

Sunnyslope County Water District



Financial Statements



June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sunnyslope County Water District
Hollister, California

We have audited the accompanying financial statements of Sunnyslope County Water District (the District), as of and for the years ended June 30, 2013 and 2012, 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 opinions on these financial statements based on our audits. We conducted our audits 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 opinions.

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Opinions

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Other Information

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

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

Mc Gilloway, Roy, Brown & Kaufman

Salinas, California
December 31, 2013

Sunnyslope County Water District

Management's Discussion and Analysis

June 30, 2013 and 2012

The following discussion and analysis of the Sunnyslope County Water District (the District) financial performance provides management's overview of the financial activities for the fiscal years ended June 30, 2013 and 2012. This discussion and analysis should be read in conjunction with the District's basic financial statements, which begin immediately following this analysis.

Description of Basic Financial Statements

The District operates as a utility enterprise and maintains its accounting records in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements include statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows.

The statements 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 commitments. The statement of net position provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statements of revenues, expenses, and changes in net position report all of the District's revenues and expenses during the periods indicated. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statements of revenues, expenses, and changes in net position measure the success of the District's operations over the past year and determines whether the District has recovered its cost through water sales, user fees, and other changes.

The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from debt financing, investment income, and cash used for construction projects and principal and interest payments on borrowed money during the year. The statements of cash flows accounts only for transactions that result in cash receipts and cash disbursements.

Condensed Financial Information

Capital Assets, Net

Fiscal Year 2013 Compared to 2012. Net capital assets include water and wastewater utility plant and work-in-process, net of accumulated depreciation. At June 30, 2013, net capital assets totaled \$24.1 million, or 80.3% of total assets. The current year net capital asset balance represents an increase of \$4.5 million, or 23.0% over fiscal year 2012 due primarily to expenditures for the District's share of the Hollister Urban Area Water and Wastewater Master Plan, for the District's share of the City of Hollister Urban Area 2010 Water Management Plan Cost Allocation Study, for ongoing meter and pump replacement costs, for ongoing work-in-process projects including upgrades to the Ridgemark wastewater treatment system with the construction of a sequencing batch reactor plant and operations building, offset by depreciation expense and disposals. Expenditures for plant assets and work-in-process projects are described in the Capital Assets section below.

Sunnyslope County Water District

Management's Discussion and Analysis

June 30, 2013 and 2012

Condensed Statements of Net Position

(Dollars in thousands)	June 30,		
	2013	2012	2011
Assets			
Capital assets, net	\$ 24,139.4	\$ 19,626.5	\$ 14,540.8
Other assets	5,919.1	5,489.2	4,531.2
	\$ 30,058.5	\$ 25,115.7	\$ 19,072.0
Liabilities			
Long-term liabilities	\$ 14,101.1	\$ 10,227.2	\$ 6,154.5
Other liabilities	2,541.8	2,765.6	1,554.6
	16,642.9	12,992.8	7,709.1
Net Position			
Invested in capital assets	10,248.1	9,411.0	8,386.8
Restricted for connection fees	675.7	346.6	242.8
Unrestricted	2,491.8	2,365.3	2,733.3
	13,415.6	12,122.9	11,362.9
	\$ 30,058.5	\$ 25,115.7	\$ 19,072.0

Fiscal Year 2012 Compared to 2011. At June 30, 2012, net capital assets totaled \$19.6 million, or 78.1% of total assets. This represents an increase of \$5.1 million, or 35.0% over the prior year due primarily to ongoing expenditures for additional land at the site for potential Well #12, water meters, a mixing system for the 4M gallon Fairview Tank, some new office equipment, GIS mapping for the wastewater system, and various work-in-process projects including upgrades to the wastewater treatment system with the construction of a sequencing batch reactor plant and operations building, partially offset by an increase in depreciation expense and the capitalization of some work-in-process projects. Expenditures for plant assets and work-in-process projects are described in the Capital Assets section above.

Other Assets

Fiscal Year 2013 Compared to 2012. Other assets include all assets other than capital assets, such as cash and investments, accounts receivable, inventory, prepaid expenses, deposits paid, idle assets, and deferred and other charges. Other assets totaled \$5.9 million at June 30, 2013, an increase of \$429.9 thousand over fiscal year 2012. Other assets includes \$3.3 million in cash and investments for fiscal year 2013, compared to \$3.7 million for fiscal year 2012, a decrease of \$461.7 thousand or 12.3%, primarily due to capital and investing activities. The \$2.6 million balance of "other assets" consisted of accounts receivable, inventories, deferred and other charges. Accounts receivable were \$35.0 thousand higher, which is primarily a result of a \$28.0 thousand increase in the balance owed by the District's customers, a \$2.1 thousand increase in the balance due from the City of Hollister's¹ (the City) customers, and a \$4.9 thousand decrease in the allowance for bad debts. The increase in the District's accounts receivable balance is due primarily to higher water and wastewater sales revenue in both May and June 2013, normal fluctuation, and a strong collection policy. Inventory of meters and spare parts were \$1.5 thousand lower, primarily due to a decrease in parts on hand. Deferred and other charges

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June 30, 2013 and 2012

primarily include prepaid expenses, which is \$875.8 thousand higher, primarily due to the lump sum prepayment of the CalPERS retirement side fund of \$931.3 thousand offset by a \$59.6 thousand decrease in prepaid insurance due to extending the policy year last year from April 14, 2012 to June 30, 2013 and paying next year's premium after June 30.

Fiscal Year 2012 Compared to 2011. Other assets totaled \$5.5 million at June 30, 2012, an increase of \$958.0 thousand over the prior year. Other assets includes \$3.7 million in cash and investments for fiscal year 2012, compared to \$3.1 million for the prior year, an increase of \$603.1 thousand or 19.2%, primarily due to operating activities. Accounts receivable were \$45.0 thousand higher, which is primarily a result of a \$46.7 thousand increase in the accounts receivable balance due from the District's customers, offset by a \$1.7 thousand decrease in the accounts receivable balance due from the City's¹ customers. The increase in the District's accounts receivable balance is due primarily to an outstanding bill to the Hollister-Sunnyslope Water Treatment Agency for June's Lessalt water treatment plant operator labor (new this fiscal year), along with normal customer balance fluctuations. Inventories were \$77.7 thousand higher this year due primarily to including repair parts on hand not previously counted in inventory and recorded as a prior period adjust of \$91.5 thousand to correct prior years. Prepaid expenses were \$82.4 thousand higher this year, primarily due to changing back to paying insurance premiums annually in April rather than quarterly resulting in a \$54.0 thousand increase in prepaid insurance, and prepaying the post-retirement health benefit liability of \$23.4 thousand for the second half of the calendar year 2012. Idle assets increased by \$178.4 thousand due to reclassifying the costs expended to date for developing potential Well #12 and drilling a test well, since the focus has changed from groundwater development to surface water development and Well #12 may not be drilled for 10-20 years in the future.

¹ On July 1, 2007, we began billing our water customers who are in the City of Hollister for the City's wastewater and street sweeping charges as a service to the City. There is a corresponding balance in accounts payable, see Other Liabilities section below, since the amounts we bill for the City are both a receivable to us from their customers and a payable from us to the City.

Long-Term Liabilities

Fiscal Year 2013 Compared to 2012. Long-term liabilities are obligations due to be paid one year or more in the future. Long-term liabilities totaled \$14.1 million at June 30, 2013, an increase of \$3.9 million, or 37.9%, from the prior year. They consist primarily of a \$4.0 million revenue bond used to finance major facility upgrades, net of the unamortized bond discount, and \$9.8 million drawn down on an \$11.4 million State Revolving Fund loan being used to construct the Ridgemark Wastewater Treatment Plant improvements project. The remaining \$0.3 million of long-liabilities consists of customer deposits held. See long-term debt section below for additional information and analysis. The previously existing bank loan used to construct a new well was paid off during the year.

Fiscal Year 2012 Compared to 2011. Long-term liabilities totaled \$10.2 million at June 30, 2012, an increase of \$4.1 million, or 66.2%. They consist of a \$4.1 million revenue bond used to finance major facility upgrades, net of the unamortized bond discount, a \$0.2 million bank loan used to construct a new well, and \$5.6 million drawn on an \$11.4 million State Revolving Fund loan being used to construct the Ridgemark Wastewater Treatment Plant Improvements project. The remaining \$0.3 million of long-liabilities consists of customer deposits held. See long-term debt section below for additional information and analysis.

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Management's Discussion and Analysis

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Other Liabilities

Fiscal Year 2013 Compared to 2012. Other liabilities represent current liabilities that are due within one year. They include accounts payable, accrued liabilities, and the current portion of long-term debt. Other liabilities totaled \$2.5 million at June 30, 2013, which was \$223.8 thousand lower than fiscal year 2012. Accounts payable decreased \$284.4 thousand, of which \$286.5 thousand of the decrease is attributed to the amount due to the District's vendors, offset by a \$2.1 thousand increase in the balance payable to the City of Hollister² for the accounts receivable billed to their customers. The decrease in the balance due to the District's vendors is due primarily to a decrease of \$119.8 thousand in the amount owed to Anderson Pacific for the construction of the Ridgemark Wastewater Treatment Plant project with the project nearing completion, and a decrease of \$148.0 thousand due to San Benito County Water District for the District's share of expense on both the Hollister Urban Area Water and Wastewater Master Plan and the Water Resources Agency expenses. Accrued expenses increased \$208.8 thousand, primarily due to a \$211.5 thousand increase in the accrued interest on the SRF loan. The current portion of long-term debt decreased \$148.2 thousand over fiscal year 2012, primarily due to a decrease of \$153.2 thousand in current liabilities due to paying off the bank loan payable.

Fiscal Year 2012 Compared to 2011. Other liabilities totaled \$2.8 million at June 30, 2012, which was \$1.2 million higher than the prior year. Accounts payable increased \$1.2 million, of which \$1.2 million of the increase is attributed to the amount due to the District's vendors; offset only imperceptibly by a \$1.7 thousand decrease in the balance payable to the City of Hollister² for the accounts receivable billed to their customers. The increase in the balance due to the District's vendors is due primarily to an increase of \$869.7 thousand to Anderson Pacific for the construction of the Ridgemark Wastewater Treatment Plant project with substantial work accomplished this year on the mobilization, the SBR structure, the headwork's structure, and the operations building compared to their first bill last year for initial mobilization and builders risk insurance, and an increase of \$246.4 thousand to San Benito County Water District for the District's share of the Water Resources Association bill and for the District's share of the Hollister Urban Area Water and Wastewater Master Plan bill.

² On July 1, 2007, we began billing our water customers who are in the City of Hollister for the City's wastewater and street sweeping charges as a service to the City. There is a corresponding increase in accounts receivable, see Other Assets section above, since the amounts we bill for the City are both a receivable to us from their customers and a payable from us to the City. As the amounts billed for the City of Hollister are collected from customers by the District, they are generally remitted to the City the following month.

Invested in Capital Assets, Net of Accumulated Depreciation and Related Debt

Fiscal Year 2013 Compared to 2012. Fiscal year 2013 investment in capital assets, net of accumulated depreciation and related debt totaled \$10.2 million and increased \$837.1 thousand over fiscal year 2012. This is a result of the increase in capital assets, net of accumulated depreciation of \$4,512.9 thousand; a decrease in current portion of long-term debt of \$148.2 thousand; offset by an increase in long-term debt of \$3,824.0 thousand. For more information on the amounts invested in capital assets, see the Capital Assets and Debt Administration section.

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Fiscal Year 2012 Compared to 2011. Fiscal year 2012 investment in capital assets, net of accumulated depreciation and related debt totaled \$9.4 million, an increase of \$1.0 million over the prior year. This is a result of the increase in capital assets, net of accumulated depreciation of \$5.1 million; offset by an increase in long-term debt of \$4.1 million and by an increase in current portion of long-term debt of \$12.4 thousand. For more information on the amounts invested in capital assets, see the Capital Assets and Debt Administration section.

Restricted Net Position

Fiscal Year 2013 Compared to 2012. Restricted net position include amounts restricted by either bond indenture, by law, or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of capital assets. Restricted net position totaled \$675.8 thousand at June 30, 2013, which was \$329.2 thousand higher than fiscal year 2012. The increase was primarily due to \$310.7 thousand from forty-one (41) water connection fees, \$17.0 thousand from one (1) wastewater connection fee, and \$1.5 thousand from interest received on the invested restricted assets.

Fiscal Year 2012 Compared to 2011. Restricted net position totaled \$46.6 thousand at June 30, 2012, which was \$103.8 thousand higher than the prior year. The increase was primarily due to \$102.7 thousand received from sixteen (16) water connection fees collected, and \$1.1 thousand from interest received on the invested restricted assets.

Unrestricted Net Position

Fiscal Year 2013 Compared to 2012. Unrestricted net position consist of net position that does not meet the definition of "restricted" or "invested in capital assets, net of accumulated depreciation and related debt". Unrestricted net position of \$2,491.8 thousand increased by \$126.4 thousand over fiscal year 2012, primarily due to the increase in net position, or net income, of \$1,292.7 thousand for the current year, offset by a decrease of \$1,166.3 thousand due to the increase in equity invested in capital assets of \$837.1 thousand and an increase in restricted equity of \$329.2 thousand.

Fiscal Year 2012 Compared to 2011. Unrestricted net position of \$2.4 million decreased \$366.3 thousand from the prior year, which was primarily due to transferring \$1,024.1 thousand to invested in capital assets and transferring \$103.8 thousand to restricted equity, offset by the increase in net position, or net income, of \$670.1 thousand for the current year, and the increase of \$91.5 thousand due to the prior period adjustment to inventory.

Change in Net Position

Operating Revenues

The District's principal source of revenue is from water sales, which on average constitutes about 69% of operating revenues. The District's principal sources of water supply are from several wells owned by the District, through interties with the City of Hollister, and are supplemented by treated surface water from the Hollister-Sunnyslope Water Treatment Agency's Lessalt Water

Sunnyslope County Water District

Management's Discussion and Analysis

June 30, 2013 and 2012

Treatment Plant. More information about the Hollister-Sunnyslope Water Treatment Agency is available in Note O of the Notes to Financial Statements.

Analytical Review of Operating Revenues

Fiscal Year 2013 Compared to 2012. Operating revenues were \$5.7 million, or \$144.8 thousand higher than fiscal year 2012. Water sales increased \$129.6 thousand, or 3.4%, primarily due to an average increase of 30 customers in the total customers served resulting in a 32.5 million increase in the number of gallons of water sales. Water use varies with the seasons and the amount of rainfall. During the hot and dry summer months, when irrigation use is the highest, the District's water sales are 2-3 times more than water sales during the cool and wet winter months. Wastewater sales increased \$17.5 thousand in fiscal year 2013, primarily due to the impact of the adjustment in the consumption factor each April. For each wastewater service customer, the consumption based component of the wastewater rate is adjusted each April 21 based on their average winter water use for February and March, and is calculated per HCF (hundred cubic feet) of water usage. The last rate increase for water and wastewater was on December 21, 2010. In August, 2013, rate increases were approved for both water and wastewater to be effective beginning December 21, 2013.

Fiscal Year 2012 Compared to 2011. Operating revenues were \$5.6 million, or \$491.1 thousand higher than the prior year. Water sales increased \$387.1 thousand or 11.2% over the prior year, primarily due to a 10.3 million gallon, or 1.3% increase in the quantity of water sold augmented by a full year's impact from last fiscal year's 15% increase in water rates (compared to only half a year's impact last fiscal year). Water use varies with the seasons and the amount of rainfall. During the hot and dry summer months, when irrigation use is the highest, the District's water sales are 2-3 times more than water sales during the cool and wet winter months. Wastewater sales increased \$121.5 thousand or 9.0% over the prior year, primarily due to wastewater rate increase of 10% effective December 21, 2010 and the impact of the adjustment in the consumption factor that occurs each April.

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

(Dollars in thousands)	Year Ended June 30,		
	2013	2012	2011
Water sales	\$ 3,961.5	\$ 3,831.9	\$ 3,444.8
Wastewater sales	1,486.9	1,469.4	1,347.9
Late fees and other	282.4	284.7	302.2
Operating revenues	5,730.8	5,586.0	5,094.9
Water connections	310.7	102.6	174.8
Wastewater connections	17.0	-	-
Interest	6.1	10.0	11.4
Other nonoperating	-	2.2	57.0
Nonoperating revenues	333.8	114.8	243.2
Total revenues	6,064.6	5,700.8	5,338.1

Sunnyslope County Water District

Management's Discussion and Analysis

June 30, 2013 and 2012

Condensed Statements of Revenues, Expenses, and Changes in Net Position (Continued)

(Dollars in thousands)	Year Ended June 30,		
	2013	2012	2011
Power and water costs	(243.0)	(338.7)	(275.4)
Wastewater collection	(499.6)	(495.8)	(311.0)
Operations and maintenance	(2,084.5)	(2,058.3)	(2,553.6)
General and administrative	(1,131.9)	(1,181.3)	(1,145.0)
Depreciation and amortization	(531.7)	(534.7)	(540.0)
Operating expenses	(4,490.7)	(4,608.8)	(4,825.0)
Bond and loan interest	(234.1)	(242.8)	(254.7)
Bond issue and handling	(8.9)	(8.9)	(9.3)
Other nonoperating	(38.2)	(171.7)	(4.1)
Nonoperating expenses	(281.2)	(423.4)	(268.1)
Total expenses	(4,771.9)	(5,032.2)	(5,093.1)
Change in net position	\$ 1,292.7	\$ 668.6	\$ 245.0

Nonoperating Revenues

The primary sources of nonoperating revenues are water and wastewater connection fees and investment income. Connection fees are derived from new service locations, which ceased under a housing moratorium that was imposed on the City of Hollister in 2002 by the Central Coast Regional Water Quality Control Board and a 1% growth cap that was imposed by the County of San Benito. The Regional Water Quality Control Board's moratorium was lifted in December 2008. New service connections, however, remain sparse due to the poor local economy which mirrors the poor national economy and slow recovery. With the addition of the new well in February, 2010, the District no longer has a limited water supply pumping capacity, and with the upgrades to the wastewater treatment system including the construction of the sequencing batch reactor, the District no longer has limited wastewater disposal capabilities.

Analytical Review of Nonoperating Revenues

Fiscal Year 2013 Compared to 2012. Nonoperating revenues for fiscal year 2013 totaled \$333.8 thousand, or \$219.0 thousand higher than fiscal year 2012. The primary reasons for the increase was a \$208.1 thousand increase in water connection fees collected, a \$17.0 thousand increase in wastewater connection fees collected, offset by earning \$3.9 thousand less in investment income due to unfavorable market conditions and a \$2.2 thousand decrease in other nonoperating revenues.

Fiscal Year 2012 Compared to 2011. Nonoperating revenues totaled \$114.8 thousand for fiscal year 2012, and were \$128.4 thousand or 52.8% lower than the prior fiscal year. The primary reasons for the decrease was a \$72.2 thousand decrease in water connection fees collected, a \$54.8 thousand decrease in other nonoperating revenues, and a \$1.4 thousand decrease in interest earned on investments due to continued unfavorable market conditions and interest rates. Other nonoperating revenues were primarily from the rental of our Reverse Osmosis

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Trailer & Equipment and operator labor billed to the Lessalt Water Treatment Plant for Pilot Study testing in both fiscal year 2011 and 2010. We have not collected any wastewater connection fees for several years, due to the limited service area served by the District and slow housing growth.

Operating Expenses

Operating expenses fall into five primary cost areas: power and water, wastewater collection, operations and maintenance, general and administrative, and depreciation and amortization.

Analytical Review of Operating Expenses

Fiscal Year 2013 Compared to 2012. Fiscal year 2013 operating expenses of \$4.5 million were \$116.6 thousand lower than fiscal year 2012, primarily due to lower power and water costs of \$95.7 thousand, lower general and administrative expense of \$49.4 thousand, and lower depreciation and amortization expense of \$3.0 thousand, offset by higher wastewater collection costs of \$4.1 thousand, and higher operations and maintenance expense of \$27.4 thousand.

Power and water costs decreased \$95.7 thousand over fiscal 2012, due primarily to decreased electricity costs of \$79.4 thousand, and decreased well water pumping fee costs of \$16.3 thousand. During fiscal year 2012, the District switched PG&E rates on three of its wells to E19 (time of use) rates, which lowers the cost of pumping water from the wells as long as you avoid pumping during peak hours. To avoid peak demand charges, power cannot be used to pump water from the wells between 12 p.m. to 6 p.m. We have also reduced the amount of water we are pumping to the City of Hollister from our wells in an effort to get back some of the water they owe to us, which reduces both the power costs and pumping fee costs.

Wastewater collection costs increased \$4.1 thousand over fiscal year 2012 due primarily to higher professional services of \$7.9 thousand, higher diesel and vehicle operating costs of \$1.1 thousand, higher other operating costs of \$0.4 thousand, offset by lower repairs and maintenance costs of \$4.3 thousand, and lower net salaries and benefits costs of 1.0 thousand (salaries and benefits cost increase of \$17.7 thousand offset by an increase of \$18.7 thousand in salaries and benefits capitalized as a project cost of the Ridgemark Wastewater Treatment Plant upgrade). The higher professional services were for financial advisor services related to the \$2 million line-of-credit established for the Ridgemark Wastewater Treatment Plant upgrade, if needed. The increased diesel and vehicle operating costs were primarily for diesel fuel to the new generator at the Ridgemark Wastewater Treatment Plant.

Operations and maintenance costs increased \$27.4 thousand over fiscal year 2012 due primarily to an increase of \$114.2 thousand in salaries and benefits expense, an increase of \$6.9 thousand in wastewater electrical expense, an increase of \$7.4 thousand in water quality monitoring expense, offset by a decrease of \$58.0 thousand in the District's share of the cost to operate the Lessalt Water Treatment Plant, a decrease of \$12.8 thousand in repairs and maintenance expense, a decrease of \$7.3 thousand in diesel fuel and vehicle operating expense, a decrease of \$4.8 thousand in supplies, a decrease of \$12.0 thousand in water conservation expense, and a decrease of \$3.3 thousand in bad debts expense, and an average decrease of \$2.9 thousand in other operating and maintenance expenses. The increase in salaries and benefits expense is due primarily to a 3% COLA raise to all employees that was negotiated in 2010, paying a retro-active salary correction to hourly employees who were underpaid by 8 hours in 2010 and 2012,

Sunnyslope County Water District

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slightly higher overtime cost of \$8.0 thousand, and higher health and dental benefit premiums. The reduction in the District's share of the cost to operate the Lessalt Water Treatment Plant is due primarily to paying for the ongoing capital projects from existing reserves in fiscal year 2013, rather than incur additional expense as was done in fiscal year 2012.

General and administrative costs decreased \$49.4 thousand over fiscal year 2012 due primarily to a decrease of \$70.3 thousand in operating expenses offset by an increase of \$20.9 thousand in salaries and benefits costs. The decrease in operating expenses is due primarily to a decrease of \$44.9 thousand in contract services, a decrease of \$13.0 thousand in office supplies, a decrease of \$6.7 thousand in insurance expense, and a decrease of \$10.6 thousand in depreciation expense, offset by an increase of \$14.8 thousand in professional services expense. The increase in salaries and benefits expense is due primarily to a 3% COLA raise to all employees that was negotiated in 2010. The decrease in contract services this fiscal year is due primarily to one-time expenditures of \$9.2 thousand for general manager recruitment and \$23.0 thousand for development of a strategic plan in fiscal year 2012.

Depreciation and amortization costs increased \$3.0 thousand over fiscal year 2012.

Fiscal Year 2012 Compared to 2011. Fiscal year 2012 operating expenses of \$4.6 million were \$217.7 thousand, or 4.5%, lower than the prior fiscal year due primarily to decreases in operations and maintenance expense and depreciation and amortization expenses, offset by increases in power and water costs, wastewater collection costs, and general and administrative expenses.

Power and water costs increased \$63.3 thousand, or 22.9% over the prior fiscal year, due primarily to an increase in electricity costs of \$54.9 thousand and an increase in well water pumping costs of \$8.4 thousand. During fiscal year 2012, the District switched PG&E rates to E19 on three of its wells. To avoid peak demand charges, power cannot be used to pump water from the wells between 12 p.m. to 6 p.m., which was done with few exceptions. We believe we may have been overbilled for up to \$30 thousand in demand charges we did not incur, and PG&E is researching the issue. We continue to avoid using power when demand charges would be incurred and continue to monitor our bill for demand charges. Part of the increased electricity cost is due to the quantity of water pumped from our wells, which in fiscal 2012 increased by 119.7 million gallons, or 367.2 acre feet over the prior year. The quantity of water pumped from wells each year is based on customer demand and is offset by water received from other sources.

Wastewater collection costs increased \$184.5 thousand over the prior fiscal year, due primarily to higher salaries and benefits costs of \$178.1 thousand, higher repair and maintenance cost of \$2.3 thousand, higher vehicle operating costs of \$5.9 thousand, higher professional development costs of \$0.2 thousand, and higher taxes, fees, and permits costs of \$2.3 thousand, offset by a reduction in professional services costs of \$3.5 thousand and contract services of \$0.8 thousand. The increase in salaries and benefits costs is primarily due to a change in the percentage used to allocate water and wastewater maintenance personnel from 85% water and 15% wastewater to 75% water and 25% wastewater, along with an increase in time allocated to wastewater of 5% for the finance manager, 10% for the district engineer, 100% for the construction inspector/engineering technician, 10% for the executive assistant confidential, and 10% for the general manager, all in recognition of the extra work and time spent on the administration of the Ridgemark Wastewater Treatment Plant upgrade construction, of which \$149.4 thousand was capitalized as a project cost.

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Operations and maintenance costs decreased \$496.5 thousand over the prior fiscal year, due primarily to a \$466.7 thousand decrease in salaries and wages, a \$17.5 thousand decrease in professional services costs, a \$12.6 decrease in repair and maintenance costs, a \$5.2 thousand decrease in vehicle operating expenses, a \$32.5 thousand decrease in water quality monitoring expense, a \$17.7 thousand decrease in the District's share of the cost to operate the Lessalt Water Treatment Plant, a \$4.8 thousand decrease in bad debts expense, and a \$3.3 thousand average decrease in other operating expenses, offset by \$9.5 thousand increase in electrical expense, a \$15.4 thousand increase in supplies, a \$30.4 thousand increase in water conservation expense, an \$8.5 thousand increase in taxes, fees, permits, dues and subscription expense. The decrease in salaries and wages is primarily due to a change in the percentage used to allocate water and wastewater maintenance personnel from 85% water and 15% wastewater to 75% water and 25% wastewater, along with a shift in time allocated to water from 85% to 0% for the construction inspector/engineering technician.

General and administrative costs increased \$36.3 thousand over the prior fiscal year due primarily to an increase of \$45.4 thousand for operating expenses, offset by a \$9.1 thousand decrease in salaries and benefits costs. The increase in operating expenses is due primarily to an increase in contract services that includes \$9.2 thousand for general manager recruitment and \$23.0 thousand for development of a strategic plan and an increase in office supplies that includes an increase of \$11.9 thousand for the District's share of the GIS mapping project done by San Benito County.

Depreciation and amortization costs decreased \$5.3 thousand over the prior fiscal year.

Nonoperating Expenses

Nonoperating expenses include interest expense on the bond, bank loan, and SRF loan, amortization of bond issue costs and bond administrative fees, and loss on abandoned capital projects and disposal of assets.

Analytical Review of Nonoperating Expenses

Fiscal Year 2013 Compared to 2012. Nonoperating expenses for fiscal year 2013 of \$281.2 thousand was \$142.1 thousand lower than fiscal year 2012, primarily due to a decrease of \$133.4 thousand in other nonoperating expenses and a decrease of \$8.7 thousand in bond and loan interest. The other nonoperating expenses were for the loss on disposal of assets and the write-off of abandoned capital projects.

Fiscal Year 2012 Compared to 2011. Nonoperating expenses of \$423.4 thousand for fiscal year 2012 was \$155.3 thousand higher than the prior fiscal year, primarily due to the increase of \$167.6 thousand in loss from abandoned capital projects, offset by decreases of \$11.9 thousand in interest expense and \$0.4 thousand in bond issue and handling expense.

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Capital Assets and Debt Administration

Capital Assets

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

Schedule of Capital Assets

(Dollars in thousands)	June 30,		
	2013	2012	2011
Land	\$ 1,087.9	\$ 1,087.9	\$ 972.6
Water utility plant	13,109.8	12,124.4	12,013.7
Wastewater utility plant	1,826.0	1,826.0	1,783.3
Equipment and furniture	1,655.1	1,650.4	1,620.8
Office building	2,737.6	2,737.6	2,737.6
Work-in-process	13,240.1	9,035.6	3,534.2
Gross capital assets	33,656.5	28,461.9	22,662.2
Less accumulated depreciation	(9,517.1)	(8,835.4)	(8,121.3)
Capital assets, net	\$ 24,139.4	\$ 19,626.5	\$ 14,540.9
Net increase (decrease) from prior year	\$ 4,512.90	\$ 5,085.60	\$ (63.20)
Percent increase	23.0%	35.0%	-0.4%

Analytical Review of Capital Assets

Fiscal Year 2013 Compared to 2012. Fiscal year 2013 net capital assets of \$24.1 million increased \$4.5 million, or 23.0%, over fiscal year 2012 due primarily to ongoing expenditures for water utility master plan expenditures and various work-in-process projects, partially offset by depreciation expense and asset disposal.

The major capital asset additions for the current year included: water utility plant increased \$985.4 thousand over the prior year due to capitalization of the District's share of the Hollister Area Urban Water Wastewater Master Plan of \$941.4 thousand, capitalization of the District's share of the City of Hollister Urban Area 2010 Water Management Plan cost allocation study of \$25.3 thousand, installing 77 water meters for \$17.2 thousand, and installing a new pump and motor at Well #11 for \$31.5 thousand, offset by disposing of the old Well #11 pump and motor of \$30.0 thousand; equipment and furniture increased \$4.7 thousand over the prior year due to purchase of a new hydraulic pump for the hydro machine for \$7.9 thousand and purchase of a new billing printer for \$3.0 thousand, offset by disposal of the old billing printer of \$6.2 thousand; and work-in-process increased by \$4,204.5 thousand over the prior year due to expenditures of \$4,852.7 thousand on active work-in-process projects (see below), offset by \$626.7 thousand capitalized for completed projects and by \$21.5 thousand for the loss recognized on abandoned work-in-process projects.

The work-in-process expenditures for fiscal year 2013 were primarily for the Ridgemark Wastewater and Recycled Water Treatment Facility, with a total expenditure of \$4,766.1 thousand, bringing total expenditures for this project to \$12,534.0 thousand as of June 30, 2013.

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The District expended \$314.7 thousand for the Hollister Urban Area Water Wastewater Master Plan (HUAWWMP), bringing the total expenditures for this project to \$941.4 thousand; the balance was transferred and capitalized in Water Utility Plant and will be depreciated over 10 years. The District also hired a consultant to perform a Rate & Fee Study, expending \$63.5 thousand for this project. The consultant analyzed the District's water rates, wastewater rates, water connection fees, and wastewater connections fees. The study was completed in August 2013 and this item will be capitalized next year. This \$21.5 thousand balance at June 30, 2012 of expenditures on the Best Road Pipeline Extension was written off as an abandoned capital project at June 30, 2013 since the water rate analysis completed in 2013 showed that rates are still insufficient to fund this project in the foreseeable future.

Fiscal Year 2012 Compared to 2011. Fiscal year 2012 net capital assets of \$19.6 million increased \$5.1 million or 35.0% over the prior fiscal year, due primarily to the purchase of additional 2-acre parcel of land at the potential Well #12 site, installation of 85 water meters, capitalization of our cost share of the City of Hollister Urban Area 2010 Water Management Plan, purchase of a mixing system for the 4 million gallon Fairview Water Tank, purchase of a GIS wastewater mapping system, purchase of Krohne 8" mag meters for Well #2 and Well #5 SCADA systems, purchase of five wide band radio upgrades to SCADA, various equipment and office furniture, and the capitalization of various completed work-in-process projects, and investment in various work-in-process projects (detailed below), partially offset by an depreciation expense and asset disposal.

The major capital asset additions for the current year included: land acquisition costs of \$115.2 thousand, associated with acquiring a 2-acre parcel lot line adjustment at the potential Well #12 site; water utility plant increased by \$110.7 thousand, primarily from investing \$16.9 thousand in 85 water meter installations, which are replacements for some of the oldest radio read meters installed; capitalization of \$31.1 thousand for the District's share of the City of Hollister Urban Area 2010 Water Management Plan; purchasing a \$55.7 thousand mixing system for the 4 million Fairview Water Tank; and investing \$5.0 thousand in the development of a wholesale water rate; wastewater utility plant increased \$42.7 thousand, due to the purchase of a \$34.2 thousand wastewater GIS mapping system, and an \$8.5 thousand on various other equipment; equipment and furniture increased \$29.7 thousand over the prior year, due to purchasing two 8" mag meters for \$9.2 thousand for SCADA at Well #2 and Well #5, purchasing five upgraded wide band radios for \$10.3 thousand for the SCADA system, purchasing an air hacksaw for \$3.2 thousand, purchasing a soft start generator for \$1.4 thousand, purchasing a computer system for \$2.6 thousand, and purchasing office furniture for the new general manager for \$3.0 thousand; and work-in-process increased \$5.5 million over the prior year due to expenditures of \$5.9 million on active work-in-process projects (see below), offset by transfers of \$222.9 thousand, which includes the capitalization of completed assets during the fiscal year of \$44.4 thousand, and includes completed projects transferred to idle assets of \$178.4 thousand, and offset by \$171.7 thousand in loss recognized for the disposal of abandoned work-in-process projects.

The work-in-process expenditures for fiscal year 2012 were primarily for the Ridgemark Wastewater and Recycled Water Treatment Facility, with a total expenditures of \$5,656.7 thousand bringing total expenditures for this project to \$7,767.9 thousand, and for the Hollister Urban Area Water Wastewater Master Plan (HUAWWMP), with a total expenditures of \$233.6 thousand bringing the total expenditures for this project to \$626.7 thousand. The HUAWWMP is used to plan regional water and wastewater facilities in the Hollister Urban Area through the year 2023 and beyond. Expenditures for future Well #12 located on the Bray property at Southside Road were \$178.4 thousand, which was transferred to idle assets as of June 30, 2012, leaving a

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balance of \$0 in work-in-process. Expenditures for the Groundwater Treatment Plant were \$171.7 thousand, which were written off as a loss on abandoned work-in-process projects as of June 30, 2012. The preliminary design of a future potential groundwater treatment plant was done; however, regional studies have determined that the next increment of urban and municipal potable water supply should be from surface water in coordination with groundwater banking.

Long-Term Debt

Fiscal Year 2013 Compared to 2012. At June 30, 2013, the District had \$14.2 million in long-term debt outstanding, made up of \$4.1 million in bonds outstanding, net of the unamortized discount, a decrease of \$122.3 thousand from fiscal year 2012; \$0 in bank loans outstanding, a decrease of \$397.5 thousand from fiscal year 2012; and \$9.8 million for the State Revolving Fund (SRF) loan outstanding, an increase of \$4.2 million; and \$0.3 million in deposits held from customers.

The decrease in bond debt was due to a bond principal payment of \$125.0 thousand, offset by \$2.7 thousand for amortization of the bond discount; the decrease in bank loan debt was due to quarterly principal payments and a lump-sum payment in May, 2013 to pay off the loan early; and the increase in the SRF loan debt is due to new borrowing for the Ridgemark Wastewater and Recycling Improvements Project.

Schedule of Long-Term Debt

(Dollars in thousands)	June 30,		
	2013	2012	2011
Revenue bonds	\$ 4,175.0	\$ 4,300.0	\$ 4,420.0
Unamortized bond discount	(50.6)	(53.3)	(56.0)
Revenue bonds, net of discount	4,124.4	4,246.7	4,364.0
Bank loan payable	-	397.5	543.2
SRF loan payable	9,767.0	5,571.3	1,232.0
Deposits from customers	339.7	289.9	281.0
	\$ 14,231.1	\$ 10,505.4	\$ 6,420.2
Net decrease from prior year	\$ 3,725.7	\$ 4,085.2	\$ 1,004.7
Percent increase (decrease)	35.5%	63.6%	18.6%

Fiscal Year 2012 Compared to 2011. At June 30, 2012, the District had \$10.5 million in long-term debt outstanding, made up of \$4.2 million in bonds outstanding, net of the unamortized discount, a decrease of \$117.3 thousand from the prior fiscal year; \$0.4 million in bank loans outstanding, a decrease of \$145.7 thousand from the prior year; \$5.6 million in State Revolving Fund (SRF) loans outstanding, an increase of \$4.2 million; and \$0.3 million in deposits held from customers.

The decrease in bond debt was due to a bond principal payment of \$120 thousand, offset by amortization of the bond discount, the decrease in the bank loan debt was due to principal payments, and the increase in the SRF loan is from new borrowing for the Ridgemark Wastewater and Recycling Improvements Project. More information is available regarding the bonds payable in Note G and the loans payable to the bank and SRF in Note H of the Notes to Financial Statements.

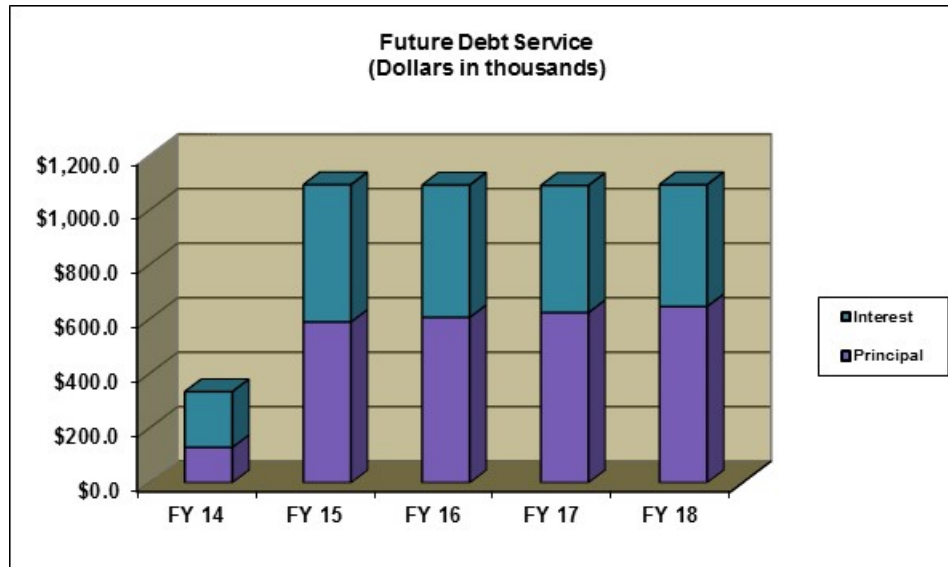
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Future Debt Service

The District's debt service requirements for the next five years, through June 30, 2018 are shown on the following table, averaging \$940.8 thousand annually.



Other Future Economic Factors

For the past several years, the economy in general has been poor and new housing growth within the District service boundary had been stalled by several local growth issues. The most prevalent issues were: 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. All have significantly slowed growth for the District since 2002. The City lifted the housing moratorium in late 2008 upon completion of their upgraded wastewater facility. The District is constructing an upgrade to the Ridgemark Wastewater Treatment Plant, which will allow for future development within the Ridgemark area.

RATES AND FEES

The current water rates were enacted by Ordinance No. 68 on July 16, 2009, which increased water rates by 5% on July 21, 2009. Then on December 21, 2009, water rates were restructured to charge customers with separate fire meters or residential customers with over sized water meters for fire sprinklers with a new separate fire meter base rate and to break down the current three tier consumption rate structure into a five tier structure. Under this same Ordinance, there was a 15% water rate increase on December 21, 2010. This was the final increase approved by Ordinance No. 68. A 10% wastewater rate increase was implemented on December 21, 2010, as approved by Ordinance No. 64 in March of 2007. This was the last wastewater rate increase approved by Ordinance No. 64.

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 will return the District to a three tier rate structure, and will take effect on December 21, 2013, and

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on December 21 of each subsequent year through 2018. The result of the series of rate increases spread over the six-year time frame should produce an 11.5% increase in water revenue each fiscal year for years 2014 to 2018, with only a 3% increase in fiscal year 2019.

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

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

CalPERS RETIREMENT

The District anticipates rate increases from CalPERS (California Public Employees Retirement System) for employee retirement plan coverage, from Anthem Blue Cross of California for employee health insurance coverage, from Premier Access for employee dental insurance coverage, and from the ACWA-JPIA for workers' compensation. The District changed employee health coverage from Anthem Blue Cross of California to CalPERS health coverage effective January 1, 2011 and changed from State Compensation Insurance Fund to a self-insured group ACWA-JIPA effective July 1, 2011.

POST-EMPLOYMENT HEALTH BENEFITS

The District's Other Post-Employment Benefits Trust (Trust) was established in fiscal year 2011 to administer and fund a single-employer post-retirement medical plan benefit. All direct retirees from the District are eligible for employer-funded medical insurance funded from the Trust. The District's Board is the governing body of the Trust and provides for its funding.

The actuarial report, dated July 1, 2011, projects future liabilities to be \$392,384. The next actuarial report dated July 1, 2013, as required under Government Accounting Standards Board Statement Number 45, has already been prepared, and projects future liabilities to be \$446,730.

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, costs will be incurred to renovate the Ridgemark Estates Wastewater Treatment Facilities, which include a wastewater treatment reclamation project, renovating the existing Lessalt surface water treatment plant, and building a new West Hills surface water treatment plant. RMC Water and Environment, a Sanitary Engineering Consulting firm, has completed a Long-Term Wastewater Management Plan and Salts Management Program. Estimated costs have been identified to implement these projects. Funding for the wastewater treatment project is through the State of California's State Revolving Fund.

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GROUNDWATER WELLS

We completed one new production well (Well #11) during fiscal year 2010. The second new well (Well #12) is not anticipated to be put into production for 10-20 years. These two domestic wells will increase water production by at least 2,000 gallons per minute (g.p.m.), or 1,000 g.p.m. each. When new wells are added to the current system, it is anticipated that associated expenses such as electrical power, chemicals, monitoring, and testing will increase slightly to support these new wells. In addition, each new well and associated pipeline construction could have costs ranging from \$1 to \$1.5 million dollars, or more.

LESSALT WATER TREATMENT PLANT

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

A project to upgrade the Lessalt Water Treatment Plant to reduce disinfectant by-products (DBP) and restore its treatment plant capacity to the original design capacity has been defined and the construction contract was awarded by SBCWD in September, 2013. All 288 of the filters were replaced in February, 2013. Costs for the design, environmental review, inspection, and construction of the Lessalt WTP improvements are approximately \$8 million. The City of Hollister (the City), Sunnyslope County Water District (the District), and San Benito County Water District (SBCWD) will each pay approximately a one-third (1/3) share of the costs.

Additionally, in order to meet water quality standards required for the Ridgemark area, the upgrade construction contract includes construction of a large diameter potable water line and pump station from the Lessalt Water Treatment Plant to the Ridgemark pressure zone, so that the Ridgemark area could be supplied with treated surface water. The Lessalt plant upgrade and pipeline construction should be completed by the end of calendar year 2014.

The current Stage 1 DBP Rule sets maximum contaminant levels (MCL) for selected DBP's measured as System-wide Running Annual Averages (SRAA) in the distribution system. The Stage 2 DBP Rule was finalized in December 2005 and did not change the SRAA MCLs, but now include Locational Running Annual Averages (LRAA) that apply to specific sample locations. The CDPH will review the Federal rule and incorporate it into California rules. The Lessalt WTP has until 2013 to implement corrective actions to come into compliance with the requirements of the Stage 2 DBP Rule.

A request for an extending the Stage 2 DBP compliance until October 1, 2014 was approved by the CDPH in a letter dated October 18, 2013.

WATER SUPPLY AND TREATMENT AGREEMENT

The District, the 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

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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 will be contributing \$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 requires the execution of an Operations and Maintenance Agreement with the District for operating the two surface water treatment plants. The Operations and Maintenance Agreement between the District and SBCWD was executed in August, 2013.

Contacting the District Financial Management

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

BASIC FINANCIAL STATEMENTS

**Sunnyslope County Water District
Statement of Net Position
June 30, 2013 and 2012**

ASSETS

	2013	2012
<i>CURRENT ASSETS</i>		
Cash	\$ 1,307,327	\$ 2,425,289
Time certificates	844,438	590,293
Invested funds - LAIF funds	1,030,895	628,824
Bond/loan proceeds invested - reserve fund	101,560	101,554
Accounts receivable from customers, less allowance for uncollectible accounts of \$16,456 and \$21,336	930,932	895,921
Accounts receivable - other	1,201	880
Interest receivable	410	559
Inventory supplies	246,213	247,726
Prepaid expenses	13,145	68,598
Current portion of prepaid CalPERS contribution	103,477	-
Total Current Assets	4,579,598	4,959,644
<i>PROPERTY, PLANT & EQUIPMENT</i>		
Land and land improvements	1,087,866	1,087,866
Water utility plant	13,109,801	12,124,380
Wastewater utility plant	1,825,976	1,825,976
Equipment and furniture	1,655,088	1,650,400
Office building	2,737,613	2,737,613
Work-in-process	13,240,186	9,035,658
	33,656,530	28,461,893
Less accumulated depreciation	(9,517,148)	(8,835,427)
Total Property, Plant & Equipment	24,139,382	19,626,466
<i>OTHER ASSETS</i>		
Prepaid post-employment health benefits (OPEB)	21,818	21,872
Prepaid CalPERS contribution	827,817	-
Debt issue costs, net of amortization of \$83,164 and \$69,530	109,773	120,907
Annexation fees receivable	22,031	22,031
Deposits paid	70,567	77,357
Idle assets, net of accumulated depreciation of \$30,634 and \$30,634	287,476	287,476
Total Other Assets	1,339,482	529,643
TOTAL ASSETS	\$ 30,058,462	\$ 25,115,753

See accompanying notes to basic financial statements

**Sunnyslope County Water District
Statement of Net Position
June 30, 2013 and 2012**

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
<i>CURRENT LIABILITIES</i>		
Accounts payable	\$ 1,958,182	\$ 2,242,604
Current portion of long-term debt	130,000	278,161
Accrued expenses	<u>453,583</u>	<u>244,819</u>
Total Current Liabilities	<u>2,541,765</u>	<u>2,765,584</u>
 <i>LONG-TERM LIABILITIES</i>		
Bonds payable, net of discount of \$50,650 and \$53,328	3,994,350	4,121,672
Loans payable		
Bank loan	-	244,346
State Revolving Fund loan	9,766,956	5,571,311
Deposits received	<u>339,757</u>	<u>289,868</u>
Total Non-Current Liabilities	<u>14,101,063</u>	<u>10,227,197</u>
Total Liabilities	<u>16,642,828</u>	<u>12,992,781</u>
 <i>NET POSITION</i>		
Net investment in capital assets	10,248,076	9,410,975
Restricted for connection fees	675,752	346,590
Unrestricted	<u>2,491,806</u>	<u>2,365,407</u>
Total Net Position	<u>13,415,634</u>	<u>12,122,972</u>
 <i>TOTAL LIABILITIES AND NET POSITION</i>	 <u>\$ 30,058,462</u>	 <u>\$ 25,115,753</u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Revenue, Expenses and Change in Net Position
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<i>OPERATING REVENUES</i>		
Water sales	\$ 3,961,498	\$ 3,831,896
Wastewater service	1,486,944	1,469,441
Late fees	63,953	69,440
Customer fees	215,321	213,788
Other	<u>3,115</u>	<u>1,421</u>
Total Operating Revenues	<u>5,730,831</u>	<u>5,585,986</u>
<i>OPERATING EXPENSES</i>		
Salaries and benefits	2,282,697	2,150,115
Operations and maintenance	<u>2,208,020</u>	<u>2,458,738</u>
Total Operating Expenses	<u>4,490,717</u>	<u>4,608,853</u>
<i>INCOME FROM OPERATIONS</i>	<u>1,240,114</u>	<u>977,133</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>		
Water connections	310,715	102,665
Wastewater connections	16,955	-
Interest income	6,128	9,974
Other income	-	2,186
Interest expense	(234,155)	(242,848)
Bond issue and handling expense	(8,879)	(8,898)
Loss on disposal of assets	(16,675)	-
Loss on abandoned capital projects	<u>(21,541)</u>	<u>(171,662)</u>
Total Non-Operating Revenues (Expenses), Net	<u>52,548</u>	<u>(308,583)</u>
<i>CHANGE IN NET POSITION</i>	1,292,662	668,550
<i>NET POSITION - BEGINNING OF YEAR</i>	12,122,972	11,362,927
<i>PRIOR PERIOD ADJUSTMENT (NOTE Q)</i>	<u>-</u>	<u>91,495</u>
<i>NET POSITION - END OF YEAR</i>	<u>\$ 13,415,634</u>	<u>\$ 12,122,972</u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Cash Flows
June 30, 2013 and 2012

	2013	2012
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash received from customers	\$ 5,745,388	\$ 5,549,735
Cash paid to suppliers and employees	<u>(4,943,067)</u>	<u>(2,809,669)</u>
Net Cash Provided by Operating Activities	<u>802,321</u>	<u>2,740,066</u>
 <i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</i>		
Other income	50	2,186
Bond handling expenses	<u>(3,131)</u>	<u>(3,149)</u>
Net Cash Provided by Non-Capital Activities	<u>(3,081)</u>	<u>(963)</u>
 <i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i>		
Water and wastewater connection fees received	327,670	102,665
Proceeds from new borrowing	4,195,646	4,339,311
Proceeds from sale of equipment	825	-
Debt issue costs	(2,500)	-
Acquisition and construction of capital assets	(5,040,869)	(6,083,355)
Bond payments	(125,000)	(120,000)
Loan payments	(397,508)	(145,713)
Interest paid	<u>(225,471)</u>	<u>(239,033)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,267,207)</u>	<u>(2,146,125)</u>
 <i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Sale (purchase) of time certificates of deposit	(254,145)	(500,548)
Sale (purchase) of LAIF funds	(402,077)	(2,543)
Interest received	<u>6,227</u>	<u>10,158</u>
Net Cash Used by Investing Activities	<u>(649,995)</u>	<u>(492,933)</u>
<i>NET INCREASE (DECREASE) IN CASH</i>	(1,117,962)	100,045
<i>CASH AT BEGINNING OF YEAR</i>	<u>2,425,289</u>	<u>2,325,244</u>
<i>CASH AT END OF YEAR</i>	<u>\$ 1,307,327</u>	<u>\$ 2,425,289</u>

See accompanying notes to basic financial statements

**Sunnyslope County Water District
Statement of Cash Flows
June 30, 2013 and 2012**

	2013	2012
<i>Reconciliation of income from operations to net cash provided by operating activities:</i>		
Income from operations	\$ 1,240,114	\$ 977,133
Adjustments to reconcile income from operations to cash provided by operating activities:		
Depreciation and amortization	700,411	714,078
Bad debt provision	(4,880)	1,259
(Increase) decrease in:		
Accounts receivable	(30,452)	(46,358)
Inventory supplies	1,513	13,752
Prepaid expenses	55,453	(58,952)
Prepaid post-employment health benefits	54	(21,872)
Prepaid CalPERS retirement side fund	(931,294)	-
Deposits with vendors	6,790	18,616
Increase (decrease) in:		
Accounts payable	(284,422)	1,169,820
Accrued expenses	(855)	(36,258)
Deposits from customers	49,889	8,848
Net Cash Provided by Operating Activities	\$ 802,321	\$ 2,740,066

See accompanying notes to basic financial statements

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

Organization

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 operates as a non-taxable governmental entity and earns the majority of its revenues from water sales and services to residential users. The District's water system serves an area of approximately 3.5 square miles in the City of Hollister and surrounding areas. The District's wastewater system serves a smaller area within the County consisting of Ridgemark Estates and the Oak Creek and Quail Hollow subdivisions. For fiscal year 2013, water sales constitute approximately 69.1% of operating revenues and wastewater sales are approximately 25.9% of operating revenues.

Basis of Accounting, Financial Presentation and Measurement Focus

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 governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. 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 reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services) or similar funding.

The basic financial statements are prepared 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 noncurrent) 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.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and consist of domestic irrigation water sales, as well as wastewater service charges. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating 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.

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.

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012

Enterprise Fund Accounting

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

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.

Accounting Changes

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

Implemented

In December, 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This included pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedures, unless those pronouncements conflict or contradict with GASB pronouncements. This statement became effective for period effective beginning after December 15, 2011 and did not have a significant impact on the District's financial statements.

GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirement of this statement standardizes the presentation of deferred inflows and outflows of resources, and their effect on a government's net position. This statement became effective for period beginning after December 15, 2011. The implementation of this statement to the District is limited to renaming of "Net Assets" to "Net Position".

Pending Accounting Standards

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflow of resources, certain items that were previously reported as assets and liabilities. The statement is effective for periods beginning after December 15, 2012. The District is evaluating the impact of this standard on the financial statements.

GASB has issued Statement No. 66, *Items Technical Corrections – 2012 – an amendment of GASB No. 10 and No. 62*. The statement is effective for periods beginning after December 15, 2012. The District is evaluating the impact of this standard on the financial statements.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012**

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is effective for periods beginning after June 15, 2014. The District is evaluating the impact of this standard on the financial statements.

GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. The District is evaluating the impact of this standard on the financial statements.

GASB has issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for periods beginning after June 15, 2013. The District is evaluating the impact of this standard on the financial statements.

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.

Capital Assets

Property, plant, and equipment purchased or constructed by the District are stated at cost. The District capitalizes all assets with a useful life of more than one year and with a historical cost 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

The cost of additions to utility plant and major replacements of property are capitalized. Capitalized costs include material, direct labor, 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. Payments received for capacity fees (connection fees) are recorded as reserves until they can be recorded as contributions in aid of construction. Repairs, maintenance, and minor replacements of property are expensed.

Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. The interest capitalized for the upgrade projects was \$211,450 for the year ended June 30, 2013 and \$66,448 for year ended June 30, 2012.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012**

The purpose of depreciation is to allocate the cost of capital assets over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable assets.

Depreciation of all capital assets in service, excluding land, is charged to an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the financial statements as a reduction in the book value of the capital assets.

Capital assets are depreciated using the straight-line method of depreciation, which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

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

No depreciation is recorded until construction is completed and the asset is placed in service. Interest capitalization on assets constructed from bond funds begins when proceeds are received and ends when the project is complete.

Idle Assets

Idle assets consist of Well #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

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012

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

Allowance for Uncollectible Accounts

Trade account receivables are stated net of the allowance for uncollectible accounts. The allowance for fiscal year 2013 and 2012 is calculated as 3.0% and 4.0% of the outstanding receivable balance, respectively. The percentage used for this calculation was reduced for fiscal year 2013 due to the District's low amount of actual accounts written off. The bad debt allowance is held low due to the District's strict shut-off policy for accounts that reach 3 months past due. Once a customer has been shut-off for non-payment they must pay the outstanding balance due, a deposit of \$90 if a water only customer or a deposit of \$150 if a water and wastewater customer (when less than that amount is currently held on deposit), and any applicable fees prior to service being reinstated.

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.

Inventory Supplies

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.

Prepaid Expenses

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

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 no deferred outflows of resources.

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

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012

Net Position

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

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

Restricted net position – Restricted net position represents resources that are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties. None of the District's net position are restricted by enabling legislation.

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.

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.

Debt Issuance Costs

Bond discounts and debt issuance costs 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, whereas debt issuance costs are recorded as other assets, net of amortization.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012**

Reclassifications

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

Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 31, 2013, the date that the financial statements were available to be issued.

NOTE B — CASH AND INVESTMENTS

Cash and Investments

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

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

Current Assets (partial listing):

	<u>2013</u>	<u>2012</u>
Cash	\$ 1,307,327	\$ 2,425,289
Time certificates	844,438	590,293
Less: cash and postage stamps on hand	<u>(3,476)</u>	<u>(1,776)</u>
Cash and invested funds – at Union Bank	2,148,289	3,013,806
Invested funds – at LAIF	1,030,895	628,824
Bond/loan reserve funds – at Union Bank	101,560	101,554
Cash and postage stamps on hand	<u>3,476</u>	<u>1,776</u>
Total cash and investments	<u>\$ 3,284,220</u>	<u>\$ 3,745,960</u>

At June 30, 2012, the District maintained cash and investments at Santa Barbara Bank & Trust (SBB&T), a commercial bank with branch offices located in Hollister, California, of \$3,013,806, maintained cash in the State of California's Local Agency Investment Funds (LAIF), which administers a pool of local government funds of \$628,824, and maintained funds in a reserve account at Union Bank of California of \$101,554. Cash and investments are classified in the accompanying financial statements as shown above.

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.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012**

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, 2013, the District had the following cash and investment maturities:

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

As of June 30, 2012, the District had the following cash and investment maturities:

	Fair Value	Cost	0-3 Months	4-12 Months	13-36 Months
Time Certificates					
Union Bank of California	\$ 590,293	\$ 590,293	\$ -	\$ 503,348	\$ 86,945
Local Agency Investment Fund	628,824	628,824	628,824	-	-
Total	\$ 1,219,117	\$ 1,219,117	\$ 628,824	\$ 503,348	\$ 86,945

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 does not have a rating provided by a nationally recognized statistical rating organization. However, under federal regulations the State of California cannot declare bankruptcy, so money placed with the state treasurer for deposit in the Funds shall not be subject to impoundment or seizure by any state official or state agency.

Union Bank has a credit rating of A+/A-1 Stable from Standard & Poor's and A2/P-1/Negative from Moody's as of the most recent ratings available (April 9, 2013).

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

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012

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, 2013, \$250,000 of the balance on deposit with Union Bank of California was covered by federal depository insurance, and the excess of \$1,898,289 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).

The District has invested funds in the Local Agency Investment Fund (LAIF). At June 30, 2013, the balance on deposit with the Local Agency Investment Fund was \$1,030,895. LAIF is an unrated investment pool. The Fund was created by California Government Code Section 16429.1, 2, 3 as an alternative investment for California's local governments and special districts. The Fund invests in U.S. Treasury Securities, Federal Agency Securities, Bankers Acceptances, Certificates of Deposits, Collateralized Time Deposits, Corporate Paper and Bonds, and Repurchase Agreements.

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 certificate of deposits held at Union Bank.

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 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.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012**

NOTE C — ACCOUNTS RECEIVABLE / PAYABLE TO CITY OF HOLLISTER

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 \$368,957 due from the City of Hollister's customers as of June 30, 2013 and \$366,852 as of June 30, 2012. Likewise, accounts payable includes \$368,957 due to the City of Hollister for the amount billed to their customers as of June 30, 2013 and \$366,852 as of June 30, 2012. No provision was made for uncollectible accounts for the accounts receivable balance due from the City's customers.

NOTE D — PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant, and equipment at June 30, 2013 and 2012, is as follows:

	<u>Cost 6/30/12</u>	Transfers/ Adjustments	Additions	Disposals	<u>Cost 6/30/13</u>
Land & land improve.	\$ 1,087,866	\$ -	\$ -	\$ -	\$ 1,087,866
Water utility plant	12,124,380	626,676	388,745	30,000	13,109,801
Wastewater utility plant	1,825,976	-	-	-	1,825,976
Equipment & furniture	1,650,400	-	10,878	6,190	1,655,088
Office building	2,737,613	-	-	-	2,737,613
Work-in-process	9,035,658	(626,676)	4,852,745	21,541	13,240,186
	<u>\$ 28,461,893</u>	<u>\$ -</u>	<u>\$ 5,252,368</u>	<u>\$ 57,731</u>	<u>\$ 33,656,530</u>
	<u>Accumulated Depreciation 6/30/12</u>	Transfers/ Adjustments	Depreciation	Disposals	<u>Accumulated Depreciation 6/30/13</u>
Land & land improve.	\$ 5,948	\$ -	\$ 747	\$ -	\$ 6,695
Water utility plant	5,861,017	-	423,347	12,500	6,271,864
Wastewater utility plant	1,008,711	-	68,542	-	1,077,253
Equipment & furniture	1,220,331	-	116,515	6,190	1,330,656
Office building	739,420	-	91,260	-	830,680
	<u>\$ 8,835,427</u>	<u>\$ -</u>	<u>\$ 700,411</u>	<u>\$ 18,690</u>	<u>\$ 9,517,148</u>
Net Book Value	<u>\$ 19,626,466</u>				<u>\$ 24,139,382</u>

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012

	<u>Cost 6/30/11</u>	<u>Transfers/ Adjustments</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/12</u>
Land & land improve.	\$ 972,622	\$ 13,344	\$ 101,900	\$ -	\$ 1,087,866
Water utility plant	12,013,677	31,094	79,609	-	12,124,380
Wastewater utility plant	1,783,301	-	42,675	-	1,825,976
Equipment & furniture	1,620,724	-	29,676	-	1,650,400
Office building	2,737,613	-	-	-	2,737,613
Work-in-process	3,534,251	(222,874)	5,895,943	171,662	9,035,658
	<u>\$ 22,662,188</u>	<u>\$ (178,436)</u>	<u>\$ 6,149,803</u>	<u>\$ 171,662</u>	<u>\$ 28,461,893</u>
	<u>Accumulated Depreciation 6/30/11</u>	<u>Transfers/ Adjustments</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>Accumulated Depreciation 6/30/12</u>
Land & land improve.	\$ 5,202	\$ -	\$ 746	\$ -	\$ 5,948
Water utility plant	5,436,062	-	424,955	-	5,861,017
Wastewater utility plant	943,786	-	64,925	-	1,008,711
Equipment & furniture	1,088,139	-	132,192	-	1,220,331
Office building	648,160	-	91,260	-	739,420
	<u>\$ 8,121,349</u>	<u>\$ -</u>	<u>\$ 714,078</u>	<u>\$ -</u>	<u>\$ 8,835,427</u>
Net Book Value	<u>\$ 14,540,839</u>				<u>\$ 19,626,466</u>

NOTE E — IDLE ASSETS

A summary of idle assets at June 30, 2013 and 2012, is as follows:

	<u>Cost 6/30/12</u>	<u>Transfers/ Adjustments</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost 6/30/13</u>
Well #1	\$ 69,884	\$ -	\$ -	\$ -	\$ 69,884
Site for Well #9 or Water Treat. Plant	69,790	-	-	-	69,790
Well #12 Test Well	178,436	-	-	-	178,436
	<u>\$ 318,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 318,110</u>
	<u>Accumulated Depreciation 6/30/12</u>	<u>Transfers/ Adjustments</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>Accumulated Depreciation 6/30/13</u>
Well #1	\$ 30,634	\$ -	\$ -	\$ -	\$ 30,634
	<u>\$ 30,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,634</u>
Net Book Value	<u>\$ 287,476</u>				<u>\$ 287,476</u>

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012**

	<u>Cost</u> <u>6/30/11</u>	Transfers/ Adjustments	Additions	Disposals	<u>Cost</u> <u>6/30/12</u>
Well #1	\$ 69,884	\$ -	\$ -	\$ -	\$ 69,884
Site for Well #9 or Water Treat. Plant	69,790	-	-	-	69,790
Well #12 Test Well	-	178,436	-	-	178,436
	<u>\$ 139,674</u>	<u>\$ 178,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 318,110</u>
	<u>Accumulated</u> <u>Depreciation</u> <u>6/30/11</u>	Transfers/ Adjustments	Depreciation	Disposals	<u>Accumulated</u> <u>Depreciation</u> <u>6/30/12</u>
Well #1	\$ 30,634	\$ -	\$ -	\$ -	\$ 30,634
	<u>\$ 30,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,634</u>
Net Book Value	<u>\$ 109,040</u>				<u>\$ 287,476</u>

NOTE F — PREPAID CALPERS CONTRIBUTION

In fiscal year 2003, California legislation mandated that all agencies with less than 100 active members be enrolled in a risk sharing pool with all other agencies in the State with similar benefit packages. At the time of joining the risk pool, a side fund was created to account for the difference between the unfunded status of the District's Plan and the funded status of the risk pool. As a result, the District's side fund owed to the CalPERS pool was \$931,294 as of May 23, 2013. On June 17, 2013, the District opted to pay off the side fund of \$931,294, reducing the employer rate by 7.692% over the next 9 years. The District is amortizing this prepaid amount over the next 9 years starting in fiscal year 13-14. The current portion of the prepaid is \$103,477 and future deferred expense is \$827,817 at June 30, 2013.

NOTE G — 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 Waste Water 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 and issue costs of \$172,437 are 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 Union Bank of California.

Sunnyslope County Water District
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The outstanding bond debt at June 30, 2013 and 2012 is as follows:

	July 1, 2012	Redeemed/ Amortized	June 30, 2013
Capital Projects Fund	\$ 4,300,000	\$ 125,000	\$ 4,175,000
Unamortized Bond Discount	<u>(53,328)</u>	<u>(2,678)</u>	<u>(50,650)</u>
	4,246,672	122,322	4,124,350
Less: Current Portion	<u>125,000</u>	<u>5,000</u>	<u>130,000</u>
Bond Payable, Net of Discount	<u><u>\$ 4,121,672</u></u>	<u><u>\$ 127,322</u></u>	<u><u>\$ 3,994,350</u></u>
	July 1, 2011	Redeemed/ Amortized	June 30, 2012
Capital Projects Fund	\$ 4,420,000	\$ 120,000	\$ 4,300,000
Unamortized Bond Discount	<u>(56,005)</u>	<u>(2,677)</u>	<u>(53,328)</u>
	4,363,995	117,323	4,246,672
Less: Current Portion	<u>120,000</u>	<u>5,000</u>	<u>125,000</u>
Bond Payable, Net of Discount	<u><u>\$ 4,243,995</u></u>	<u><u>\$ 122,323</u></u>	<u><u>\$ 4,121,672</u></u>

The following is a summary of principal maturities of bond debt as of June 30, 2013:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2014	\$ 130,000	\$ 203,932	\$ 333,932
2015	135,000	198,052	333,052
2016	140,000	191,794	331,794
2017	145,000	185,130	330,130
2018	<u>155,000</u>	<u>177,966</u>	<u>332,966</u>
Next 5 years maturity sub-total	\$ 705,000	956,874	1,661,874
2019-2023	885,000	763,817	1,648,817
2024-2028	1,135,000	510,125	1,645,125
2029-2033	<u>1,450,000</u>	<u>188,750</u>	<u>1,638,750</u>
Total debt outstanding June 30, 2013	<u><u>\$ 4,175,000</u></u>	<u><u>\$ 2,419,566</u></u>	<u><u>\$ 6,594,566</u></u>

Sunnyslope County Water District
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June 30, 2013 and 2012

NOTE H — LOANS PAYABLE

Bank Loan - Pacific Capital Bank, N.A.

On December 20, 2007, the District entered into a loan agreement with Pacific Capital Bank, N.A. for the purpose of borrowing \$1 million to finance water system improvements, consisting generally of the construction of a new domestic well, pipeline, and related appurtenances, which include a motor, pump, electrical panel, and disinfection building. There is a requirement that \$100,000 of the loan proceeds be deposited into a reserve account, established with Union Bank of California, N.A. as trustee. The balance in the reserve account shall be held in trust as a reserve for the payment when due of the loan repayments on behalf of the District. Interest on the unpaid principal balance is calculated at a rate of 5.0%, and the loan repayments are payable in equal quarterly installments of \$42,548.63, through and including December 20, 2014. On May 22, 2013, the District elected to pay off the remaining principal balance of the loan early.

The outstanding Pacific Capital Bank, N.A. loan payable at June 30, 2013 and 2012 is as follows:

	June 30, 2012	<u>Repaid</u>	June 30, 2013
Water Projects Loan	\$ 397,507	\$ 397,507	\$ -
Less: Current Portion	153,161	(153,161)	-
Loan Payable	\$ 244,346	\$ 244,346	\$ -
	June 30, 2011	<u>Repaid</u>	June 30, 2012
Water Projects Loan	\$ 543,220	\$ 145,713	\$ 397,507
Less: Current Portion	145,738	7,423	153,161
Loan Payable	\$ 397,482	\$ 153,136	\$ 244,346

Bank Credit Line

On November 12, 2012, the District entered into a \$2 million Line-of-Credit Loan Agreement with Santa Barbara Bank & Trust, N.A., a national banking association, to be used for working capital needs related to financing the wastewater system improvements. The District is currently constructing upgrades to the Ridgemark Wastewater Treatment Facilities that are being financed with an \$11.4 million loan from the State Revolving Fund (SRF), with submission of monthly draw requests for reimbursement. The Line-of-Credit is intended to bridge cash flow needs should there be any lengthy timing delays between when the expenditures take place and the reimbursements are received from the SRF loan. The balance outstanding as of December 21, 2013 is \$0.

Sunnyslope County Water District
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State Revolving Fund (SRF) Loan - State Water Resources Control Board (Commitment)

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 provides funds for the construction of the Ridgemark Wastewater Treatment and Recycled Water Improvements Project, which generally consists of upgrade and consolidation of the District's Ridgemark I and Ridgemark II wastewater treatment facilities. The contract to Anderson Pacific was approved by the Board on April 6, 2011 at a bid cost of \$9,521,946 and was originally estimated to be complete by May 31, 2013. The term of the agreement, per Amendment No. 1, is from December 14, 2010 to May 31, 2033. Due to a change order with the contractor for a 92 day extension of the Project completion date, an extension was requested with the State Water Resources Control Board, who agreed to extending the construction completion date to September 30, 2013 and the initiation of operation date to January 1, 2014. The loan is scheduled to be repaid over a 20 year period beginning September 30, 2014. The annual interest rate is 2.6%, resulting in estimated amortized principal and interest payments of \$760,571 per year as of June 30, 2013.

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

	<u>June 30,</u> <u>2012</u>	<u>Borrowed</u>	<u>June 30,</u> <u>2013</u>
Wastewater Projects Loan	\$ 5,571,311	\$ (4,195,645)	\$ 9,766,956
Less: Current Portion	-	-	-
Loan Payable	<u>\$ 5,571,311</u>	<u>\$ (4,195,645)</u>	<u>\$ 9,766,956</u>
	<u>June 30,</u> <u>2011</u>	<u>Borrowed</u>	<u>June 30,</u> <u>2012</u>
Wastewater Projects Loan	\$ 1,232,000	\$ (4,339,311)	\$ 5,571,311
Less: Current Portion	-	-	-
Loan Payable	<u>\$ 1,232,000</u>	<u>\$ (4,339,311)</u>	<u>\$ 5,571,311</u>

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012**

The following is a summary of principal maturities of SRF loan debt as of June 30, 2013:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2014	\$ -	\$ -	\$ -
2015	378,515	253,941	632,456
2016	388,356	244,100	632,456
2017	398,454	234,002	632,456
2018	408,813	223,642	632,455
Next 5 years maturity sub-total	1,574,138	955,685	2,529,823
2019-2023	2,209,139	953,139	3,162,278
2024-2028	2,511,655	650,623	3,162,278
2029-2033	2,855,595	306,683	3,162,278
2034	616,429	16,027	632,456
Total debt outstanding June 30, 2013	\$ <u>9,766,956</u>	\$ <u>2,882,157</u>	\$ <u>12,649,113</u>

NOTE I — OPERATING LEASES

The District rents a water tank from the City of Hollister under a lease that expired December 31, 2010. Yearly lease payments total \$4,800, which is paid on a quarterly basis.

Future minimum lease payments under this lease are as follows:

<u>Year ending June 30:</u>	<u>Lease Payments</u>
2014	\$ 4,800
Thereafter	-
Total	<u>\$ 4,800</u>

NOTE J — EMPLOYEE RETIREMENT PLAN

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), an agent for the multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. The District is part of the Miscellaneous 2.7% at 55 Risk Pool, a cost-sharing multiple-employer defined benefit plan. Benefit provisions and all other requirements are established by state statute and District ordinance. Copies of CalPERS' annual financial report may be obtained from the executive office at 400 Q Street, Sacramento, CA 95811.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012**

Funding Policy

Participating employees are required to contribute 8% (effective October 1, 2007, formerly 7%) of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account, which totals \$128,239 and \$121,731 for June 30, 2013 and 2012. The District is required to contribute at an actuarially determined rate which was 22.838% of payroll for fiscal year ended June 30, 2013 and 22.764% of payroll for fiscal year ended June 30, 2012. The contribution requirements of plan members and the District are established and may be amended by CalPERS. At June 30, 2013 and 2012, the District contributed a total of \$493,025 and \$466,814 on behalf of the District and its employees.

Annual Pension Cost

The District's annual pension cost for CalPERS of \$364,786 for 2012/2013 was equal to the District's required and actual contributions. The required contribution was based on the Annual Valuation Report as of June 30, 2010 provided by the CalPERS Actuarial Office.

The contractually required contributions for the period July 1, 2012 to June 30, 2013 has been determined by an actuarial valuation of the plan as of June 30, 2010. The principal actuarial assumptions and methods used to determine the contractually required contributions included: (a) a 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.55% to 14.45% depending on age, service, and type of employment, (c) 3.00% inflation, (d) 3.25% payroll growth, and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value).

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

Three-Year Trend Information for Sunnyslope County Water District

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	\$ 304,698	100%	N/A
6/30/12	\$ 345,082	100%	N/A
6/30/13	\$ 364,786	100%	N/A

Funded Status of the Plan

As part of the program to smooth the changes in required employer contributions for smaller plans, resulting from changes in actuarial assumptions and short-term market experience, CalPERS placed plans of 100 or fewer member into "Risk Pools". Formation of the risk pools required the establishment of "Side Funds" to account for the difference between the funded status of the risk pool and the funded status of the member districts plan. The "Side Fund" represents unfunded liabilities to be amortized on an annual basis over a closed period. The "Side Fund" liability for Sunnyslope County Water District as of June 30, 2013 was \$(0) and June 30, 2012 was

Sunnyslope County Water District
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\$(984,901). A negative side fund will cause the District's required contribution rate to be increased by the amortization of side fund. On June 17, 2013, the District made a lump sum payment of \$931,294 to pay off its side fund. The lump sum payment is carried as a prepaid asset and will be amortized over the remaining amortization period of 9 years. The change to the District's 2013/2014 employer contribution rate is a reduction of 7.692%, bringing the rate to 15.685%.

The District has less than 100 active members; therefore, it is required to participate in a risk pool. Under the pooling method, assets and liabilities of the participant employers are aggregated. As such, individual employer's retirement data is no longer available. All pension costs are paid timely.

District Deferred Compensation Plan

As of July 1, 1998, the District began participation in a voluntary deferred compensation plan for post retirement benefits which covers all employees. The Sunnyslope County Water District Deferred Compensation Plan #0025839001 is administered by Nationwide Retirement Solutions, Inc., and is established under the provisions of Internal Revenue Code Section 457. Effective July 1, 2010, the employer is required match the lesser of 30% of the employee deferral contribution or \$468, to the extent that employer contributions and employee deferral do not exceed the maximum permitted by law. Prior to July 1, 2010, the required employer match was the lesser of 25% of employee deferral or \$360. For calendar years 2012 and 2011, the maximum contribution is \$17,000 and \$16,500 per year, respectively, for employees under age 50, or \$22,500 and \$22,000 per year, respectively, for employees age 50 and over.

For the years ended June 30, 2013 and 2012, employee contributions consisting of employee deferrals, compensated absences, and cash in lieu of insurance benefits converted to deferred compensation totaled \$178,505 and \$177,322, respectively. For the years ended June 30, 2013 and 2012, the required employer contribution was \$8,160 and \$6,552, respectively. The investment balance in the deferred compensation plan at June 30, 2012 and 2011 was \$1,235,830 and \$1,456,993.

NOTE K — POST-EMPLOYMENT BENEFITS OTHER THAN RETIREMENT

Post Retirement Health Benefits

In January, 2011, the District changed medical insurance plans for employees and returned to coverage under CalPERS health insurance. Under the CalPERS health plan, the District's employees are eligible for postretirement healthcare benefits if they directly retire from employment at the District. The District will pay the minimum employer contribution required by CalPERS, and the employee is responsible for paying the rest of the monthly healthcare premium. The minimum employer contribution was \$115 and \$112 per month in 2013 and 2012, respectively. The amount will increase in subsequent years to reflect inflation in the cost of healthcare. These benefits are being paid through the CalPERS California Employers' Retirement Benefit Trust (CERBT). To be eligible for retirement medical, an active employee must be at least 50 and have a minimum of 5 years of service.

As of June 30, 2013, there was one retiree and one beneficiary spouse receiving healthcare premium benefits. These benefits are fully funded by the District. These benefits are accounted for on a pay-as-you-go basis through the payments to the CalPERS CERBT. The cost of these benefits for the years ended June 30, 2013 and 2012, totaled \$2,730 and \$1,996, respectively.

Sunnyslope County Water District
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In accordance with a previous agreement, the District paid the health insurance costs for a retired employee who elected post-retirement health benefits in lieu of raises prior to retirement. In January 2003 the employee died, but the District will continue the healthcare benefits for his spouse. The spouse is age 91, and the District contribution for the healthcare benefit paid out of current operating funds for the years ended June 30, 2013 and 2012, was \$3,390 and \$3,871, respectively (in addition to the new benefit agreement detailed above). Due to the age of the employee and the yearly cost of the health insurance benefit, the unfunded liability amount has not been accrued. The spouse/beneficiary passed away in August, 2013.

The latest actuarial report, dated July 1, 2013, projects future liabilities to be \$446,730. The next actuarial report will be prepared as of July 1, 2015, as required under Government Accounting Standards Board Statement Number 45.

The activities of the Trust are accounted for in the Other Post-Employment Benefits Trust Fund. As of June 30, 2013, three payments have been made into the Trust of \$41,598, \$44,879 and \$41,678. The Trust's total net assets available for funding benefits for the years ended June 30, 2013 and 2012 totaled \$142,787 and \$92,267, respectively.

Funding Policy and Actuarial Assumptions

The District's policy is to prefund these benefits by accumulating assets in the Trust Fund discussed above. The annual required contribution (ARC) was determined by an actuarial valuation using the Entry Age Normal actuarial funding method with a closed 30-year level dollar amortization of the unfunded actuarial accrued liability. The actuarial assumptions included (a) an investment rate of return of 7.61%, and (b) a CalPERS minimum required employer contribution of \$115 in 2013 and \$112 in 2012 and will increase in subsequent years to reflect an inflation rate of 5%. The actuarial methods and assumptions used included techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period.

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. On September 13, 2011, the District deposited \$41,678, on June 25, 2012, the District deposited \$44,879, and on May 20, 2013 the District deposited \$41,598 to prefund the pay-as-you-go benefits.

Sunnyslope County Water District
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As a result, the District has calculated and recorded the net OPEB asset, representing the difference between the annual required contribution (ARC), interest, adjustment to the ARC, and contributions, as presented below:

Annual Required Contribution (ARC)	\$	44,328
Interest on net OPEB Obligation		(360)
Adjustment to net OPEB Obligation		414
Annual OPEB Cost (expense)		44,382
Contributions made to CERBT Trust		(41,598)
Contributions under "pay-as-you-go"		
Payment to Retirees		(2,730)
Subtotal		(44,328)
Change in net OPEB Liability		54
Net OPEB asset – beginning of year		(21,872)
Net OPEB asset – end of year	\$	(21,818)

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

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

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.

**Sunnyslope County Water District
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The Policy asset allocation targets and permissible ranges are as follows:

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

Approved by the Investment Committee August 15, 2011

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

NOTE L — TOTAL NET POSITION – ENTERPRISE FUND BALANCES

The District reports its two enterprise funds as a combined total in the financial statements; however, the year-end water and wastewater enterprise fund balances and change in fund balances are summarized below:

	Water Fund Balance	Wastewater Fund Balance	Total Net Position
Balance June 30, 2011	\$ 8,597,523	\$ 2,765,404	\$ 11,362,927
Prior period adjustment	68,621	22,874	91,495
Net income (loss)	<u>168,936</u>	<u>499,614</u>	<u>668,550</u>
Balance June 30, 2012	8,835,080	3,287,892	12,122,972
Net income (loss)	<u>769,319</u>	<u>523,343</u>	<u>1,292,662</u>
Balance June 30, 2013	<u>\$ 9,604,399</u>	<u>\$ 3,811,235</u>	<u>\$ 13,415,634</u>

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2013 and 2012**

NOTE M — COMPENSATED ABSENCES

It is the policy of the District to accrue employee vacation time for full-time employees 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

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. 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. Three employees elected to “cash-out” unused sick leave in fiscal years ended 2013 and 2012. The total amount cashed out was \$9,465 and \$15,129 for the years ended June 30, 2013 and 2012, respectively.

Accrued compensated absences at June 30, 2013 and 2012, were \$109,148 and \$103,649.

NOTE N — RELATED PARTY TRANSACTIONS

Several 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, 2013 all except one account balance from related parties due to the District were current. One employee tends to fall a little behind in the summer months, but then catches back up in the winter; their last zero balance was in May, 2013.

NOTE O — HOLLISTER-SUNNYSLOPE WATER TREATMENT AGENCY

On November 19, 2003, the City of Hollister and the Sunnyslope County Water District formed the *Joint Exercise of Powers Agreement* creating the Hollister-Sunnyslope Water Treatment Agency. 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*.

**Sunnyslope County Water District
Notes to Financial Statements
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Currently, the City of Hollister and the Sunnyslope County Water District fund the operating expenses equally. At June 30, 2013 and 2012, the operating expenses incurred by the District were \$513,853 and \$571,835. 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.

The balance sheet of Hollister-Sunnyslope Water Treatment Agency (audited) as of February 28, 2013 is as follows:

<u>ASSETS</u>		
Current Assets		
Cash and certificates of deposit	\$ 1,228,315	
Accounts receivable	112,185	
Inventory	14,947	
Prepaid expenses	2,634	\$ 1,358,081
 Property, Plant & Equipment		
Land	\$ 85,528	
Water treatment plant	3,270,703	
Machinery and equipment	1,323,172	
Furniture and fixtures	1,315	
Work-in-process	958,550	
	5,639,268	
Less: Accumulated depreciation	1,713,883	3,925,385
 TOTAL ASSETS		 \$ <u>5,283,466</u>
 <u>LIABILITIES & NET POSITION</u>		
Liabilities		
Accounts payable		\$ 102,916
Net Position		
Invested in capital assets	\$ 3,925,385	
Unrestricted	1,255,165	5,180,550
 TOTAL LIABILITIES & NET POSITION		 \$ <u>5,283,466</u>

NOTE P — 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 insurance. 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, 2013 and 2012

NOTE Q — PRIOR PERIOD ADJUSTMENT

In June 2012, management conducted a physical inventory of water meters and other parts. During this inventory, certain errors were noted resulting in an understatement of previously reported ending inventory as of June 30, 2011. Accordingly, an adjustment of \$91,495 was made to increase inventory as of the beginning of the fiscal year ended June 30, 2012.

NOTE R — SUBSEQUENT EVENT

Hollister Urban Area Water Supply and Treatment Agreement

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

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.

Future Dissolution of the Joint Powers Agreement

In September, 2013, the City of Hollister and Sunnyslope County Water District, as joint owners of the Hollister-Sunnyslope Water Treatment Agency (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 plan includes dissolving the Hollister-Sunnyslope Water Treatment Agency by early 2014.

REQUIRED SUPPLEMENTARY INFORMATION

**Sunnyslope County Water District
 Required Supplementary Information
 Schedule of Funding Progress – Post Employment Health Insurance Benefits
 June 30, 2013 and 2012**

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

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

SUPPLEMENTARY INFORMATION – UNAUDITED

Notes to Supplementary Information

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

**Sunnyslope County Water District
Budgetary Comparison Schedule
June 30, 2013**

	<u>2013 Actual</u>	<u>Original and Final Budget</u>	<u>Variance Fav (Unfav)</u>
OPERATING REVENUES			
Water & wastewater sales	\$ 5,448,442	\$ 4,800,000	\$ 648,442
Late fees	63,953	75,000	(11,047)
Customer fees	215,321	217,800	(2,479)
Other	3,115	-	3,115
Total operating revenues	<u>5,730,831</u>	<u>5,092,800</u>	<u>638,031</u>
OPERATING EXPENSES			
<i>SALARIES & BENEFITS</i>			
Salaries	1,857,326	1,863,963	6,637
Employee benefits	241,651	261,490	19,839
PERS retirement	491,841	497,366	5,525
Payroll taxes	27,121	28,862	1,741
Directors fees	16,600	24,000	7,400
Labor billed to others	(351,842)	(319,000)	32,842
Total salaries and benefits	<u>2,282,697</u>	<u>2,356,681</u>	<u>73,984</u>
<i>OPERATIONS & MAINTENANCE EXPENSES</i>			
Electrical services	274,845	363,000	88,155
Phone services	6,016	7,100	1,084
Professional services	68,686	53,000	(15,686)
Postage	31,121	31,500	379
Contract services	28,119	42,200	14,081
Office supplies	32,387	35,900	3,513
Legal advertising	91	5,000	4,909
Repair and maintenance	89,874	137,000	47,126
Diesel	4,633	4,100	(533)
Vehicle operating expenses	48,429	69,000	20,571
Professional development	8,582	11,000	2,418
Supplies	26,418	33,000	6,582
Meeting expense	104	1,500	1,396
Insurance	59,640	60,000	360
Equipment rental	-	200	200
Research and monitoring	133,449	117,000	(16,449)
Depreciation	700,411	699,700	(711)
Tank lease	4,800	5,000	200
Pumping fees	43,859	67,000	23,141
Lessalt water treatment	513,853	621,534	107,681
Water conservation	89,878	87,000	(2,878)
Bad debts	(3,535)	10,000	13,535
Taxes, fees, permits	46,360	63,000	16,640
Total operations & maint. exp.	<u>2,208,020</u>	<u>2,523,734</u>	<u>315,714</u>
Total operating expenses	<u>4,490,717</u>	<u>4,880,415</u>	<u>389,698</u>
INCOME FROM OPERATIONS	1,240,114	212,385	1,027,729
OTHER NON-OPERATING REVENUES (EXPENSES), NET			
	<u>52,548</u>	<u>(236,700)</u>	<u>289,248</u>
NET INCOME	<u>\$ 1,292,662</u>	<u>\$ (24,315)</u>	<u>\$ 1,316,977</u>

See note to supplementary information.

Sunnyslope County Water District
Schedule of Revenue, Expenses and Changes in Net Position
Year Ended June 30, 2013 (with comparative total for 2012)

	<u>2013</u>			<u>2012</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATING REVENUES</i>				
Water sales	\$ 3,961,498	\$ -	\$ 3,961,498	\$ 3,831,896
Wastewater service	-	1,486,944	1,486,944	1,469,441
Late fees	47,965	15,988	63,953	69,440
Customer fees	164,273	51,048	215,321	213,788
Other	<u>3,071</u>	<u>44</u>	<u>3,115</u>	<u>1,421</u>
Total operating revenues	<u>4,176,807</u>	<u>1,554,024</u>	<u>5,730,831</u>	<u>5,585,986</u>
<i>OPERATING EXPENSES</i>				
Salaries and benefits	1,647,529	635,168	2,282,697	2,150,115
Operations and maintenance	<u>1,811,724</u>	<u>396,296</u>	<u>2,208,020</u>	<u>2,458,738</u>
Total operating expenses	<u>3,459,253</u>	<u>1,031,464</u>	<u>4,490,717</u>	<u>4,608,853</u>
<i>INCOME FROM OPERATIONS</i>	<u>717,554</u>	<u>522,560</u>	<u>1,240,114</u>	<u>977,133</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>				
Water connections	310,715	-	310,715	102,665
Wastewater connections	-	16,955	16,955	-
Interest	4,972	1,156	6,128	9,974
Other	-	-	-	2,186
Interest expense	(216,677)	(17,478)	(234,155)	(242,848)
Bond issue and handling	(8,204)	(675)	(8,879)	(8,898)
Loss on disposal of assets	(17,500)	825	(16,675)	-
Loss on abandoned capital projects	<u>(21,541)</u>	<u>-</u>	<u>(21,541)</u>	<u>(171,662)</u>
Total non-operating revenues (expenses), net	<u>51,765</u>	<u>783</u>	<u>52,548</u>	<u>(308,583)</u>
<i>CHANGES IN NET POSITION</i>	<u>\$ 769,319</u>	<u>\$ 523,343</u>	1,292,662	668,550
<i>NET POSITION - BEGINNING OF YEAR</i>			12,122,972	11,362,927
<i>PRIOR PERIOD ADJUSTMENT</i>			<u>-</u>	<u>91,495</u>
<i>NET POSITION - END OF YEAR</i>			<u>\$ 13,415,634</u>	<u>\$ 12,122,972</u>

See note to supplementary information.

**Sunnyslope County Water District
Schedule of Salaries and Benefits
Year Ended June 30, 2013 (with comparative total for 2012)**

	<u>2013</u>					<u>2012</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	\$ 927,488	\$ 447,372	\$ 209,409	\$ 273,057	\$ 1,857,326	\$ 1,777,501
Employee benefits	105,445	45,977	72,392	17,837	241,651	245,166
PERS retirement	243,063	122,902	53,504	72,372	491,841	467,997
Payroll taxes	12,808	6,147	4,199	3,967	27,121	25,870
Directors fees	-	-	16,600	-	16,600	18,200
Allocation (from) to:						
Customer service	275,425	91,808	-	(367,233)	-	-
Gen. and admin.	267,078	89,026	(356,104)	-	-	-
Subtotal	1,831,307	803,232	-	-	2,634,539	2,534,734
Labor billed to others	(183,778)	(168,064)	-	-	(351,842)	(384,619)
Total salaries and benefits	<u>\$ 1,647,529</u>	<u>\$ 635,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,282,697</u>	<u>\$ 2,150,115</u>

See note to supplementary information.

Sunnyslope County Water District
Schedule of Operations and Maintenance Expenses
Year Ended June 30, 2013 (with comparative total for 2012)

	<u>2013</u>					<u>2012</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	\$ 199,136	\$ 62,922	\$ 12,787	\$ -	\$ 274,845	\$ 348,782
Phone services	1,319	-	1,768	2,929	6,016	6,487
Professional services	2,886	10,187	53,811	1,802	68,686	46,418
Postage	3,541	495	1,931	25,154	31,121	28,206
Contract services	2,387	-	18,559	7,173	28,119	73,887
Office supplies	2,228	338	17,397	12,424	32,387	43,428
Legal advertising	-	-	91	-	91	1,540
Repair & maintenance	75,118	11,105	3,033	618	89,874	107,044
Diesel	811	3,822	-	-	4,633	3,133
Vehicle operating exps.	35,059	11,812	1,558	-	48,429	57,555
Professional develop.	1,759	608	6,098	117	8,582	9,287
Supplies	17,592	8,636	190	-	26,418	31,591
Meeting expense	-	-	104	-	104	1,047
Insurance	-	-	59,640	-	59,640	66,369
Research & monitoring	39,010	94,439	-	-	133,449	124,433
Depreciation	448,341	83,328	165,606	3,136	700,411	714,078
Tank lease	4,800	-	-	-	4,800	4,800
Pumping fees	43,859	-	-	-	43,859	60,189
Less salt water treatment	513,853	-	-	-	513,853	571,835
Water conservation	89,878	-	-	-	89,878	101,925
Bad debts	(2,229)	(1,306)	-	-	(3,535)	6,498
Taxes, fees, permits, dues, & subscriptions	25,913	7,755	5,587	7,105	46,360	50,206
Allocated from (to):						
General & admin.	261,120	87,040	(348,160)	-	-	-
Customer service	45,343	15,115	-	(60,458)	-	-
Total operations and maint. exps.	\$ <u>1,811,724</u>	\$ <u>396,296</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,208,020</u>	\$ <u>2,458,738</u>

See note to supplementary information.