining amortization period of 9 years. However, due to implementation of GASB 68, the remaining balance of \$827,817 was expensed at June 30, 2015.

All pension costs are paid timely.

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

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.

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, 2015, employee contributions consisting of employee deferrals, compensated absences, and cash in lieu of insurance benefits converted to deferred compensation totaled \$142,671. For the year ended June 30, 2015, the required employer contribution was \$5,508. The investment balance in the deferred compensation plan at June 30, 2015 was \$1,603,839.

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 2015 was \$122 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, 2015, 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, 2015 totaled \$2,924.

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

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

Trust Fund. As of June 30, 2015, five payments have been made into the Trust totaling \$199,722. The Trust's total net assets available for funding benefits for the year ended June 30, 2015 totaled \$239,437.

Annual Cost

The District has calculated and recorded the net OPEB asset, representing the difference between the annual required contribution of the employer (ARC), interest, adjustment to the ARC, and contributions for fiscal year 2015, as presented in the following table:

Annual required contribution (ARC)	\$	38,649
Interest on net OPEB obligation		125
Adjustment to net OPEB obligation		(147)
		38,627
Annual OPEB cost (expense)		38,627
Contributions made to CERBT Trust		(35,725)
Contributions under "pay-as-you-go"		
Payment to retirees		(2,924)
		(38,649)
Subtotal		(38,649)
Change in net OPEB liability		(22)
Net OPEB asset – beginning of year		(21,838)
		(21,838)
Net OPEB asset – end of year	\$	(21,860)

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	\$ 86,557	186.18%	\$ (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)

Funded Status and Funding Progress of the Plan

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

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

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

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

Valuation date	July 1, 2013
Actuarial cost method	Entry age normal actuarial funding method
Amortization method	Level dollar amortization of the unfunded actuarial accrued liability
Remaining amortization period	30 years, beginning July 1, 2010
Asset valuation method	30-year closed period
Actuarial assumptions:	
Investment rate of return	7.61% per year
Medical cost trend rate	5.00% per year after 2014

Other Post-Employment Benefits Trust

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

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

Asset Class	Strategy 1		Strategy 2		Strategy 3	
	Policy Target	Policy Range	Policy Target	Policy Range	Policy Target	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%
Liquidity	0%	+ 2%	0%	+ 2%	0%	+ 2%
Total	100%		100%		100%	

Approved by the CalPERS CERBT Investment Committee October 13, 2014

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

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

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 Statement of Net Position – By Fund.

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

	June 30, 2015
Investment in capital assets, net of related debt:	
Capital assets, net of accum. depreciation	\$ 23,605,101
Intangible assets, net of accum. amortization	14,531,944
Less: Current debt payable	(1,074,585)
Non-current debt payable	(28,805,737)
	8,256,723
Legally restricted reserves:	
Water capacity fees	333,264
Wastewater capacity fees	53,775
Debt service reserve	760,000
	1,147,039
Unrestricted net position:	
Board designated reserves	
Capital improvement reserve	1,800,000
Vehicle replacement	217,997
Emergency equipment replacement	100,000
Office and miscellaneous equipment replacement	122,275
Drought contingency reserve	400,000
	2,640,272
Undesignated net position	2,847,591
	5,487,863
NET POSITION	\$ 14,891,625

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, 2015, all related parties were current on their bills payable to the District.

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

NOTE 16 — HOLLISTER-SUNNYSLOPE WATER TREATMENT AGENCY

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

In September, 2013, the City of Hollister and Sunnyslope County Water District, as joint owners of Hollister-Sunnyslope Water Treatment Agency (operating the Lessalt Water Treatment Plant), transferred ownership of the Lessalt plant to San Benito County Water District, as agreed among the members of the Governance Committee and in the Hollister Urban Area Water and Wastewater Master Plan. The Hollister-Sunnyslope Water Treatment Agency was dissolved by both the City's and Sunnyslope's governing boards effective February 28, 2014. See Note 18 for more information.

Until dissolution, City of Hollister and Sunnyslope County Water District funded the operating expenses equally. At June 30, 2015, the operating expenses incurred by the District was \$3,000.

As part of the agreement with San Benito County Water District, the District and City were each reimbursed for certain expenditures made through the WTA relating to the upgrades needed at Lessalt Water Treatment Plant, of which the District's share was \$324,405. The distribution of assets upon dissolution of the WTA included prepaid water of \$92,274 and cash reserves of \$561,004. These refunded amounts total \$977,682 in fiscal year 2014 and are reported as a capital contribution in the basic financial statements.

NOTE 17 — RISK MANAGEMENT

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

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

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015**

NOTE 18 — SIGNIFICANT COMMITMENTS

Hollister Urban Area Water Supply and Treatment Agreement

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

The SBCWD committed to finance up to \$30 million dollars of the project costs. These funds were committed in two tranches. The first tranche of \$13 million dollars was made available on the effective date of the agreement, August 30, 2013. The second tranche of \$17 million dollars was made available at the time of execution of a 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 each 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 50/50 by the City of Hollister and Sunnyslope County Water District.

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, 2015 was \$1,135,007.

Hollister Urban Area Agreement for Operation and Maintenance Services

In August 2013, the District and SBCWD each approved the Hollister Urban Area Agreement for Operation and Maintenance Services. This agreement establishes the District as the contract operator for the Lessalt Water Treatment Plant. This agreement was established for a term of 5 years with options to renew for subsequent terms of 5 years. It is anticipated that operation of the West Hills Water Treatment Plant will be added to the agreement prior to completion of the plan construction in 2016. The District began operating the plant in September, 2013 under this agreement. For the year ended June 30, 2015, \$476,120 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 19 — PRIOR PERIOD ADJUSTMENT—CHANGE IN ACCOUNTING PRINCIPLE

As part of implementing the requirements of GASB Statements 68 and 71, the Districted adjusted its beginning net position as of July 1, 2014 for the portion of pension liability attributable to periods before the year ended June 30, 2014. A pension liability of \$2,083,642 and deferred outflows of resources related to pension contributions of \$201,746 were recorded as prior year adjustments. This resulted in a net decrease to net position of \$1,881,896. This adjustment was recorded prospectively as it was not practical for management to attempt to estimate pension expense for prior years.

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2015

NOTE 20 — SUBSEQUENT EVENTS

The District evaluated subsequent events for recognition and disclosure through December 10, 2015, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2015 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, 2015**

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 Plan's Proportionate Share of the Net Pension Liability
 As of June 30, 2015
 Last 10 Years***

	June 30, 2014
Plan's Proportion of the Net Pension Liability (Asset)	0.02451%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$1,524,958
Plan's Covered-employee Payroll	\$1,642,325
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered-employee Payroll	92.85%
Plan's Proportion of the Fiduciary Net Position	\$7,460,581
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.03%

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**Sunnyslope County Water District
Required Supplementary Information
Schedule of Pension Plan Contributions
As of June 30, 2015
Last 10 Years***

	Fiscal Year 2013-14
Contractually Required Contribution (Actuarially Determined)	\$326,296
Contributions in Relation to the Actuarially Determined Contributions	(326,296)
Contribution Deficiency (Excess)	\$0
Covered-employee Payroll	\$1,642,325
Contributions as a Percentage of Covered- employee Payroll	19.87%

Notes to Schedule

Change in Benefit Terms:	None
Change in Assumptions:	None
Valuation Date:	6/30/2013

Methods and Assumptions used to Determine Contribution Rates:

Single and Agent Employers Example	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	15 years
Asset Valuation Method	5-year smoothed market
Inflation	3.50%
Salary Increases	4.5%, average, including inflation of 3.0%
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Retirement Age	57 years.
Mortality	RP-2000 Healthy Annuitant Mortality Table

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

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, 2015

	<u>2015</u> <u>Actual</u>	<u>Original and</u> <u>Final Budget</u>	<u>Variance</u> <u>Fav(Unfav)</u>
OPERATING REVENUES			
Water and wastewater sales	\$ 5,962,407	\$ 6,476,000	\$ (513,593)
Late fees	71,595	66,000	5,595
Customer fees	92,386	97,800	(5,414)
Other	127,280	121,000	6,280
Total operating revenues	<u>6,253,668</u>	<u>6,760,800</u>	<u>(507,132)</u>
OPERATING EXPENSES			
<i>SALARIES AND BENEFITS</i>			
Salaries	1,686,394	1,784,046	97,652
Employee benefits	237,907	246,330	8,423
CalPERS pension	1,121,476	381,204	(740,272)
Payroll taxes	24,437	27,704	3,267
Directors fees	15,300	24,000	8,700
Labor billed to others	(54,888)	(2,000)	52,888
Total salaries and benefits	<u>3,030,626</u>	<u>2,461,284</u>	<u>(569,342)</u>
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>			
Electrical services	301,653	296,000	(5,653)
Phone services	9,275	10,900	1,625
Professional services	52,664	112,500	59,836
Postage	30,544	30,500	(44)
Contract services	46,266	44,700	(1,566)
Office supplies	35,462	33,200	(2,262)
Legal advertising	8,789	5,000	(3,789)
Repair and maintenance	256,556	128,200	(128,356)
Diesel	789	3,100	2,311
Vehicle operating expenses	39,305	59,500	20,195
Professional development	8,510	12,000	3,490
Supplies	54,309	45,000	(9,309)
Meeting expense	354	1,000	646
Insurance	53,870	52,000	(1,870)
Equipment rental	-	1,100	1,100
Research and monitoring	77,149	95,000	17,851
Depreciation	1,062,612	1,008,300	(54,312)
Pumping fees	42,403	60,000	17,597
Lessalt water treatment	1,004,061	1,149,200	145,139
West Hills water treatment	127,423	440,000	312,577
Water conservation	128,891	125,000	(3,891)
Bad debts	2,744	5,000	2,256
Taxes, fees, permits	97,062	67,100	(29,962)
Total operations and maint. exp.	<u>3,440,691</u>	<u>3,784,300</u>	<u>343,609</u>
WATER RATE STABILIZATION CREDIT	<u>(1,135,007)</u>	<u>(1,500,000)</u>	<u>(364,993)</u>
Total operating expenses	<u>5,336,310</u>	<u>4,745,584</u>	<u>(590,726)</u>
INCOME FROM OPERATIONS	<u>917,358</u>	<u>2,015,216</u>	<u>(1,097,858)</u>
OTHER NON-OPERATING REVENUES			
(EXPENSE), NET	<u>(358,536)</u>	<u>(497,600)</u>	<u>139,064</u>
INCOME BEFORE CAPITAL CONTRIBUTION	<u>558,822</u>	<u>1,517,616</u>	<u>(958,794)</u>
CAPITAL CONTRIBUTION	<u>725,000</u>	<u>-</u>	<u>725,000</u>
CHANGE IN NET POSITION	<u>\$ 1,283,822</u>	<u>\$ 1,517,616</u>	<u>\$ (233,794)</u>

See note to supplementary information.

Sunnyslope County Water District
Schedule of Net Position - By Fund
June 30, 2015

	2015	Water Fund	Wastewater Fund
<u>ASSETS</u>			
<i>CURRENT ASSETS</i>			
Cash	\$ 2,325,905	\$ 2,064,388	\$ 261,517
Invested funds	6,500,803	5,196,832	1,303,971
Other current assets	1,261,625	1,039,364	222,261
Total Current Assets	10,088,333	8,300,584	1,787,749
<i>CAPITAL ASSETS</i>			
Land and land improvements	966,613	811,947	154,666
Utility plant	28,993,068	13,516,154	15,476,914
Equipment and furniture	1,963,322	1,347,213	616,109
Office building	2,737,613	2,190,090	547,523
Work-in-process	345,047	344,389	658
	35,005,663	18,209,793	16,795,870
Less accumulated depreciation	(11,400,562)	(9,017,248)	(2,383,314)
Total Capital Assets	23,605,101	9,192,545	14,412,556
<i>INTANGIBLE ASSETS, NET</i>	14,531,944	14,531,944	-
<i>OTHER NON-CURRENT ASSETS</i>	307,576	303,205	4,371
<i>DEFERRED OUTFLOWS OF RESOURCES</i>	233,521	185,725	47,796
TOTAL ASSETS	\$ 48,766,475	\$ 32,514,003	\$ 16,252,472
<u>LIABILITIES AND NET POSITION</u>			
<i>CURRENT LIABILITIES</i>	\$ 2,648,011	\$ 1,724,690	\$ 923,321
<i>LONG-TERM LIABILITIES</i>	29,151,684	18,336,647	10,815,037
<i>NET PENSION LIABILITY</i>	1,524,958	1,212,833	312,125
<i>DEFERRED INFLOWS OF RESOURCES</i>	550,197	437,584	112,613
Total Liabilities	33,874,850	21,711,754	12,163,096
<i>NET POSITION</i>			
Balance June 30, 2014	15,489,699	11,337,211	4,152,488
Change in net position	(598,074)	(534,962)	(63,112)
Total Net Position	14,891,625	10,802,249	4,089,376
TOTAL LIABILITIES AND NET POSITION	\$ 48,766,475	\$ 32,514,003	\$ 16,252,472

See note to supplementary information.

Sunnyslope County Water District
Schedule of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2015 (with comparative total for 2014)

	<u>2015</u>			<u>2014</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATING REVENUES</i>				
Water sales	\$ 4,057,162	\$ -	\$ 4,057,162	\$ 4,229,177
Wastewater service	-	1,905,245	1,905,245	1,605,290
Late fees	57,276	14,319	71,595	67,426
Customer fees	75,268	17,118	92,386	216,560
Other	102,347	24,933	127,280	18,462
Total operating revenues	<u>4,292,053</u>	<u>1,961,615</u>	<u>6,253,668</u>	<u>6,136,915</u>
<i>OPERATING EXPENSES</i>				
Salaries and benefits	2,394,660	635,966	3,030,626	2,342,479
Operations and maintenance	2,657,278	783,413	3,440,691	2,985,514
Water rate stabilization credit	(1,135,007)	-	(1,135,007)	(500,000)
Total operating expenses	<u>3,916,931</u>	<u>1,419,379</u>	<u>5,336,310</u>	<u>4,827,993</u>
<i>INCOME FROM OPERATIONS</i>	<u>375,122</u>	<u>542,236</u>	<u>917,358</u>	<u>1,308,922</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>				
Water connections	189,050	-	189,050	315,242
Wastewater connections	-	89,625	89,625	34,064
Interest	12,929	3,062	15,991	8,409
Other income	-	-	-	50
Other expense	-	-	-	(2,186)
Interest expense	(189,981)	(311,353)	(501,334)	(426,211)
Debt handling fees	(23,100)	(1,900)	(25,000)	(3,343)
Gain (loss) on disposal of assets	(127,268)	400	(126,868)	(29,833)
Total non-operating revenues (expenses), net	<u>(138,370)</u>	<u>(220,166)</u>	<u>(358,536)</u>	<u>(103,808)</u>
<i>INCOME BEFORE CAPITAL CONTRIBUTION</i>	236,752	322,070	558,822	1,205,114
<i>CAPITAL CONTRIBUTION</i>				
Donated assets	<u>725,000</u>	<u>-</u>	<u>725,000</u>	<u>977,682</u>
<i>CHANGES IN NET POSITION</i>	\$ <u>961,752</u>	\$ <u>322,070</u>	1,283,822	2,182,796
<i>NET POSITION - BEGINNING OF YEAR</i>			15,489,699	13,306,903
<i>PRIOR PERIOD ADJUSTMENT - NOTE 19</i>			<u>(1,881,896)</u>	<u>-</u>
<i>NET POSITION - END OF YEAR</i>			\$ <u>14,891,625</u>	\$ <u>15,489,699</u>

See note to supplementary information.

**Sunnyslope County Water District
Schedule of Salaries and Benefits
Year Ended June 30, 2015 (with comparative total for 2014)**

	<u>2015</u>					<u>2014</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>GENERAL & ADMIN</u>	<u>CUSTOMER SERVICE</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>SALARIES AND BENEFITS</i>						
Salaries	\$ 934,179	\$ 250,178	\$ 204,509	\$ 297,528	\$ 1,686,394	\$ 1,765,762
Employee benefits	125,472	31,652	63,931	16,852	237,907	236,952
CalPERS pension	507,878	134,132	310,864	168,602	1,121,476	463,910
Payroll taxes	12,646	3,399	4,123	4,269	24,437	25,985
Directors fees	-	-	15,300	-	15,300	15,300
Allocation (from) to:						
Customer service	389,658	97,414	-	(487,072)	-	-
Gen. and admin.	478,408	119,602	(598,010)	-	-	-
Subtotal	2,448,241	636,377	717	179	3,085,514	2,507,909
Labor billed to others	(53,581)	(411)	(717)	(179)	(54,888)	(165,430)
Total salaries and benefits	\$ <u>2,394,660</u>	\$ <u>635,966</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,030,626</u>	\$ <u>2,342,479</u>

See note to supplementary information.

Sunnyslope County Water District
Schedule of Operations and Maintenance Expenses
Year Ended June 30, 2015 (with comparative total for 2014)

	<u>2015</u>					<u>2014</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>GENERAL & ADMIN</u>	<u>CUSTOMER SERVICE</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>						
Electrical services	\$ 227,960	\$ 60,909	\$ 12,784	\$ -	\$ 301,653	\$ 318,314
Phone services	2,442	1,786	1,824	3,223	9,275	11,833
Professional services	342	1,541	45,503	5,278	52,664	74,863
Postage	1,181	-	2,201	27,162	30,544	29,168
Contract services	3,068	3,004	20,450	19,744	46,266	43,187
Office supplies	-	129	20,005	15,328	35,462	30,147
Legal advertising	575	-	8,214	-	8,789	6,983
Repair and maintenance	166,815	86,766	2,975	-	256,556	152,857
Diesel	631	158	-	-	789	1,862
Vehicle operating expense	30,510	7,630	1,165	-	39,305	48,899
Professional development	370	135	8,005	-	8,510	6,121
Supplies	21,592	32,619	98	-	54,309	48,239
Meeting expense	239	-	115	-	354	118
Insurance	-	-	53,870	-	53,870	48,619
Research and monitoring	30,160	46,989	-	-	77,149	104,573
Depreciation	487,335	445,965	124,590	4,722	1,062,612	996,355
Tank lease	-	-	-	-	-	(1,200)
Pumping fees	42,403	-	-	-	42,403	51,136
Lessalt water treat. plant	1,004,061	-	-	-	1,004,061	862,721
West Hills water treat. plant	127,423	-	-	-	127,423	-
Water conservation	128,891	-	-	-	128,891	88,954
Bad debts	1,281	1,463	-	-	2,744	6,623
Taxes, fees, permits, dues, and subscriptions	53,041	12,579	20,024	11,418	97,062	55,142
Allocated from (to):						
General and admin.	257,458	64,365	(321,823)	-	-	-
Customer service	69,500	17,375	-	(86,875)	-	-
Total operations and maint. exps.	<u>\$ 2,657,278</u>	<u>\$ 783,413</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,440,691</u>	<u>\$ 2,985,514</u>

See note to supplementary information.