

# **Sunnyslope County Water District**

## **San Benito County, California**

*INCORPORATED, DECEMBER 17, 1954*



**BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR  
ENDED JUNE 30, 2022  
PREPARED BY THE FINANCE DEPARTMENT**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Sunnyslope County Water District  
Hollister, California

### **Opinion**

We have audited the accompanying financial statements of Sunnyslope County Water District (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Sunnyslope County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of

Gerald Ray, CPA | Patricia Kaufman, CPA, CGMA | Smriti Shrestha, CPA

not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sunnyslope County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sunnyslope County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of District's proportionate share of the plan's (PERF C) of the net pension liability (asset) and related ratios as of measurement date – cost sharing defined benefit pension plan, the schedule of statutorily required employer contributions – pension plan, the schedule of changes in the District's net OPEB liability (asset) and related ratios as of measurement date, and the schedule of employer OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



McGilloway, Ray, Brown & Kaufman  
Salinas, California  
December 13, 2022

# Sunnyslope County Water District

## Management's Discussion and Analysis

### For the Year Ended June 30, 2022

As management of the Sunnyslope County Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2022 (with 2021 information provided for comparative purposes only). This information is presented in conjunction with the transmittal letter in the Introductory Section, and with the basic financial statements and related notes, which follow this section.



#### **The District**

Sunnyslope County Water District was formed December 17, 1954 as a California Special District pursuant to the California County Water District Act, §30000 et seq., to furnish water and wastewater services to residents of the District in San Benito County, California. The District's water system serves an area of approximately 3.9 square miles in the City of Hollister and surrounding County areas. The District's wastewater system (of collection, treatment, and disposal) serves a few housing developments within the County consisting of Ridgemark Estates and the Oak Creek and Quail Hollow subdivisions. The District serves approximately 7,139 water accounts, of which 99.7% are residential customers, and approximately 1,238 sewer accounts, of which 99.4% are residential customers.

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

#### **The Basic Financial Statements**

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

# Sunnyslope County Water District

## Management's Discussion and Analysis

For the Year Ended June 30, 2022

The Statement of Net Position: includes all of the District's Assets and Deferred Outflows, and Liabilities and Deferred Inflows, with the difference between the two reported as Net Position, some of which are restricted in accordance with Board action, or other legal commitments. This statement provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Trending increases or decreases in net position over time can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position can be found on pages 14 and 15.

The Statement of Revenues, Expenses, and Changes in Net Position: presents information illustrating how net position changed during the fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The Statement of Revenues, Expenses, and Changes in Net Position can be found on page 16.

The Statement of Cash Flows: presents information relating to the District's cash receipts and cash payments during the year. When used with related disclosures and information in other financial statements, the information in this statement should help readers assess the District's ability to generate future cash flows, its ability to meet its obligations as they come due, and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments, and the effects of the District's financial position from its non-capital and capital related financing and its investing transactions during the year. This statement answers questions such as; where cash came from, what was cash used for, and what was the change in cash balance during the reporting period? The Statement of Cash Flows can be found on pages 17 and 18.

The *Notes to the Basic Financial Statements* provide the reader additional information that is necessary to understand all of the data provided in the basic financial statements. The notes to the financial statements are included immediately following the financial statements and can be found beginning on page 19 of this report.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information. The required supplementary information is concerning the District's liabilities related to pension and Other Post-Employment Benefits (OPEB) and can be found on pages 53 through 56 of this report.

### Financial Analysis

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

**Sunnyslope County Water District**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2022

**Condensed Financial Information**

***Statement of Net Position***

The following is the condensed Statement of Net Position for the fiscal year ended June 30, 2022 and 2021:

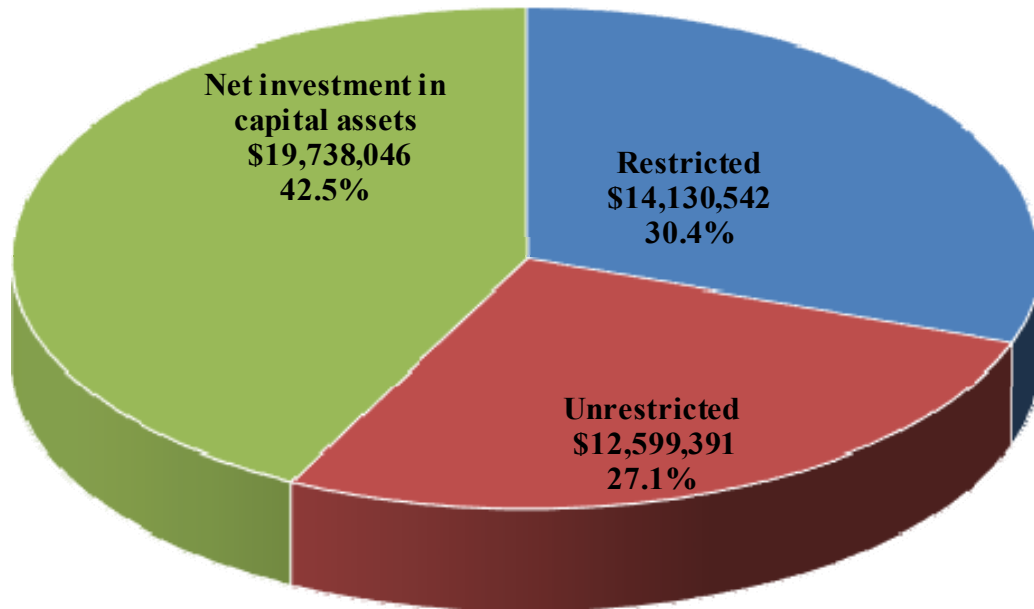
***Condensed Statement of Net Position***

|                                  | <b>June 30,<br/>2022</b> | June 30,<br>2021 | Amount<br>Change | Percent<br>Change |
|----------------------------------|--------------------------|------------------|------------------|-------------------|
| Current assets                   | <b>\$ 25,643,221</b>     | \$ 20,654,883    | \$ 4,988,338     | 24.2%             |
| Other assets                     | <b>2,209,616</b>         | 515,637          | 1,693,979        | 328.5%            |
| Capital assets, net              | <b>40,320,376</b>        | 42,113,665       | (1,793,289)      | -4.3%             |
| Total Assets                     | <b>68,173,213</b>        | 63,284,185       | 4,889,028        | 7.7%              |
| Deferred outflows of resources   | <b>2,939,258</b>         | 980,565          | 1,958,693        | 199.8%            |
| Current liabilities              | <b>3,421,085</b>         | 5,851,497        | (2,430,412)      | -41.5%            |
| Long-term liabilities            | <b>20,257,569</b>        | 21,615,852       | (1,358,283)      | -6.3%             |
| Total Liabilities                | <b>23,678,654</b>        | 27,467,349       | (3,788,695)      | -13.8%            |
| Deferred inflows of resources    | <b>965,838</b>           | 711,121          | 254,717          | 35.8%             |
| Net Position                     |                          |                  |                  |                   |
| Net investment in capital assets | <b>19,738,046</b>        | 17,874,376       | 1,863,670        | 10.4%             |
| Restricted for debt service      |                          |                  |                  |                   |
| and capacity fees                | <b>14,130,542</b>        | 7,513,853        | 6,616,689        | 88.1%             |
| Unrestricted                     | <b>12,599,391</b>        | 10,698,051       | 1,901,340        | 17.8%             |
| <b>Total Net Position</b>        | <b>\$ 46,467,979</b>     | \$ 36,086,280    | \$ 10,381,699    | 28.8%             |

As noted earlier, net position over time may serve as a useful indicator of an agency's financial position. The District's assets exceeded liabilities by \$46,467,979 at June 30, 2022, which is the District's net position. The largest portion of the District's net position (42.5%) reflects its investment in capital assets of \$19,738,046 (e.g., land, transmission and distribution systems, wells, tanks, pumps, buildings and structures, equipment, and vehicles), net of accumulated depreciation and related outstanding debt used to acquire those assets. The District uses its capital assets to provide water and wastewater service to its designated service area, and as such, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay the debt. Other assets and Deferred outflows of resources pertain to valuation of both pension assets and obligations. In total, current year adjustments increased the Net Position by \$1,863,670. Pension balances are evaluated based on the previous fiscal year activity. In fiscal year 2021 the pension funds experienced returns on investments significantly above projections.

**Sunnyslope County Water District**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2022

**Statement of Net Position**  
**June 30, 2022**



After restricting net position for capacity fees and debt service of \$14,130,542 (30.4%), the remaining net position of \$12,599,391 (27.1%) is unrestricted and may be used at the Board's discretion to continue meeting the needs of the District. See the Notes to Financial Statements, Note 11 – Net Position, for more details on the District's net position.

The District's net position increased \$10,381,699 from the prior fiscal year. The increase is primarily a result of the income from operations, capacity fees collected, developer capital contributions, and interest earned, offset by interest expense.

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

The District's principal source of revenue is from water sales (55.0% of operating revenue) and wastewater sales (15.9% of operating revenue), which together constitutes 70.9% of operating revenue. The District's principal sources of water supply are from several wells owned by the District, from treated surface water received from the Lessalt Water Treatment Plant, from treated surface water received from the West Hills Water Treatment Plant and through interties with the City of Hollister. Presently wells are providing approximately 58.1%, the Lessalt WTP providing approximately 2.4% and the West Hills WTP providing approximately 37.1% of the water pumped into the distribution system. These percentages have changed in recent years due to surface water allocations associated with the statewide drought. The Board approved water rate increases by Ordinance No. 73 in December 2013, which phased the increases over a six-year period, beginning in December 2013. The Board approved wastewater rate increases by Ordinance No. 74 in August 2013, which phased in the increases of 19.0% each year over a two-



# Sunnyslope County Water District

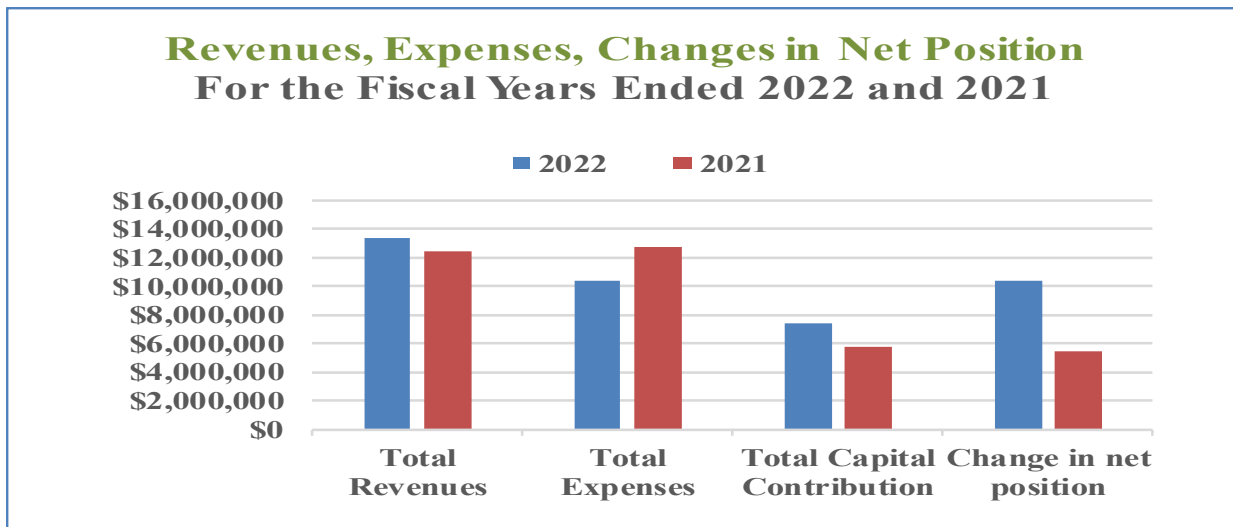
## Management's Discussion and Analysis

### For the Year Ended June 30, 2022

year period, beginning in December 2013. The water and wastewater rate increases were deemed necessary to implement the Hollister Urban Area Water Project (HUAWP). Several projects recommended in the HUAWP have been constructed that improve drinking water quality for residents and help the District meet state and federal regulations for water and wastewater. The wastewater rate increase was also implemented to pay for the construction of the new Sequencing Batch Reactor (SBR) at the Ridgemark Wastewater Treatment Plant.



Water sales revenue remained flat through the first few years of rate increases, even though we implemented five years of rate increases of approximately 11.5% each year beginning in December 2013 and ending with the final increase of 3% in December 2018. The primary reason for slow revenue growth, in spite of the rate increases, was due to slow customer growth and customer water conservation during the California drought. Water sales revenue has shown an increase over the past two years due to construction of new homes. We expect to see water use fluctuate with the seasons and the amount of rainfall received. The customer base grew 368 in fiscal year 21 and 331 in fiscal year 22. We believe the wastewater sales revenue increase this fiscal year is due to the adjustment of the variable component of the sewer rate, which is based on water consumption, and adjusted each April.



**Sunnyslope County Water District**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2022

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

|                                       | <b>June 30,<br/>2022</b> | <b>June 30,<br/>2021</b> | Dollar | Change      | Percent<br>Change |
|---------------------------------------|--------------------------|--------------------------|--------|-------------|-------------------|
| Revenues                              |                          |                          |        |             |                   |
| Operating revenues                    | <b>\$ 13,345,614</b>     | \$ 12,396,429            | \$     | 949,185     | 7.7%              |
| Non-operating revenues                | <b>44,846</b>            | 48,639                   |        | (3,793)     | -7.8%             |
| Total revenues                        | <b>13,390,460</b>        | 12,445,068               |        | 945,392     | 7.6%              |
| Expenses                              |                          |                          |        |             |                   |
| Operating expenses                    | <b>7,988,597</b>         | 12,348,766               |        | (4,360,169) | -35.3%            |
| Non-operating expenses                | <b>2,369,689</b>         | 352,715                  |        | 2,016,974   | 571.8%            |
| Total expenses                        | <b>10,358,286</b>        | 12,701,481               |        | (2,343,195) | -18.4%            |
| Gain before capital contributions     | <b>3,032,174</b>         | (256,413)                |        | 3,288,587   | 1282.5%           |
| Capital Contributions                 |                          |                          |        |             |                   |
| Capacity and connection fees          | <b>7,349,525</b>         | 5,002,375                |        | 2,347,150   | 46.9%             |
| Developer capital asset contributions | <b>-</b>                 | 713,506                  |        | (713,506)   | -100.0%           |
| Total capital contribution            | <b>7,349,525</b>         | 5,715,881                |        | 1,633,644   | 28.6%             |
| Change in net position                | <b>10,381,699</b>        | 5,459,468                |        | 4,922,231   | 90.2%             |
| Net position - beginning              | <b>36,086,280</b>        | 30,626,812               |        | 5,459,468   | 17.8%             |
| Net position - ending                 | <b>\$ 46,467,979</b>     | \$ 36,086,280            | \$     | 10,381,699  | 28.8%             |

The primary source of non-operating revenues are water and wastewater capacity fees and investment income. Development of new housing has maintained momentum, and we had another year of strong capacity fee numbers. We received 331 water capacity fees this fiscal year, compared to 368 last year, and we received 61 wastewater capacity fees this fiscal year, compared to 1 last year. With the improvements to the Lessalt (surface) Water Treatment Plant, bringing the West Hills (surface) Water Treatment Plant online and the addition of a new well back in February 2010, the District significantly increased water supply pumping capacity. With the upgrades to the wastewater treatment system, including the construction of the sequencing batch reactor, the District has sufficient wastewater disposal capabilities for all existing customers and for developments under construction.

Operating expenses include salaries and benefits for 23 full-time employees, including water and wastewater system operations. The water department's expenses include electricity for pumping water, well water pumping fees, surface water cost and treatment, repairs and maintenance of the production and distribution systems, and an 80% share of customer service and general and administrative costs. The wastewater department's expenses include electricity for sewer pumping stations, repair and maintenance of the sewer manholes and mainline pipes, treatment costs, operation and maintenance of the Sequencing Batch Reactor (SBR), sludge disposal, and a 20% share of customer service and general and administrative costs. Operating expenses are down 6.0% compared to last fiscal year excluding pension adjustments. The decrease in

**Sunnyslope County Water District**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2022

expenses is attributed to the reduction in surface water purchase and treatment and the idling of the Lessalt water treatment plant.

Non-operating expenses include interest expense on our debt, and the loss on disposal of assets.

Contributed capital usually comes from water and wastewater system infrastructure constructed by developers and turned over to the District for operation and maintenance. In fiscal year 2022 there were no completed subdivisions or donated capital.

**Capital Assets and Debt Administration**

***Capital Assets***

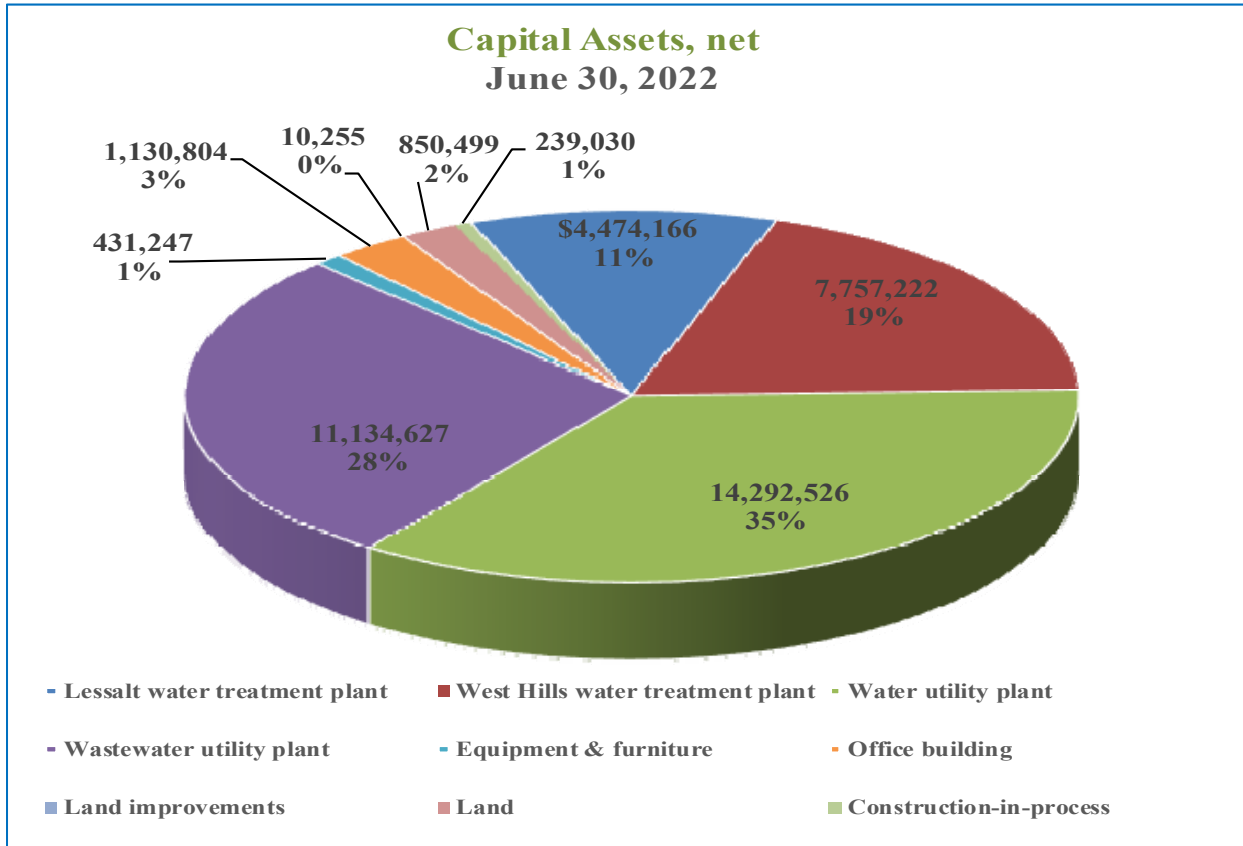
Capital assets include the District's water infrastructure, wastewater infrastructure, land, buildings, equipment, furniture, and work-in-process.

The District's investment in capital assets as of June 30, 2022 was \$40,320,376, net of accumulated amortization and depreciation. The \$712,230 in major capital asset additions for the current year included 610 new and replacement water meters installed (\$181,137), and work-in-process (\$122,067). The capital additions are offset by disposition of capital assets of which there were none, amortization expense (\$814,306), and depreciation expense (\$1,469,797).

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

|                                  | <b>June 30,<br/>2022</b> | June 30,<br>2021     | Dollar<br>Change      | Percent<br>Change |
|----------------------------------|--------------------------|----------------------|-----------------------|-------------------|
| Water rights                     |                          |                      |                       |                   |
| Lessalt water treatment plant    | \$ 4,474,166             | \$ 4,802,778         | \$ (328,612)          | -6.8%             |
| West Hills water treatment plant | 7,757,222                | 8,316,945            | (559,723)             | -6.7%             |
| Water utility plant              | 14,292,526               | 14,849,863           | (557,337)             | -3.8%             |
| Wastewater utility plant         | 11,134,627               | 11,447,239           | (312,612)             | -2.7%             |
| Equipment & furniture            | 431,247                  | 446,132              | (14,885)              | -3.3%             |
| Office building                  | 1,130,804                | 1,231,986            | (101,182)             | -8.2%             |
| Land improvements                | 10,255                   | 10,722               | (467)                 | -4.4%             |
| Land                             | 850,499                  | 850,499              | -                     | 0.0%              |
| Construction-in-process          | 239,030                  | 157,501              | 81,529                | 51.8%             |
| Capital assets, net              | <b>\$ 40,320,376</b>     | <b>\$ 42,113,665</b> | <b>\$ (1,793,289)</b> | <b>-4.3%</b>      |

**Sunnyslope County Water District**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2022



***Long-Term Debt***

As of June 30, 2022, the District had long-term debt and long-term liabilities, totaling \$21,498,676. The decrease in loans and commitments payable is due to principal payments on the outstanding debt. The increase in deposits from customers is primarily due to customer turnover and new customers. The decrease in net pension liability and the net OPEB liability is primarily due to the impact of the District making additional payments toward the unfunded liabilities. More information on the District's pension plan can be found in Note 8 – Pension Plan of the financial statements. More information on the District's OPEB plan can be found in Note 10 – Other Post-Employment Benefit Plan of the financial statements.

**Sunnyslope County Water District**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2022

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

|                                | <b>June 30,<br/>2022</b> | June 30,<br>2021 | Dollar<br>Change | Percent<br>Change |
|--------------------------------|--------------------------|------------------|------------------|-------------------|
| Accrued compensated absences   | <b>\$ 172,598</b>        | \$ 172,779       | \$ (181)         | -0.1%             |
| Loans payable                  | <b>7,748,648</b>         | 10,768,268       | (3,019,620)      | -28.0%            |
| Commitments payable            | <b>12,833,682</b>        | 13,471,019       | (637,337)        | -4.7%             |
| Deposits from customers        | <b>542,815</b>           | 548,594          | (5,779)          | -1.1%             |
| Net pension liability          | -                        | 368,675          | (368,675)        | -100.0%           |
| Net OPEB liability             | <b>200,933</b>           | -                | 200,933          | N/A               |
| Debt and long-term liabilities | <b>\$ 21,498,676</b>     | \$ 25,329,335    | \$ (3,830,659)   | -15.1%            |

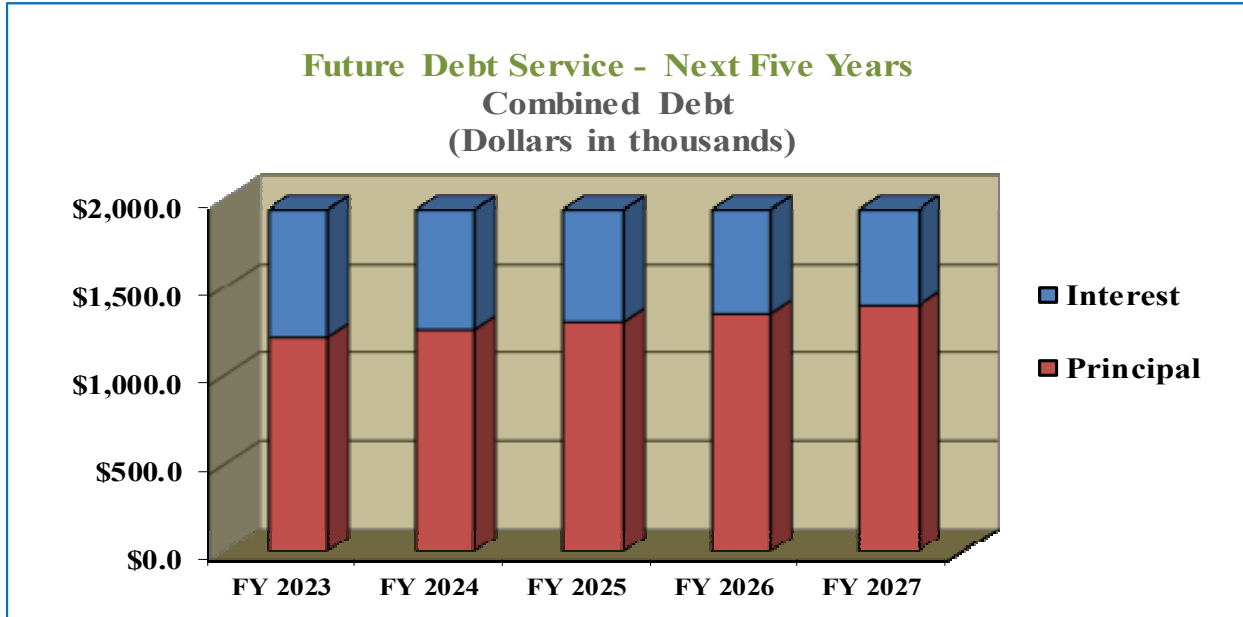
# Sunnyslope County Water District

## Management's Discussion and Analysis

### For the Year Ended June 30, 2022

#### ***Future Debt Service***

The District's debt service requirements for the next five years, through June 30, 2027, are shown on the following table, averaging \$1,980.7 thousand annually.



#### **Other Future Economic Factors**

From the years 2002 to 2015, the District experienced low to no housing growth, however, in fiscal years 2022 and 2021, new housing starts within the District service boundary have generated 331 and 368 new water connections, and 6 and 1 wastewater connections, respectively. Due to drought conditions, the state cut the District's surface water allocation to zero. For the current year and the next two fiscal years, the effect of this will be somewhat offset from the storage of prior allocations in the San Justo reservoir. Beyond those two years, San Benito County Water District is currently engaged in securing a larger state allocation from the state water project and is planning for the development of a new underground storage project. Due to cost trends and in consideration of the need to expand the county's storage potential of surface water the District has contracted with Raftelis to perform a new rate study. We anticipate a new rate structure starting in fiscal year 2023.

#### ***Rates and Fees***

The District conducted a wastewater rate study in 2013. New wastewater rates were passed after a public hearing was held in August 2013. The first approved increase took effect on December 21, 2013 and a second increase took effect on December 21, 2014, increasing by 19.0% each year. No increases in wastewater rates are anticipated for fiscal years 2017 through 2022.

Finally, the District conducted a water and wastewater capacity charge rate study in 2013. The new water and wastewater capacity charges were passed after a public hearing in August 2013, effective October 6, 2013. These fees are charges imposed as a condition of providing new or increased water and wastewater services through new connections. The water capacity fee for a 5/8", 3/4", or 1" meter size was \$11,000, effective July 1, 2019, and \$10,975, effective July 1, 2018, and is adjusted annually. The wastewater capacity fee for a single-family residential

# Sunnyslope County Water District

## Management's Discussion and Analysis

### For the Year Ended June 30, 2022

dwelling was \$19,875 per dwelling unit, effective July 1, 2019, and \$19,825 per dwelling unit, effective July 1, 2018, and is adjusted annually. The capacity fees increase on July 1 of each year by the San Francisco Construction Index for the prior year as published in the Engineering News Record. The current rates effective July 1, 2022, are \$14,205 and \$24,950 for a single-family dwelling for water and waste, respectively.

#### COVID-19

As a result of California State Executive Orders N-25-20 and N-29-20, the District abstained from administering shutoffs associated with non-payment of service bills. The District holds an average of \$250,000 in unpaid monthly service charges. The District is expected to reinstate the practice of service shutoffs beginning in February 2023. The District has not had an operational disruption of service delivery or regulatory compliance violations from the onset of the pandemic through the issuance date of the financials.

#### 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.



# **FINANCIAL SECTION**



**Sunnyslope County Water District**  
**Statement of Net Position**  
**June 30, 2022**  
(with prior year data for comparative purposes only)

| Assets  | <u>2022</u>          | <u>2021</u>          |
|---|----------------------|----------------------|
| Current Assets                                  |                      |                      |
| Cash and investments                            | \$ 8,580,416         | \$10,727,527         |
| Accounts receivable, net                        | 2,300,236            | 1,898,032            |
| Inventory supplies                              | 373,658              | 432,087              |
| Prepaid expenses                                | 258,369              | 83,384               |
| Restricted cash and investments                 | 14,130,542           | 7,513,853            |
| Total Current Assets                            | <u>25,643,221</u>    | <u>20,654,883</u>    |
| Noncurrent Assets                               |                      |                      |
| Capital assets                                  |                      |                      |
| Water rights, net                               | 12,231,388           | 13,119,723           |
| Depreciable, net                                | 26,978,009           | 27,985,941           |
| Nondepreciable                                  | 1,110,979            | 1,008,001            |
| Idle assets                                     | 471,341              | 471,341              |
| Net pension asset                               | 1,738,275            | -                    |
| Net OPEB asset                                  | -                    | 44,296               |
| Total Noncurrent Assets                         | <u>42,529,992</u>    | <u>42,629,302</u>    |
| Total Assets                                    | <u>68,173,213</u>    | <u>63,284,185</u>    |
| Deferred Outflows of Resources                  |                      |                      |
| Deferred outflows - pension                     | 2,550,801            | 957,954              |
| Deferred outflows - OPEB                        | 388,457              | 22,611               |
| Total Deferred Outflows of Resources            | <u>2,939,258</u>     | <u>980,565</u>       |
| Total Assets and Deferred Outflows of Resources | <u>\$ 71,112,471</u> | <u>\$ 64,264,750</u> |

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Net Position**  
**June 30, 2022**  
**(with prior year data for comparative purposes only)**

|   | <u>2022</u>          | <u>2021</u>          |
|---|----------------------|----------------------|
| Liabilities   |                      |                      |
| Current Liabilities   |                      |                      |
| Accounts payable  | \$ 1,501,869         | \$ 1,738,050         |
| Accrued expenses  | 678,109              | 399,964              |
| Accrued compensated absences - current portion                    | 19,571               | 56,526               |
| Loan and commitment payable - current portion                     | 1,221,536            | 3,656,957            |
| Total Current Liabilities   | <u>3,421,085</u>     | <u>5,851,497</u>     |
| Long-Term Liabilities   |                      |                      |
| Accrued compensated absences - less current portion               | 153,027              | 116,253              |
| State Revolving Fund loan payable                                 | 7,190,138            | 7,748,648            |
| Commitment payable for water rights                               | 12,170,656           | 12,833,682           |
| Deposits received   | 542,815              | 548,594              |
| Net pension liability   | -                    | 368,675              |
| Net OPEB liability  | 200,933              | -                    |
| Total Long-Term Liabilities                                       | <u>20,257,569</u>    | <u>21,615,852</u>    |
| Total Liabilities   | <u>23,678,654</u>    | <u>27,467,349</u>    |
| Deferred Inflows of Resources                                     |                      |                      |
| Deferred inflows - pension  | 863,434              | 696,415              |
| Deferred inflows - OPEB   | 102,404              | 14,706               |
| Total Deferred Inflows of Resources                               | <u>965,838</u>       | <u>711,121</u>       |
| Total Liabilities and Deferred Inflows of Resources               | <u>24,644,492</u>    | <u>28,178,470</u>    |
| Net Position  |                      |                      |
| Net investment in capital assets                                  | 19,738,046           | 17,874,376           |
| Restricted for capacity fees                                      | 12,730,141           | 6,753,853            |
| Restricted for debt service                                       | 1,400,401            | 760,000              |
| Unrestricted  | 12,599,391           | 10,698,051           |
| Total Net Position  | <u>46,467,979</u>    | <u>36,086,280</u>    |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 71,112,471</u> | <u>\$ 64,264,750</u> |

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For The Year Ended June 30, 2022**  
**(with prior year data for comparative purposes only)**

|   | <b>2022</b>          | <b>2021</b>          |
|---|----------------------|----------------------|
| Operating Revenues                        |                      |                      |
| Water services                            | \$ 7,346,626         | \$ 7,337,986         |
| Wastewater service                        | 2,116,652            | 2,015,077            |
| Contracted services                       | 3,513,647            | 2,867,240            |
| Late fees                                 | 115,540              | -                    |
| Customer fees                             | 207,940              | 173,850              |
| Other                                     | 45,209               | 2,276                |
| Total Operating Revenues                  | <u>13,345,614</u>    | <u>12,396,429</u>    |
| Operating Expenses                        |                      |                      |
| Salaries and benefits                     | 3,468,707            | 2,198,821            |
| Pension                                   | (3,532,778)          | 672,949              |
| Operations and maintenance                | 6,582,869            | 7,139,280            |
| Amortization and depreciation             | 2,358,132            | 2,337,716            |
| Total Operating Expenses                  | <u>8,876,930</u>     | <u>12,348,766</u>    |
| Operating Income                          | <u>4,468,684</u>     | <u>47,663</u>        |
| Non-Operating Revenues (Expenses)         |                      |                      |
| Interest income                           | 44,846               | 48,639               |
| Unrealized gain (loss) on investments     | (675,297)            | (34,200)             |
| Other expense                             | (8,412)              | (38)                 |
| Interest expense                          | (797,647)            | (318,477)            |
| Net Non-Operating Expenses                | <u>(1,436,510)</u>   | <u>(304,076)</u>     |
| Income (loss) Before Capital Contribution | <u>3,032,174</u>     | <u>(256,413)</u>     |
| Capital Contribution                      |                      |                      |
| Capacity and connection fees              | 7,349,525            | 5,002,375            |
| Developer capital asset contributions     | -                    | 713,506              |
| Total Capital Contributions               | <u>7,349,525</u>     | <u>5,715,881</u>     |
| Change in Net Position                    | 10,381,699           | 5,459,468            |
| Net Position - Beginning of Year          | <u>36,086,280</u>    | <u>30,626,812</u>    |
| Net Position - End of Year                | <u>\$ 46,467,979</u> | <u>\$ 36,086,280</u> |

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Cash Flows**  
**For The Year Ended June 30, 2022**  
**(with prior year data for comparative purposes only)**

|  | <b>2022</b>  | <b>2021</b>  |
|--|--------------|--------------|
| Cash Flows from Operating Activities   |              |              |
| Cash received from customers   | \$12,937,631 | \$12,200,261 |
| Cash paid to suppliers   | (6,616,453)  | (6,973,448)  |
| Cash paid to employees   | (3,542,815)  | (2,226,938)  |
| Net Cash Provided by Operating Activities  | 2,778,363    | 2,999,875    |
| Cash Flows from Capital and Related Financing Activities                           |              |              |
| Capacity and connection fees received  | 7,349,525    | 5,002,375    |
| Acquisition and construction of capital assets                                     | (564,843)    | (462,845)    |
| Loan and commitment payments   | (3,656,957)  | (1,390,499)  |
| Interest paid  | (797,647)    | (318,477)    |
| Net Cash Provided by Capital and Related Financing Activities                      | 2,330,078    | 2,830,554    |
| Cash Flows from Investing Activities   |              |              |
| Interest received  | 44,848       | 74,003       |
| Change in value of LAIF  | (683,711)    | (34,200)     |
| Net Cash Provided (Used) by Investing Activities                                   | (638,863)    | 39,803       |
| Net increase in cash and cash equivalents and restricted cash and cash equivalents | 4,469,578    | 5,870,232    |
| Cash and Cash Equivalents at Beginning of Year                                     | 18,241,380   | 12,371,148   |
| Cash and Cash Equivalents at End of Year   | \$22,710,958 | \$18,241,380 |
| Unrestricted Cash and Cash Equivalent  | \$ 8,580,416 | \$10,727,527 |
| Restricted Cash and Cash Equivalent  | 14,130,542   | 7,513,853    |
|  | \$22,710,958 | \$18,241,380 |

See accompanying notes to basic financial statements

**Sunnyslope County Water District**  
**Statement of Cash Flows**  
**For The Year Ended June 30, 2022**  
**(with prior year data for comparative purposes only)**

|   | <b>2022</b>  | <b>2021</b>  |
|---|--------------|--------------|
| Reconciliation of Operating Income to Net Cash    |              |              |
| Provided by Operating Activities:                 |              |              |
| Operating Income                                  | \$ 4,468,684 | \$ 47,663    |
| Adjustments to Reconcile Operating Income         |              |              |
| to Net Cash Provided by Operating Activities:     |              |              |
| Amortization and depreciation                     | 2,358,132    | 2,337,712    |
| (Increase) in accounts receivable                 | (402,204)    | (221,241)    |
| (Increase) decrease in inventory supplies         | 58,429       | (39,347)     |
| (Increase) in prepaid expenses                    | (174,985)    | (11,398)     |
| Increase (decrease) in net OPEB asset             | 245,229      | (6,892)      |
| Decrease in deferred outflows - pension           | 569,497      | 384,179      |
| Decrease in deferred outflows - OPEB              | (2,528,190)  | 13,590       |
| Increase (decrease) in accounts payable           | (236,181)    | 208,449      |
| Increase in accrued expenses                      | 277,964      | 228,715      |
| Increase (decrease) in deposits from customers    | (5,779)      | 25,073       |
| Increase (decrease) in net pension liability      | (2,106,950)  | 347,215      |
| Increase (decrease) in deferred inflows - pension | 167,019      | (299,806)    |
| Increase (decrease) in deferred inflows - OPEB    | 87,698       | (14,037)     |
| Net Cash Provided by Operating Activities         | \$ 2,778,363 | \$ 2,999,875 |
| Supplemental Disclosures of Non-Cash and related  |              |              |
| Financing and Investing Activities:               |              |              |
| Contributed Capital Assets                        | \$ -         | \$ 713,506   |

See accompanying notes to basic financial statements

# Sunnyslope County Water District

## Notes to Basic Financial Statements

June 30, 2022

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### **1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

The Sunnyslope County Water District (the District) was formed December 17, 1954 as a California Special District pursuant to the California County Water District Act, §30000 et seq., to furnish water and wastewater services to residents of the District in San Benito County, California. The District is governed by a five-member Board of Directors who serve overlapping four-year terms. The District operates as a non-taxable governmental entity and earns the majority of its revenues from water sales and services to residential users. The District's water system serves an area of approximately 3.9 square miles in the City of Hollister and surrounding areas. The District's wastewater system serves a smaller area within the County consisting of Ridgemark Estates and the Oak Creek and Quail Hollow subdivisions. For fiscal year 2022, water sales constitute approximately 55.00% of operating revenues and wastewater sales are approximately 15.86% of operating revenues.

#### **B. Basis of Accounting**

The District's single enterprise fund (a business-type activity) is accounted for using the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when they are incurred.

#### **C. Accounting Principles**

The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

#### **D. Basis of Presentation and Measurement Focus**

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

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

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

## Sunnyslope County Water District

### Notes to Basic Financial Statements

June 30, 2022

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#### E. Budgets

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

#### F. New Accounting Pronouncements

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

The District implemented the following statements for the year ended June 30, 2022:

|                  |   |   |
|------------------|---|---|
| Statement No. 87 | <i>"Leases"</i>   | The provisions of this statement were effective for reporting periods beginning after June 15, 2021. The District has implemented this pronouncement for the fiscal year 2021-2022. |
| Statement No. 89 | <i>"Accounting for Interest Cost Incurred before the End of a Construction Period"</i>  | The provisions of this statement were effective for reporting periods beginning after December 15, 2020. The District has implemented this pronouncement for the year 2021-2022.    |
| Statement No. 92 | <i>"Omnibus 2020"</i>   | The provisions of this statement are effective for reporting periods beginning after June 15, 2021. The District has implemented this pronouncement for the fiscal year 2021-2022.  |
| Statement No. 97 | <i>"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32"</i> | The provisions of this statement were effective for reporting periods beginning after June 15, 2021. The District has implemented this pronouncement for the fiscal year 2021-2022. |

## Sunnyslope County Water District

### Notes to Basic Financial Statements

June 30, 2022

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#### Pending Accounting Standards

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

|                   |   |   |
|-------------------|---|---|
| Statement No. 94  | <i>"Public-Private and Public-Public Partnerships and Availability Payments Arrangements"</i> | The provisions of this statement are effective for reporting periods beginning after June 15, 2022.     |
| Statement No. 96  | <i>"Subscription-Based Information Technology Arrangements"</i>                               | The provisions of this statement are effective for reporting periods beginning after June 15, 2022.     |
| Statement No. 98  | <i>"Annual Comprehensive Financial Report"</i>  | The provisions of this statement are effective for reporting periods beginning after June 15, 2022      |
| Statement No. 99  | <i>"Omnibus 2022"</i>   | The provisions of this statement are effective for reporting periods beginning after June 15, 2022.     |
| Statement No. 100 | <i>"Accounting Changes and Error Correction" An Amendment of GASB statement No. 62</i>        | The provisions of this statement are effective for reporting periods beginning after June 15, 2023.     |
| Statement No. 101 | <i>"Compensated Absences"</i>   | The provisions of this statement are effective for reporting periods beginning after December 15, 2023. |

#### **G. Cash and Investments**

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand, demand deposits, money market accounts, short-term investments with original maturities of three months or less from the date of acquisition and investments with Local Authority Investment Fund (LAIF) managed by the State of California. Deposits in LAIF are generally available for withdrawal on a next day basis and, therefore, considered cash equivalents.

For purposes of determining cash equivalents, the District has defined its policy concerning the treatment of short-term investments to include investments with a maturity of three months or less when purchased, as cash equivalents if management does not plan to reinvest the proceeds. Short-term investments that management intends to rollover into similar investments are considered part of the investment portfolio and are classified as investments.



## Sunnyslope County Water District

### Notes to Basic Financial Statements

June 30, 2022

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Investments - All investments are stated at fair value, except for money market investments which have a remaining maturity of less than one year when purchased, which are stated at amortized cost.

Under the provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the following investments are authorized:

- ◆ U.S. Treasury Obligations, or Federal Agency Securities
- ◆ FDIC Insured Certificates of Deposit
- ◆ Fully Collateralized Certificates of Deposit
- ◆ Commercial Paper, (rated in highest short-term ratings category)
- ◆ California's Local Agency Investment Fund
- ◆ Securities of the State of California, its agencies, or any local agency within the state
- ◆ Medium term corporate notes (rated "A" or better)
- ◆ Negotiable Certificates of Deposit (rated "A" or better)
- ◆ Shares of beneficial interest issued by diversified management companies that are money market funds registered with Securities and Exchange Commission (highest rating by at least 2 rating organizations)
- ◆ Registered Treasury Notes or Bonds of any of the other remaining 49 states
- ◆ Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7

***Investment Held in Local Agency Investment Fund (LAIF)*** - The District participates in the LAIF, an investment pool managed by the State of California. LAIF has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as a result of changes in interest rates.

LAIF determines value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

The District valued its investments in LAIF as of June 30, 2022, by multiplying its account balance with LAIF times a fair value factor determined by LAIF for all LAIF participants by total aggregate amortized cost.

#### **H. Receivables**

Receivables include amounts due from water utility customers as well as amounts due from contracts, and other receivables. The District provides an allowance for doubtful accounts for all accounts deemed uncollectible. The allowance for fiscal year 2022 is calculated as 2.5% of the outstanding receivable balance on the District's accounts. The bad debt allowance is held low due to the District's strict shut-off policy for accounts that reach 3 months past due, and the District's deposit requirement policy. Management's periodic evaluation of outstanding receivables is based on the District's past loss experience. The majority of accounts that become uncollectible are final bills to customers who have left our service area. Once collection efforts have been exhausted, a

## Sunnyslope County Water District

### Notes to Basic Financial Statements

June 30, 2022

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list of accounts deemed uncollectible is provided to management for approval to write-off and are turned over to a collection agency for further attempts at collection. Due California Executive Order N-42-20 in response to the state of emergency as a result of the threat of COVID-19, no water service will be shut off during this time of National Emergency.

The District provides water and wastewater services to residential and commercial customers who reside or do business in our service area. As part of normal operating practices, credit is granted to customers with a good prior credit history with the District or a TransUnion credit score of 700 or greater (a fee applies) on an unsecured basis. New customers or customers who have been shut-off for non-payment are required to pay, in addition to any other past-due balances or applicable fees, a deposit of \$125 if a water only customer, or a deposit of \$400 if a water and wastewater customer (less any amount currently held on deposit), prior to the start or reinstatement of service. New customers also may opt to pay 50% of the required deposit if they also sign up for the District's automatic electronic payment program for a minimum of three years.

#### **I. Inventories and Prepaid Expenses**

Inventory consists primarily of water meters, parts, and spare pumps that are used in the repair and maintenance of water and wastewater utility plant and is valued at cost using the consumption method on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

#### **J. Restricted Cash and Investments**

Restricted cash and investments represent allocations of cash and investments that are a statutory or contractual requirement. The District has established various accounts to provide for specific activities in accordance with special regulations and restrictions placed by contracts, laws or regulations of other governments. Specific detail on source of restrictions is provided in Note 11 – Net Position. Restricted capacity fees are used first to fund debt obligations and the Debt Service Reserve is restricted by the California State Water Resource Control Board's Debt Covenant to establish a Reserve equal to one year's debt service.

#### **K. Capital Assets**

Capital assets purchased or constructed by the District are carried at historical cost. Constructed costs include direct labor, materials, transportation, and such indirect items as engineering, supervision, employee fringe benefits, and interest on net borrowed funds related to plant under construction. Contributed assets from developers, such as water main services, fire hydrants, valves, and related appurtenances, are stated at their cost to construct or acquisition value at the date of donation to the District. The District's capitalization threshold by asset category are as follows:

|  | Actual Cost or FMV |
|--|--------------------|
| Land (by purchase, gift, donation, or bequest)   |                    |
| Land Improvements                                | \$ 5,000           |
| Buildings and Improvements                       | 10,000             |
| Leasehold Improvements                           | 10,000             |
| Furniture and Equipment                          | 1,000              |
| Property Leased from Others Under Capital Leases | 1,000              |
| Computer Software                                | 1,000              |

## Sunnyslope County Water District

### Notes to Basic Financial Statements

June 30, 2022

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

|  |             |
|--|-------------|
| Hydrants, Transmission Mains, Lift Stations        | 40 Years    |
| Valves, Storage Tanks, Service Lines               | 40 Years    |
| Distribution Pipes (Water and Wastewater Mains)    | 40 Years    |
| Wells, Buildings                                   | 25-40 Years |
| Landscaping/Grading/Lighting/Fencing/Paving        | 10-25 Years |
| Backflow Prevention                                | 10-20 Years |
| Tools and Shop Equipment                           | 7-15 Years  |
| Meters, Chlorination and Other Treatment Equipment | 10 Years    |
| Office Furniture/Supplies, Electrical Systems      | 7-10 Years  |
| Pumps, Transportation Equipment                    | 5-10 Years  |
| Lab/Monitoring and SCADA Monitoring Equipment      | 5-10 Years  |
| Computers/Printers                                 | 5 Years     |

#### **L. Idle Assets**

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

The Well #12 test well was taken out of service in 2012 because the project is on hold until such future time as we need additional groundwater, and the cost of the 2-acre lot line adjustment was taken out of service in 2016. In 1999, two adjoining parcels of land were purchased jointly with the City of Hollister as a future site for a surface water treatment plant. One of the parcels was ultimately chosen for the site of the West Hills Water Treatment Plant, which was jointly donated in 2015 to San Benito County Water District (SBCWD) under the Hollister Urban Area Water Supply and Treatment Agreement. The remaining adjoining parcel is being held for possible future expansion needs.

#### **M. Water Rights**

The District participates in various water rights agreements for imported surface water. These agreements are included in capital assets as water rights which are further described in Note 4 Capital Assets, Net and Note 7 B Commitment Payable.

**Sunnyslope County Water District**

*Notes to Basic Financial Statements*

June 30, 2022

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**N. Compensated Absences**

The District's employment policy provides for the accumulation of earned vacation leave and vested sick leave.

Vacation

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

**Compensated Absences**

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

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

Sick Leave

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

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

**O. Pension Plan**

The District offers 2 retirement plans to its employees. Employees hired before January 1, 2013 are members of the CalPERS Classic Plan and employees hired after January 1, 2013 are members of the California Public Employees' Pension Reform Act Plan (PEPRA Plan).

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expenses, information about the fiduciary net position of the San Sunnyslope County Water District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS finance office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 8 for the CalPERS Classic Plan disclosures.

## Sunnyslope County Water District

### Notes to Basic Financial Statements

June 30, 2022

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

|                         |                              |
|-------------------------|------------------------------|
| Valuation Date (VD)     | June 30, 2020                |
| Measurement Date (MD)   | June 30, 2021                |
| Measurement Period (MP) | July1, 2020 to June 30, 2021 |

#### **P. Other Post-Employment Benefits (OPEB)**

The District provides post-employer retirement benefits to its employees to assist with future medical premium costs.

For purposes of measuring the net OPEB liability (asset), deferred outflows of resources, and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. Investments are reported at fair value. See Note 10 for additional disclosures. GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

|                         |                              |
|-------------------------|------------------------------|
| Valuation Date (VD)     | June 30, 2021                |
| Measurement Date (MD)   | June 30, 2021                |
| Measurement Period (MP) | July1, 2020 to June 30, 2021 |

#### **Q. 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 future periods and so will not be recognized as an outflow of resources (expenses/expenditure) until that time. The District has the following items that qualify for reporting in this category:

- ◆ Deferred outflows of resources related to pensions are reported in the government-wide financial statements as described further in Note 8.
- ◆ Deferred outflows of resources related to OPEB are reported in the government-wide financial statements as described further in Note 10.

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 future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- ◆ Deferred inflows of resources related to pensions are reported in the government-wide financial statements as described further in Note 8.
- ◆ Deferred inflows of resources related to OPEB are reported in the government-wide financial statements as described further in Note 10.

#### **R. Net Position**

The statement of net position reports all financial and capital resources. The difference between assets and liabilities is net position. The three components of net position are:

## Sunnyslope County Water District

### *Notes to Basic Financial Statements*

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Net investment in capital assets, net of related debt – This component of net position consists of capital assets, including infrastructure, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – This component of net position consists of constraints placed on the use of net positions by external restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net position includes water and wastewater capacity (connection) fees. The resolution establishing the authority for water and wastewater capacity fees restricts the use of these fees to the construction, acquisition, or financing of capital assets. The water and wastewater capacity fees are exchange transactions (capital contributions). The connecting party receives a benefit (connection to the system) approximately equal in value to the amount paid.

Unrestricted – This category represents net positions of the District that do not meet the definition of "Restricted net position" or "Net investment in capital assets, net of related debt."

#### **S. Water & Wastewater Service Revenue Recognition**

Revenues are recognized when earned and include accrual of revenue for the 10 days at fiscal year-end. Metered water accounts are read and billed on a monthly cycle that ends on the 20<sup>th</sup> of the month. Meter readings usually begin 3 to 4 working days prior to the 20<sup>th</sup> of the month. Wastewater customers are also billed monthly and are included with the water billing. Bills are mailed on or near the last working day of the month.

#### **T. Contracted Services Revenue Recognition**

Contracted services revenues are recognized when the performance obligation is satisfied over time.

#### **U. Amortization**

The District has Water Rights per various agreements for imported surface water. These Water Rights are amortized over the term of the agreements, which are further described in Note 4, Capital Assets, Net and Note 7, B Commitment Payable.

#### **V. Restricted and Unrestricted Resources**

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

#### **W. Use of Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

#### **X. Comparative Prior Year Financial Information**

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles.

## Sunnyslope County Water District

### Notes to Basic Financial Statements

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Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

#### Y. Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's financial statement presentation.

#### 2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2022 are classified in the accompanying financial statements as follows:

|                                 |                      |
|---------------------------------|----------------------|
| Cash and investments            | \$ 8,580,416         |
| Restricted cash and investments | <u>14,130,542</u>    |
| Total cash and investments      | <u>\$ 22,710,958</u> |

The carrying value of the District's cash and investments, including restricted and designated balances as of June 30, 2022 were as follows:

|                              | Restricted           | Unrestricted        | Total                |
|------------------------------|----------------------|---------------------|----------------------|
| Petty Cash                   | \$ -                 | \$ 800              | \$ 800               |
| Heritage Bank of Commerce    | -                    | 10,379,467          | 10,379,467           |
| CEPPT                        | 640,401              | -                   | 640,401              |
| MBS Securities               | 6,704,841            | -                   | 6,704,841            |
| Local Agency Investment Fund | <u>6,785,300</u>     | <u>(1,799,851)</u>  | <u>4,985,449</u>     |
| Total                        | <u>\$ 14,130,542</u> | <u>\$ 8,580,416</u> | <u>\$ 22,710,958</u> |

Included in the unrestricted cash and investments are \$8,380,859 of Board Designated funds as disclosed in Note 11, Net Position.

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

The District's investment policy conforms to state law (Government Code Sections 53601 through 53659). 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. 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.

Investment in State Investment Pool: The District is a voluntary participant in the Local Agency Investment Fund (LAIF) an investment pool managed by the State of California. LAIF is a special fund of the California State Treasury through which local governments may pool investments. As of June 30, 2022, the total fair value amount invested by all public agencies in LAIF is \$231,570,067,770 and managed by the State Treasurer. No amounts were invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the

## Sunnyslope County Water District

### *Notes to Basic Financial Statements*

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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.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the District has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly.
- Level 3 inputs are unobservable and significant to the fair value measurement. These unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). The unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

As of June 30, 2022, the District had no leveled investments. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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 deposit made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2022, \$250,000 of the balance on deposit with Heritage Bank of Commerce was covered by federal depository insurance, and the excess of \$10,129,467 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



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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).

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the District and that the District will not be able to recover the value of its investments or collateral securities. Credit risk is mitigated by investing only in U.S. Treasury Obligations, Federal Agency securities and in other high-quality investments, and by diversifying the portfolio so that the failure of any issuer would not unduly harm the District’s cash flow. The District diversifies its investments by security type and institution. The LAIF is managed by the State Treasurer is not rated and Heritage Bank of Commerce has a credit rating of Green/\*\*\*/BB from Veribanc, Inc.

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. The investment in LAIF account are not considered a concentration of risk.

The LAIF investment portfolio is as follows at June 30, 2022:

|                              |                       |                    |
|------------------------------|-----------------------|--------------------|
|                              | <u>Amortized Cost</u> | <u>0-3 Months</u>  |
| Local Agency Investment Fund | <u>\$ 4,985,449</u>   | <u>\$4,985,449</u> |

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.

**3. ACCOUNTS RECEIVABLE, NET**

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectible accounts) amount on the financial statements. Below is the detail of the receivables as of June 30, 2022, including applicable allowances for uncollectible accounts:

|   | Sunnyslope Water<br>& Wastewater<br>Sales and Services | City of Hollister<br>Customer<br>Billings | Other<br>Receivables | Total June 30,<br>2022 |
|---|--|---|----------------------|------------------------|
| Accounts receivable                           | \$ 1,041,492   | \$ 462,994                                | \$ 821,787           | \$ 2,326,273           |
| Less: Allowance for<br>uncollectible accounts | (26,037)   | -   | -                    | (26,037)               |
| Net accounts receivable                       | <u>\$ 1,015,455</u>                                    | <u>\$ 462,994</u>                         | <u>\$ 821,787</u>    | <u>\$ 2,300,236</u>    |

The District entered into an agency agreement with the City of Hollister to bill wastewater and street sweeping charges to District’s water customers who receive their wastewater service from the City. Accounts receivable from customers includes \$462,994 due from the City’s customers as of June 30, 2022. Likewise, accounts payable includes \$462,994 due to the City for the amount

## Sunnyslope County Water District

### Notes to Basic Financial Statements

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billed to their customers as of June 30, 2022. See Note 6 – Accounts Payable. No provision was made for uncollectible accounts for the accounts receivable balance due from the City’s customers.

Other receivables represent those billings outside of the normal water and wastewater sales and services. The receivables include \$532,394 in contracted services billings for the operation and maintenance of the Lessalt Water Treatment Plant, the West Hills Water Treatment Plan and San Benito Foods. Receivables also include \$289,393 in miscellaneous billable services.

#### 4. CAPITAL ASSETS, NET

The change in capital assets of the District for the year ended June 30, 2022 are summarized as follows:

|                                  | June 30,<br>2021 | Additions     | Disposals | Transfers | June 30,<br>2022 |
|----------------------------------|------------------|---------------|-----------|-----------|------------------|
| Water rights                     |                  |               |           |           |                  |
| Lessalt water treatment plant    | \$ 6,500,000     | \$ -          | \$ -      | \$ -      | \$ 6,500,000     |
| West Hills water treatment plant | 12,200,000       | -             | -         | -         | 12,200,000       |
| Depreciable assets               |                  |               |           |           |                  |
| Water utility plant              | 25,478,144       | 302,704       | -         | 22,036    | 25,802,884       |
| Wastewater utility plant         | 15,556,045       | 72,560        | -         | -         | 15,628,605       |
| Equipment and furniture          | 2,243,727        | 67,512        | -         | -         | 2,311,239        |
| Office building                  | 2,805,015        | -             | -         | 18,502    | 2,823,517        |
| Land improvements                | 21,449           | -             | -         | -         | 21,449           |
| Non-depreciable assets           |                  |               |           |           |                  |
| Land                             | 850,499          | -             | -         | -         | 850,499          |
| Construction-in-process          | 157,501          | 122,067       | -         | (40,538)  | 239,030          |
| Total capital assets             | 65,812,380       | 564,843       | -         | -         | 66,377,223       |
| Accumulated amortization         | (5,580,277)      | (888,333)     | -         | -         | (6,468,610)      |
| Accumulated depreciation         | (18,118,438)     | (1,469,799)   | -         | -         | (19,588,237)     |
| Capital assets, net              | \$42,113,665     | \$(1,793,289) | \$ -      | \$ -      | \$40,320,376     |

## Sunnyslope County Water District

### Notes to Basic Financial Statements

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The accumulated amortization and depreciation by major classes are summarized as follows:

|                                     | June 30,<br>2021 | Additions      | Disposals | June 30,<br>2022 |
|-------------------------------------|------------------|----------------|-----------|------------------|
| Amortization                        |                  |                |           |                  |
| Water rights                        |                  |                |           |                  |
| Lessalt water treatment plant       | \$ (1,697,222)   | \$ (216,668)   | \$ -      | \$ (1,913,890)   |
| West Hills water treatment plant    | (3,883,055)      | (671,665)      | -         | (4,554,720)      |
| Total amortization                  | (5,580,277)      | (888,333)      | -         | (6,468,610)      |
| Depreciation                        |                  |                |           |                  |
| Water utility plant                 | (10,628,281)     | (882,079)      | -         | (11,510,360)     |
| Wastewater utility plant            | (4,108,806)      | (385,172)      | -         | (4,493,978)      |
| Equipment and furniture             | (1,797,595)      | (100,898)      | -         | (1,898,493)      |
| Office building                     | (1,573,029)      | (101,181)      | -         | (1,674,210)      |
| Land improvements                   | (10,727)         | (469)          | -         | (11,196)         |
| Total depreciation                  | (18,118,438)     | (1,469,799)    | -         | (19,588,237)     |
| Total amortization and depreciation | \$ (23,698,715)  | \$ (2,358,132) | \$ -      | \$ (26,056,847)  |

### 5. IDLE ASSETS

Idle assets are recorded at cost. Management believes there is no impairment the carrying amount of the idle assets at June 30, 2022.

Idle assets of the District at June 30, 2022 are summarized as follows:

|                              |            |
|------------------------------|------------|
| Site for Well #12            | \$ 115,194 |
| Well #12 Test Well           | 176,676    |
| Site for Future W. Hills     |            |
| Water Treat. Plant Expansion | 179,471    |
| Total idle assets            | \$ 471,341 |

### 6. ACCOUNTS PAYABLE

The District entered into an agency agreement with the City of Hollister to bill wastewater and street sweeping charges to District's water customers who receive their wastewater service from the City beginning July 1, 2007. Accounts payable includes \$462,994 due to the City for the amount billed to their customers as of June 30, 2022. Likewise, accounts receivable from customers includes \$462,994 due from the City's customers as of June 30, 2022 - see Note 3 Accounts Receivable.

Amounts are aggregated into a single accounts payable total on the financial statements. Below is the detail of the accounts payable as of June 30, 2022:

| Sunnyslope Water<br>District Vendors | City of Hollister<br>Customer Billings | Total        |
|--------------------------------------|--|--------------|
| \$ 1,038,875                         | \$ 462,994                             | \$ 1,501,869 |

**Sunnyslope County Water District**

*Notes to Basic Financial Statements*

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**7. LONG TERM DEBT PAYABLE**

The change in loans and commitments payable of the District for the year ended June 30, 2022, are summarized as follows:

|  | June 30,<br>2021 | Increase   | Decrease       | June 30,<br>2022 | Due Within<br>One Year |
|--|------------------|------------|----------------|------------------|------------------------|
| Accrued compensated absences           | \$ 172,779       | \$ 290,584 | \$ (290,765)   | \$ 172,598       | \$ 19,571              |
| Direct Borrowings and Placements       |                  |            |                |                  |                        |
| Bank loan payable                      | 2,475,264        | -          | (2,475,264)    | -                | -                      |
| State Revolving Fund loan payable      | 8,293,004        | -          | (544,356)      | 7,748,648        | 558,510                |
| Commitment payable                     | 13,471,019       | -          | (637,337)      | 12,833,682       | 663,026                |
| Total Direct Borrowings and Placements | 24,239,287       | -          | (3,656,957)    | 20,582,330       | 1,221,536              |
| Total Long-Term Liabilities            | \$24,412,066     | \$ 290,584 | \$ (3,947,722) | \$20,754,928     | \$1,241,107            |

The aggregate maturities of loans and commitments are as follows:

| Fiscal Year<br>Ending June 30, | Direct Borrowings and Placements |              |              |
|--------------------------------|----------------------------------|--------------|--------------|
|                                | Principal                        | Interest     | Total        |
| 2023                           | \$ 1,221,536                     | \$ 720,160   | \$ 1,941,696 |
| 2024                           | 1,262,794                        | 678,902      | 1,941,696    |
| 2025                           | 1,305,521                        | 636,175      | 1,941,696    |
| 2026                           | 1,349,773                        | 591,923      | 1,941,696    |
| 2027                           | 1,395,605                        | 546,091      | 1,941,696    |
| 2028-2032                      | 7,467,388                        | 1,988,480    | 9,455,868    |
| 2033-2037                      | 4,454,944                        | 792,359      | 5,247,303    |
| 2038-2042                      | 1,676,401                        | 299,672      | 1,976,073    |
| 2043-2044                      | 448,368                          | 12,713       | 461,081      |
|                                | \$20,582,330                     | \$ 6,266,475 | \$26,848,805 |

**A. State Revolving Fund Loan – State Water Resources Control Board**

On April 11, 2011, the District entered into a project financing agreement with the State Water Resources Control Board for a State Revolving Fund (SRF) loan in the amount of \$11.4 million. This loan provided funds for the construction of the Ridgemark Wastewater Treatment and Recycled Water Improvements Project (the System), which generally consisted of upgrade and consolidation of the District’s Ridgemark I and Ridgemark II wastewater treatment facilities. The term of the agreement is from December 14, 2010 to September 30, 2033. The construction completion date was extended to September 30, 2013 and the initiation of operation date to January 1, 2014. The loan is scheduled to be repaid over a 20-year period beginning September 30, 2014. Interest accrued during the construction period of \$345,037 is being added to the principal balance due on the loan. The annual interest rate is 2.6%, resulting in amortized principal and interest payments of \$759,975 per year. Principal and interest are to be paid from pledged future revenues of the System.

## Sunnyslope County Water District

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

The SRF loan is collateralized by a pledge of net revenues derived and to be derived from the operations of the District. Net revenues are revenues received from the ownership or operation of the System less the amounts necessary to pay all system operating and maintenance charges of the District, excluding depreciation, replacement and obsolescence charges or reserves and amortization of intangibles. In addition, the District covenants to establish rates and charges in amounts sufficient to generate net revenues equal to at least 1.2 times the total annual debt service. Net revenue available for debt service for the year ended June 30, 2022, is determined as follows:

|                                    |              |
|------------------------------------|--------------|
| Wastewater System Revenue          | \$ 2,184,025 |
| Cost of Good Sold                  | 319,978      |
| Other Expenses                     | 951,569      |
| Total Expenses                     | 1,271,547    |
| Operating Wastewater System Income | 912,478      |
| Add:                               |              |
| Capacity fees                      | 1,299,000    |
| Depreciation                       | 421,035      |
| Net Revenue                        | \$ 2,632,513 |
| Annual Debt Service                | \$ 759,975   |
| Net Revenue Ratio                  | 3.46         |
| Required Net Revenue Ratio         | 1.20         |

In the event of violation of any material provision of the agreement and the District fails to return to compliance with the provisions, the State Water Resources Control Board may terminate the agreement by written notice. In the event of such termination, the District must repay an amount equal to installment payments due, including accrued interest and any penalty assessments.

The maturities of SRF loan payable are as follows:

| Fiscal Year<br>Ending June 30, | Direct Borrowing and Placement |              |              |
|--------------------------------|--------------------------------|--------------|--------------|
|                                | Principal                      | Interest     | Total        |
| 2023                           | \$ 558,510                     | \$ 201,465   | \$ 759,975   |
| 2024                           | 573,031                        | 186,944      | 759,975      |
| 2025                           | 587,930                        | 172,045      | 759,975      |
| 2026                           | 603,216                        | 156,759      | 759,975      |
| 2027                           | 618,900                        | 141,075      | 759,975      |
| 2028-2032                      | 3,344,401                      | 455,472      | 3,799,873    |
| 2033-2034                      | 1,462,660                      | 57,288       | 1,519,948    |
|                                | \$ 7,748,648                   | \$ 1,371,048 | \$ 9,119,696 |

## Sunnyslope County Water District

### *Notes to Basic Financial Statements*

June 30, 2022

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#### ***B. Commitments Payable – San Benito County Water District – Surface Water Treatment Facilities***

The San Benito County Water District (SBCWD) committed to finance up to \$30 million of the project costs to upgrade the surface water treatment process at the Lessalt Water Treatment Plant to meet current water quality regulations, and to construct a second surface water treatment plant called the West Hills Water Treatment Plant. These funds were committed in two tranches. The first tranche of \$13 million was made available on the effective date of the agreement, September 1, 2013. The second tranche of \$17 million was made available effective May 1, 2015, the start of the construction phase of the West Hills Water Treatment Plant.

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

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

In accordance with the financial covenants of the agreement, the District shall pledge net Water revenues, defined as gross revenues received during any period less the amount required by the District to pay for all operation and maintenance costs during such period. Operation and maintenance costs shall mean the reasonable and necessary costs and expenses for maintaining and operating the water system, excluding depreciation, replacement and obsolescence charges or reserves, amortization of intangibles, payments of principal and interest on all outstanding parity debt or other obligations of the District and costs of capital additions, replacements or improvements chargeable to a capital account.

In the event of default, the District will be required to pay all direct damages including the District's respective share of all remaining capital costs incurred for development and construction of facilities, including interest, in addition to any obligations that remain unpaid as of the date of the default.

**Sunnyslope County Water District**

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The aggregate maturities of commitments are as follows:

| Fiscal Year<br>Ending June 30, | Direct Borrowing and Placement |                     |                     |
|--------------------------------|--------------------------------|---------------------|---------------------|
|                                | Principal                      | Interest            | Total               |
| 2023                           | \$ 663,026                     | \$ 518,695          | \$ 1,181,721        |
| 2024                           | 689,763                        | 491,958             | 1,181,721           |
| 2025                           | 717,591                        | 464,130             | 1,181,721           |
| 2026                           | 746,557                        | 435,164             | 1,181,721           |
| 2027                           | 776,705                        | 405,016             | 1,181,721           |
| 2028-2032                      | 4,122,987                      | 1,533,008           | 5,655,995           |
| 2033-2037                      | 2,992,284                      | 735,071             | 3,727,355           |
| 2038-2042                      | 1,676,401                      | 299,672             | 1,976,073           |
| 2043-2044                      | 448,368                        | 12,713              | 461,081             |
|                                | <u>\$12,833,682</u>            | <u>\$ 4,895,427</u> | <u>\$17,729,109</u> |

The maturities of Tranche 1 commitment payable are as follows:

| Fiscal Year<br>Ending June 30, | Direct Borrowing and Placement |                     |                     |
|--------------------------------|--------------------------------|---------------------|---------------------|
|                                | Principal                      | Interest            | Total               |
| 2023                           | \$ 155,926                     | \$ 239,289          | \$ 395,215          |
| 2024                           | 163,089                        | 232,126             | 395,215             |
| 2025                           | 170,581                        | 224,634             | 395,215             |
| 2026                           | 178,418                        | 216,797             | 395,215             |
| 2027                           | 186,614                        | 208,601             | 395,215             |
| 2028-2032                      | 1,069,820                      | 906,253             | 1,976,073           |
| 2033-2037                      | 1,339,197                      | 636,876             | 1,976,073           |
| 2038-2042                      | 1,676,401                      | 299,672             | 1,976,073           |
| 2043-2044                      | 448,368                        | 12,713              | 461,081             |
|                                | <u>\$ 5,388,414</u>            | <u>\$ 2,976,961</u> | <u>\$ 8,365,375</u> |

The maturities of Tranche 2 commitment payable are as follows:

| Fiscal Year<br>Ending June 30, | Direct Borrowing and Placement |                     |                     |
|--------------------------------|--------------------------------|---------------------|---------------------|
|                                | Principal                      | Interest            | Total               |
| 2023                           | \$ 377,111                     | \$ 240,989          | \$ 618,100          |
| 2024                           | 392,475                        | 225,625             | 618,100             |
| 2025                           | 408,465                        | 209,635             | 618,100             |
| 2026                           | 425,107                        | 192,993             | 618,100             |
| 2027                           | 442,426                        | 175,674             | 618,100             |
| 2028-2032                      | 2,497,651                      | 592,849             | 3,090,500           |
| 2033-2035                      | 1,653,087                      | 98,195              | 1,751,282           |
|                                | <u>\$ 6,196,322</u>            | <u>\$ 1,735,960</u> | <u>\$ 7,932,282</u> |

**Sunnyslope County Water District**

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The maturities of Tranche 3 commitment payable are as follows:

| Fiscal Year<br>Ending June 30, | Direct Borrowing and Placement |                   |                     |
|--------------------------------|--------------------------------|-------------------|---------------------|
|                                | Principal                      | Interest          | Total               |
| 2023                           | \$ 129,989                     | \$ 38,417         | \$ 168,406          |
| 2024                           | 134,199                        | 34,207            | 168,406             |
| 2025                           | 138,545                        | 29,861            | 168,406             |
| 2026                           | 143,032                        | 25,374            | 168,406             |
| 2027                           | 147,665                        | 20,741            | 168,406             |
| 2028-2031                      | 555,516                        | 33,906            | 589,422             |
|                                | <u>\$ 1,248,946</u>            | <u>\$ 182,506</u> | <u>\$ 1,431,452</u> |

**8. PENSION PLAN**

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

Plan Description - All qualified employees are eligible to participate in the District’s Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan (PERF C or the Plan) is administered by the California Public Employees Retirement System (CalPERS). A menu of benefit provisions as well as other requirements are established by State statutes within the California Public Employees’ Retirement Law (PERL). The District’s Board of Directors selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Employees Covered - All full-time District employees are eligible for benefits under the Plan in one of two tiers. Employees hired prior to January 1, 2013, or who are hired after December 31, 2012 and qualify as “classic” members on date of hire are in Tier 1 (rate plan #620), and employees hired after December 31, 2012 and who do not qualify as “classic” members are in Tier 2 (rate plan #26656). At June 30, 2022, there are 23 full-time employees, with 9 in Tier 1, and 14 in Tier 2.

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

The District’s Plans’ provisions and benefits in effect as of June 30, 2022, are summarized as follows:



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|   | Miscellaneous                    |                                     |
|---|----------------------------------|-------------------------------------|
|   | Classic                          | PEPRA                               |
| Hire date   | Hire prior to<br>January 1, 2013 | Hire on or after<br>January 1, 2013 |
| Benefit formula                                   | 2.7% @ 55                        | 2.0% at 62                          |
| Benefit vesting schedule                          | 5 years service                  | 5 years of service                  |
| Benefit payments                                  | monthly for life                 | monthly for life                    |
| Retirement age                                    | 50-63                            | 52-67                               |
| Monthly benefits, as a % of eligible compensation | 2.7%                             | 2.0%                                |
| Final compensation period                         | 1 year                           | 3 years                             |
| Required employee contribution rates              | 7.96%                            | 6.750%                              |
| Required employer contribution rates              | 14.020%                          | 7.590%                              |
| Required Payment of Unfunded Liability            | \$24,347                         | \$2,499                             |

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

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

|               | Fiscal Year Paid  |                   |
|---------------|-------------------|-------------------|
|               | 2021/22           | 2020/21           |
| Misc. Classic | \$ 159,139        | \$ 154,593        |
| Misc. PEPRA   | 102,036           | 86,768            |
|               | <u>\$ 261,175</u> | <u>\$ 241,361</u> |

***B. Pension Assets (Liabilities), Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions***

As of June 30, 2022, the District reported net pension assets (liabilities) for its proportionate share of the net pension asset (liability) as of June 30, 2022 and 2021 were as follows:

|                                     | Fiscal Year Ended   |                     |
|-------------------------------------|---------------------|---------------------|
|                                     | June 30, 2022       | June 30, 2021       |
| Total Net Pension Asset (Liability) | <u>\$ 1,738,275</u> | <u>\$ (368,675)</u> |

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The District's net pension asset (liability) is measured as the proportionate share of the net pension asset (liability). The net pension liability is measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions for all participating employers, actuarially determined. The District's proportionate share of the net pension asset (liability) as of June 30, 2022 and 2021 were as follows:

|                                 | Percentage Share of Risk |           | Change:<br>Increase/(Decrease) |
|---------------------------------|--------------------------|-----------|--------------------------------|
|                                 | Pool                     |           |                                |
| Fiscal year ended               | 6/30/2022                | 6/30/2021 |                                |
| Measurement date                | 6/30/2021                | 6/30/2020 |                                |
| Percentage of Plan (PERF C) NPL | -0.03214%                | 0.00339%  | -0.03553%                      |

For the year ended June 30, 2022, the District recognized pension credit of \$3,532,777. As of June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience   | \$ -                              | \$ 194,929                       |
| Changes in assumption  | -                                 | -                                |
| Net differences between projected and actual earnings on plan investments                                | 1,517,421                         | -                                |
| Change in employer's proportion  | 601,475                           | 159,972                          |
| Differences between the employer's contributions and the employer's proportionate share of contributions | 170,730                           | 508,533                          |
| Pension contributions subsequent to measurement date   | 261,175                           | -                                |
| <b>Total</b>   | <b>\$ 2,550,801</b>               | <b>\$ 863,434</b>                |

The deferred outflows of resources to contributions of \$261,175 were subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending June 30, 2023.

**Sunnyslope County Water District**

*Notes to Basic Financial Statements*

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Recognition of other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Year Ending June 30,</u> |                     |
|-----------------------------|---------------------|
| 2023                        | \$ 310,723          |
| 2024                        | 325,868             |
| 2025                        | 370,264             |
| 2026                        | 419,337             |
| Total                       | <u>\$ 1,426,192</u> |

Actuarial Methods and Assumptions used to determine Total Pension Liability - For the measurement period ended June 30, 2021 (the measurement date), the total pension liability was determined by an actuarial valuation as of June 30, 2019, with update procedures used to roll forward the total pension liability to June 30, 2021. The total pension liability was based on the following assumptions:

Actuarial Cost Method                      Entry Age Normal in accordance with the requirements of  
GASB Statement No. 68

Actuarial Assumptions:

|                                  |  |
|----------------------------------|--|
| Investment rate of return        | 7.15%  |
| Inflation                        | 2.50%  |
| Salary increases                 | Varies by Entry Age and Service  |
| Mortality rate table*            | Derived using CalPERS' Membership Data for all Funds   |
| Post-retirement Benefit Increase | Contract COLA up to 2.50% until Purchasing Power<br>Protection Allowance Floor on Purchasing Power applies |

\*The Mortality table used was developed based on CalPERS's specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of the scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Changes of Assumptions – There were no changes in the discount rate for the PERF C, which remained at 7.15%.

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

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

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

The expected real rates of return by asset class per the CalPERS' Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2021 as followed:

| <u>Asset Class</u> | <u>Assumed Asset<br/>Allocation</u> | <u>Real Return<br/>Years 1-10*</u> | <u>Real Return<br/>Years 1-10**</u> |
|--------------------|-------------------------------------|------------------------------------|-------------------------------------|
| Global equity      | 50.00%                              | 4.80%                              | 5.98%                               |
| Fixed income       | 28.00                               | 1.00                               | 2.62                                |
| Inflation assets   | -                                   | 0.77                               | 1.81                                |
| Private equity     | 8.00                                | 6.30                               | 7.23                                |
| Real assets        | 13.00                               | 3.75                               | 4.93                                |
| Liquidity          | 1.00                                | -                                  | (0.92)                              |

\*An expected inflation of 2.00% used for this period

\*\*An expected inflation of 2.92% used for this period

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

Deferred outflows of resources and deferred inflows of resources relating to differences between expected and actual experience and changes of assumptions are amortized over the Expected Average Remaining Service Lifetime (EARSL) of members provided with pensions through the Plan determined as of the beginning of the related measurement period. The EARSL for PERF C for the June 30, 2021 measurement date is 3.7 years, which was obtained by dividing the total service years of 561,622 (the sum of remaining service lifetimes of all active employees) by 150,648 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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Sensitivity of the Proportionate Share of the Net Pension (Asset) Liability to Changes in the Discount Rate The following presents the proportionate share of the net pension (asset) liability of the District’s Plan as of the Measurement Date June 30, 2021, calculated using the discount rate of 7.15%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

|                               | Discount Rate          |                         |                        |
|-------------------------------|------------------------|-------------------------|------------------------|
|                               | 6.15%<br>(1% Decrease) | 7.15%<br>(Current Rate) | 8.15%<br>(1% Increase) |
| Measurement date              |                        | June 30, 2021           |                        |
| Fiscal Year End               |                        | June 30, 2022           |                        |
| Net Pension Liability (Asset) | \$ 332,786             | \$ (1,738,275)          | \$ (3,450,391)         |

Pension Plan Fiduciary Net Positions – Detailed information about each plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

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

**9. DEFERRED COMPENSATION PLAN**

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

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

For the year ended June 30, 2022, employee contributions consisting of employee deferrals, compensated absences, and cash in lieu of insurance benefits converted to deferred compensation totaled \$236,221. For the year ended June 30, 2022, the required employer matching contribution was \$7,159.

The investment balances and financial institutions that administer the District’s 457 Plans are as follows:

| Plan Administrator                    | Investment<br>Balance |
|---------------------------------------|-----------------------|
| Nationwide Retirement Solutions, Inc. | \$ 3,546,698          |
| CalPERS Supplemental Income Plan      | 113,399               |
| Total                                 | \$ 3,660,097          |

**Sunnyslope County Water District**

*Notes to Basic Financial Statements*

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**10. OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB)**

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

Plan Description: The District rejoined the Public Employees' Medical & Hospital Care Act (PEMHCA) in January 2011 for its employees. The healthcare plan is offered through the California Public Employees' Retirement System (CalPERS). The Sunnyslope County Water District Retiree Healthcare Plan provides benefits as approved by the Board and subject to the requirements of California Government Code Section 22892. For purposes of reporting under GASB Statements 74 and 75, the plan is an agent multiple employer plan administered by the CalPERS Employers' Retirement Benefit Trust (CERBT).

The plan information is as follows:

| <u>Fiscal Year End</u>            | <u>June 30, 2022</u>    |
|-----------------------------------|-------------------------|
| Plan Type                         | Agent Multiple Employer |
| OPEB Trust                        | Yes                     |
| Special Funding Situations        | No                      |
| Nonemployer Contributing Entities | No                      |

Employees Covered: As of the June 30, 2021 actuarial valuation, the following current and former employees were covered by the benefit terms under the healthcare plan:

| <u>June 30, 2022 Fiscal Year End</u>                                  | <u>Number of</u>    |
|---|---------------------|
| <u>June 30, 2021 Measurement Date</u>                                 | <u>Covered</u>      |
| <u>June 30, 2021 Valuation Date</u>                                   | <u>Participants</u> |
| Actives Employees   | 23                  |
| Inactive Employees Currently Receiving Benefit Payments               | 6                   |
| Inactive Employees Entitled to but not yet Receiving Benefit Payments | 6                   |
| Total Employees   | <u>35</u>           |

Benefits and Eligibility: Under the CalPERS health plan, the District is required to pay the minimum employer health premium contribution for the District's eligible retirees and eligible surviving spouses. The employee is responsible for paying the remainder of the monthly healthcare premium. The minimum employer contribution for retirees' health premiums for calendar year 2022 is \$149 per month. The amount will increase in subsequent years to reflect inflation in the cost of healthcare. These benefits are being paid through the CalPERS California Employers' Retirement Benefit Trust (CERBT). To be eligible for retirement medical, an active employee must be at least 50 and have a minimum of 5 years of service and retire directly from the District.

Contributions: The District intends to contribute to the Trust the actuarially determined contribution (ADC) net of the pay-as-you-go benefits paid annually directly from employer resources. For the fiscal year ended June 30, 2022, the District's cash contributions were \$12,516 in premium payments made on behalf of retirees, and implied subsidy payments of \$52,071, resulting in total payments of \$64,587. No trust contributions were made in 2021/22 fiscal year.

**Sunnyslope County Water District**

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***B. OPEB Liability (Asset), OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB***

OPEB Asset: As of the June 30, 2021 measurement date, the District's total OPEB liability (asset) were as follows:

| <u>Fiscal Year Ended</u>     | <u>June 30, 2022</u> |
|------------------------------|----------------------|
| <u>Measurement Date</u>      | <u>June 30, 2021</u> |
| Total OPEB Liability (TOL)   | \$ (951,381)         |
| Fiduciary Net Position (FNP) | <u>750,448</u>       |
| Total Net OPEB Liability     | <u>\$ (200,933)</u>  |
| Funded status (FNP/TOL)      | 78.9%                |

Changes in the OPEB Liability (Asset): The changes in the total OPEB liability (asset) for the District Plan are as follows:

| <u>Changes in Net OPEB Asset</u>                             | <u>Total OPEB<br/>Liability (a)</u> | <u>Fiduciary<br/>Net Position<br/>(b)</u> | <u>Net OPEB<br/>Liability (Asset)<br/>(a) - (b)</u> |
|--|-------------------------------------|---|---|
| Balance at June 30, 2021<br>(Measurement Date June 30, 2020) | \$ 544,479                          | \$ 588,775                                | \$ (44,296)   |
| Service Cost   | 13,674                              | -   | 13,674  |
| Interest   | 34,951                              | -   | 34,951  |
| Changes of Benefit Terms                                     | -                                   | -   | -   |
| Actual versus Expected Experience                            | 371,832                             | -   | 371,832   |
| Changes of Assumptions                                       | -                                   | -   | -   |
| Employer Contributions                                       | -                                   | 13,555                                    | (13,555)  |
| Employee Contributions                                       | -                                   | -   | -   |
| Net Investment Income  | -                                   | 161,896                                   | (161,896)   |
| Benefit Payments   | (13,555)                            | (13,555)                                  | -   |
| Administrative Expenses                                      | -                                   | (223)                                     | 223   |
| Net Changes  | <u>406,902</u>                      | <u>161,673</u>                            | <u>245,229</u>                                      |
| Balance at June 30, 2022<br>(Measure Date June 30, 2021)     | <u>\$ 951,381</u>                   | <u>\$ 750,448</u>                         | <u>\$ 200,933</u>                                   |

**Sunnyslope County Water District**

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OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: As of fiscal year ended June 30, 2022, the District reported deferred outflows of resources related to OPEB from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Net Differences Between Projected and Actual  |                                   |                                  |
| Earnings on Plan Investments                  | \$ -                              | \$ 90,422                        |
| Differences Between Expected and Actual       |                                   |                                  |
| Experience                                    | 321,935                           | 11,982                           |
| Changes of Assumptions                        | 1,660                             | -                                |
| Employer Contributions after Measurement Date | 64,862                            | -                                |
| Total   | \$ 388,457                        | \$ 102,404                       |

Deferred outflows of resources in the amount of \$64,862 related to contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2023.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

| Year Ending<br>June 30, | Deferred Outflows of<br>Resources |
|-------------------------|-----------------------------------|
| 2023                    | \$ 14,555                         |
| 2024                    | 15,900                            |
| 2025                    | 16,045                            |
| 2026                    | 12,674                            |
| 2027                    | 38,807                            |
| Thereafter              | 123,210                           |
| Total                   | \$ 221,191                        |

Recognition of Deferred Outflows and Deferred Inflows of Resources: Gain and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. For the fiscal year ended June 30, 2022, the District recognized OPEB expense of \$21,792



## Sunnyslope County Water District

### Notes to Basic Financial Statements

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Actuarial Methods and Assumptions Used to Determine the OPEB Liability: The District's net OPEB asset was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation dated June 30, 2021, based on the following actuarial methods and assumptions:

Significant Accounting Actuarial Assumptions and Methods:

|  |   |
|--|---|
| Fiscal Year End                        | June 30, 2022   |
| Measurement Date                       | June 30, 2021   |
| Valuation Date                         | June 30, 2021   |
| Discount Rate                          | 6.50%   |
| Long-Term Expected                     | 6.50%   |
| General Inflation                      | 2.75% annually  |
| Mortality Rate                         | Mortality rates from CalPERS 2017 actuarial valuation. The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using 90% of Society of Actuaries Scale MP 2016. |
| Pre-Retirement Turnover and Retirement | Retirement and termination rates from CalPERS 2017 actuarial valuation for "public agency miscellaneous 2.7% at 55," based on the 1997-2015 experience study. No disablement assumed  |
| Salary Increases                       | 3% per year   |
| Healthcare Trend Rate                  | Medical premium amounts are assumed to increase 5% per year. The CalPERS minimum required employer contribution is assumed to increase 4% per year  |
| Participation                          | 50% of active employees are assumed to elect health care benefits at retirement   |
| Changes of Benefit Terms               | None  |
| Changes in Actuarial Assumptions       | None  |

Discount Rate: The discount rate used to measure the total OPEB liability was 6.50%. The cash flows of the OPEB plan were projected to future years, assuming that the District will contribute an amount equal to retirees' benefits. Under that projection, the plan assets are projected to be adequate to pay all benefits to retirees in all future years, so the discount rate has been set equal to the long-term expected rate of return on investments, 6.50%.

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

| Measurement Date                               | June 30, 2021 |                |
|--|---------------|----------------|
| CERBT Trust: Pension Fund                      |               | Expected Real  |
| Asset Class %                                  | % of Fund     | Rate of Return |
| Global Equity                                  | 59%           | 5.25%          |
| Fixed Income                                   | 25%           | 0.99%          |
| Treasury Securities                            | 5%            | 0.45%          |
| Real Estate Trusts                             | 8%            | 4.50%          |
| Commodities                                    | 3%            | 3.00%          |
| Assumed Long-Term Rate of Inflation            |               | 2.75%          |
| Expected Long-Term Net Rate of Return, Rounded |               | 6.50%          |

Discount Rate Sensitivity Analysis: The following schedule presents the District’s net OPEB liability if it were calculated using discount rate that is that is 1 percentage-point lower (5.50%) or 1 percentage-point higher (7.50%) than the current rate (6.50%) for measurement period ended June 30, 2021:

|                    | Discount Rate |                |               |
|--------------------|---------------|----------------|---------------|
|                    | (1% Decrease) | (Current Rate) | (1% Increase) |
|                    | 5.50%         | 6.50%          | 7.50%         |
| Net OPEB Liability | \$ 305,007    | \$ 200,933     | \$ 96,562     |

Medical Trend Sensitivity Analysis: The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower (4.0%) or one percentage point higher (6.0) than the current rate (5.0%), for measurement period ended June 30, 2021:

|                    | Healthcare Trend |                |               |
|--------------------|------------------|----------------|---------------|
|                    | (1% Decrease)    | (Current Rate) | (1% Increase) |
|                    | 4.0%             | 5.0%           | 6.0%          |
| Net OPEB Liability | \$ 94,598        | \$ 200,933     | \$ 307,491    |

Pension Plan Fiduciary Net Positions – Investments Authorized by the Trust’s Investment Policy – The CERBT’s investment policies authorize three separate Portfolio Strategies (“Strategy 1”, “Strategy 2”, and “Strategy 3”). Levels of expected return and risk vary among the Portfolios. The District has opted to invest its assets using Strategy 1.

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

## Sunnyslope County Water District

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#### **11. NET POSITION**

Net position represents the difference between assets and liabilities. Designations of unrestricted net position represents the District Board of Director's intention for the use of resources. The net position amounts at June 30, 2022 were as follows:

|  |                      |
|--|----------------------|
| Net investment in capital assets               | \$ 19,738,046        |
| Restricted:                                    |                      |
| Water capacity fees                            | 11,410,006           |
| Wastewater capacity fees                       | 1,320,135            |
| Debt service reserve                           | 1,400,401            |
| Total restricted                               | <u>14,130,542</u>    |
| Unrestricted:                                  |                      |
| Designated:                                    |                      |
| Capital improvement reserve                    | 5,863,936            |
| Vehicle replacement                            | 348,078              |
| Emergency equipment replacement                | 1,000,000            |
| Office and miscellaneous equipment replacement | 418,845              |
| Rate stabilization fund                        | 250,000              |
| Drought contingency reserve                    | 500,000              |
|  | <u>8,380,859</u>     |
| Undesignated                                   | 4,218,532            |
| Total unrestricted                             | <u>12,599,391</u>    |
| Total Net Position                             | <u>\$ 46,467,979</u> |

#### **12. RISK MANAGEMENT**

The District is exposed to various risks of loss related to limited torts; theft of, damage to, and destruction of assets; errors and omissions and natural disaster for which the District carries commercial insurance. The District is a member of the Association of California Water Agencies-Joint Powers Insurance Authority (ACWA-JPIA) for workers' compensation coverage. The relationship between the District and the JPIA is such that the JPIA is not component units of the District for financial reporting purposes. The ACWA-JPIA arranges for and provides property and liability insurance for its nearly 370 members. ACWA-JPIA is governed by a board consisting of a representative from each member district. The board controls the operations of ACWA-JPIA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in ACWA-JPIA. Separate financial statements of ACWA-JPIA can be obtained by request to Finance Department, 2100 Professional Drive, Roseville, CA 95661.

**Sunnyslope County Water District**

*Notes to Basic Financial Statements*

June 30, 2022

Condensed financial information of ACWA-JPIA as of September 30, 2021 is as follows:

|                                |                |
|--------------------------------|----------------|
| Total Assets                   | \$ 271,770,359 |
| Deferred Outflows of Resources | 1,189,142      |
| Total Liabilities              | (123,558,690)  |
| Deferred Inflows of Resources  | 409,721        |
| Net Position                   | \$ 149,810,532 |
| <br>                           |                |
| Total Revenues                 | \$ 200,883,781 |
| Total Expenditures             | (174,760,456)  |
| Net Increase                   | \$ 26,123,325  |

The District has the following commercial insurance policies:

| Coverage   | Deductible | Coverage Limit                       |
|--|------------|--------------------------------------|
| General Liability                                    | N/A        | Ranging from \$10,000 to \$3,000,000 |
| Commercial Excess Liability                          | N/A        | \$4,000,000                          |
| Auto Liability                                       | N/A        | Ranging from \$5,000 to \$1,000,000  |
| Public Officials and Management Liability            | \$1,000    | \$1,000,000 / \$3,000,000            |
| Privacy Liability & Network                          | \$1,000    | Ranging from \$50,000 to \$1,000,000 |
| Property   |            |                                      |
| Buildings, personal property,<br>and fixed equipment | \$2,500    | \$1,000,000 / \$18,522,839           |
| Mobile equipment                                     | \$1,000    | Ranging from \$64,000 to \$291,547   |
| Commercial Crime                                     | \$1,000    | Ranging from \$5,000 to \$500,000    |

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

**13. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

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

## Sunnyslope County Water District

### Notes to Basic Financial Statements

June 30, 2022

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The SBCWD committed to finance up to \$30 million of the project costs. These funds were committed in two tranches. The first tranche of \$13 million was made available on the effective date of the agreement, September 1, 2013. The second tranche of \$17 million was made available at the time of execution of the start of the construction phase for the West Hills Water Treatment Plant, May 1, 2015. The agreement calls for the SBCWD to recover its investment in the capital projects from the District and the City over a 20-30-year period through a capital component, including interest, in the finished water rate. The actual project cost exceeded the \$30 million financing in place by \$11.6 million. The additional funding consisted of \$4.2 million in Prop 84 Grant Funds, \$1.7 million cash input from both the City and the District, and the balance of \$4 million financed as a third tranche loan to SBCWD from a financial institution, to be repaid equally by the City and the District. The third tranche loan of \$4 million was borrowed January 1, 2016 at a rate of 3.45% interest and is to be repaid quarterly over a 15-year period. For more information on the debt schedules, see Note 7 – Long Term Debt Payable.

Of the project costs, SBCWD is contributing \$10 million in non-reimbursable funds; \$5 million to the District and \$5 million to the City. The District plans to use the \$5 million to stabilize water rates and allow a gradual increase to meet future revenue needs. The water rate stabilization credit reported in the operating expenses for the year ended June 30, 2022 is \$0, since the total credit of \$5 million was received in prior fiscal years.

Hollister Urban Area Agreement for Operation and Maintenance Services: In August 2013, the District and SBCWD each approved the Hollister Urban Area Agreement for Operation and Maintenance Services. This agreement establishes the District as the contract operator for the Lessalt Water Treatment Plant. This agreement was established for a term of 5 years with options to renew for subsequent terms of 5 years. The District began operating the Lessalt plant in September 2013 under this agreement. The operation of the West Hills Water Treatment Plant was added to the agreement prior to completion of the plant construction in 2017. The Operation and Maintenance Agreement covering the operation of both the Lessalt and West Hills Water Treatment Plants was extended in May 2018.

For the year ended June 30, 2022, SBCWD was billed for actual operations and maintenance costs of the Lessalt Water Treatment Plant of \$1,050,845 and of the West Hills Water Treatment Plant of \$1,688,896, including labor and benefits. One-half of these amounts were charged back to the District for its 50% share of the cost to operate the plants.

Litigation: The District is subject to various legal proceedings and claims that arise in the ordinary course of business. The District would pursue or defend cases vigorously through trial unless facts develop that warrant an attempt to see an out-of-court settlement. As of June 30, 2022, the District had the following pending litigation:

***County of San Benito v. SSCWD, Lynn Hilden, Susan Hilden***

San Benito Superior Court (CU-20-00068)

Litigation: This matter relates to a series of landslides beginning in May 2018 that occurred in the same general area on Southside Road, a parcel of land adjacent to the District's Ridgemark Wastewater Treatment Facility and ponds. The County of San Benito (County) and Lynn and Susan Hilden (Hildens), the adjacent property owners, filed claims against the District. The County seeks approximately \$1.2 million for costs to remediate the slide area. The Hildens seek recovery of approximately \$200,000 in damages. The District disputes these claims and is represented by

## **Sunnyslope County Water District**

### *Notes to Basic Financial Statements*

June 30, 2022

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special counsel appointed by its insurer. The District has insurance coverage in the amount \$1,000,000, and also holds excess insurance. There is no self-insured retention.

Parties: County of San Benito, Lynn and Susan Hilden, the District

Plaintiffs' Representative: Pamela Graham, Colantuono, Highsmith & Whatley, PC

Hildens Counsel: Paul Rovella, JRG Attorneys at Law

District's Counsel: Justin Mallory, Bremer, Whyte Brown & O'Meara, LLP; Heidi A. Quinn, De Lay & Laredo

Status: The County filed a complaint against the District and the Hildens with the San Benito Superior Court on June 4, 2020. The District and the Hildens have filed Cross-Complaints against the other parties. Currently, the parties have entered into non-binding mediation. The most recent session was held November 30, 2021. Resolution of the disagreement has not yet been reached.

#### **14. SUBSEQUENT EVENTS**

##### **Date of Management Review**

Events occurring after June 30, 2022 have been evaluated by Management for possible adjustment to the financial statements or disclosure as of December 13, 2022 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY  
INFORMATION

**Sunnyslope County Water District**  
*Required Supplementary Information*  
 June 30, 2022

Schedule of the District's Proportionate Share of the Plan's (PERF C) of the Net Pension Liability (Asset)  
 and Related Ratios as of Measurement Date  
 Cost Sharing Defined Benefit Pension Plan  
 Last 10 Years^

|   | Fiscal Year End     |                     |                     |                    |                    |                    |                    |                    |
|---|---------------------|---------------------|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|   | 06/30/22<br>6/30/21 | 06/30/21<br>6/30/20 | 06/30/20<br>6/30/19 | 6/30/19<br>6/30/18 | 6/30/18<br>6/30/17 | 6/30/17<br>6/30/16 | 6/30/16<br>6/30/15 | 6/30/15<br>6/30/14 |
| Measurement Date  |                     |                     |                     |                    |                    |                    |                    |                    |
| District's proportion of the net pension liability (asset)  | -0.003214%          | 0.00339%            | 0.00021%            | 0.00922%           | 0.01108%           | 0.02895%           | 0.02852%           | 0.02451%           |
| District's proportionate share of the net pension liability (asset)   | \$(1,738,274)       | \$368,675           | \$21,460            | \$888,029          | \$1,099,308        | \$2,505,138        | \$1,957,613        | \$1,524,958        |
| District's covered-employee payroll *   | \$ 2,145,242        | \$2,051,543         | \$2,104,470         | \$1,909,079        | \$1,687,978        | \$1,488,922        | \$1,434,655        | \$1,519,954        |
| District's proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll | -81.03%             | 17.97%              | 1.02%               | 46.52%             | 65.13%             | 168.25%            | 136.45%            | 100.33%            |
| Plan's fiduciary net position as a percentage of the plan's total pension liability (asset)                     | 88.29%              | 75.10%              | 75.26%              | 75.26%             | 73.31%             | 74.06%             | 78.40%             | 79.82%             |

^ Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

\* For the year ending on the measurement date



**Sunnyslope County Water District**  
*Required Supplementary Information*  
 June 30, 2022

Schedule of Statutorily Required Employer Contributions  
 Pension Plan  
 Last 10 Years^

| Fiscal year ended  | 6/30/22     | 06/30/21    | 06/30/20    | 6/30/19       | 6/30/18     | 6/30/17       | 6/30/16      | 6/30/15      |
|--|-------------|-------------|-------------|---------------|-------------|---------------|--------------|--------------|
| Actuarially determined contribution                                  | \$ 261,175  | \$ 241,361  | \$ 229,705  | \$ 257,869    | \$ 209,739  | \$ 287,182    | \$ 245,300   | \$ 233,521   |
| Contributions in relation to the actuarially determined contribution | 261,175     | 241,361     | 229,705     | 1,351,009     | 209,739     | 1,942,855     | 245,300      | 233,521      |
| Contribution deficiency (excess)                                     | \$ -        | \$ -        | \$ -        | \$(1,093,140) | \$ -        | \$(1,655,673) | \$ -         | \$ -         |
| District's covered payroll *   | \$2,308,348 | \$2,145,242 | \$2,051,543 | \$ 2,104,470  | \$1,909,079 | \$ 1,687,978  | \$ 1,488,922 | \$ 1,434,655 |
| Contributions as a percentage of covered payroll                     | 11.31%      | 11.25%      | 11.20%      | 64.20%        | 10.99%      | 115.10%       | 16.48%       | 16.28%       |

^ Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

\* For the fiscal year ending on the date shown

**Actuarially Determined Contribution Assumptions (From the CalPERS reports (Appendix A))**

|                                |  |
|--------------------------------|--|
| Valuation Date                 | June 30, 2019  |
| Actuarial cost method          | Entry age normal cost method   |
| Amortization method            | Level percent of pay, direct rate smoothing  |
| Remaining Amortization Periods | Differs by employer rate plan but not more than 29 years   |
| Asset valuation method         | Market value of assets   |
| Inflation                      | 2.500%   |
| Salary increases               | Varies by Entry Age and Service  |
| Discount Rate *                | 7.00% (net of administrative expenses)   |
| Mortality                      | Derived using CalPERS' Membership Data for all Funds. The post-retirement mortality rates include 15 years of projected on-going mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries |

\*Please note, the discount rate used for Actuarially Determined Contributions is different from the one used for Total Pension Liability.

**Sunnyslope County Water District**  
*Required Supplementary Information*  
 June 30, 2022

Schedule of Changes in the District's Net OPEB Liability (Asset)  
 and Related Ratios as of Measurement Date

| Measurement Date   | Last 10 Years <sup>^</sup> |                   |                   |                   |                   |
|--|----------------------------|-------------------|-------------------|-------------------|-------------------|
|  | Fiscal Year End            |                   |                   |                   |                   |
|  | 06/30/22                   | 06/30/21          | 06/30/20          | 06/30/19          | 06/30/18          |
|  | 06/30/21                   | 06/30/20          | 06/30/19          | 06/30/18          | 06/30/17          |
| <b>Changes in total OPEB liability</b>                     |                            |                   |                   |                   |                   |
| Service cost   | \$ 13,674                  | \$ 13,276         | \$ 12,588         | \$ 12,221         | \$ 11,865         |
| Interest   | 34,951                     | 33,452            | 33,406            | 31,865            | 29,860            |
| Actual benefits payments                                   | (13,555)                   | (33,791)          | (22,047)          | (18,719)          | (3,042)           |
| Actual and expected experience difference                  | 371,832                    | -                 | (20,154)          | -                 | -                 |
| Changes in benefits terms                                  | -                          | -                 | -                 | -                 | -                 |
| Changes in assumption                                      | -                          | -                 | 2,794             | -                 | -                 |
| Net changes in total OPEB liability                        | <u>406,902</u>             | <u>12,937</u>     | <u>6,587</u>      | <u>25,367</u>     | <u>38,683</u>     |
| Total OPEB liability - beginning                           | <u>544,479</u>             | <u>531,542</u>    | <u>524,955</u>    | <u>499,588</u>    | <u>460,905</u>    |
| Total OPEB liability - ending                              | <u>\$ 951,381</u>          | <u>\$ 544,479</u> | <u>\$ 531,542</u> | <u>\$ 524,955</u> | <u>\$ 499,588</u> |
| <b>Changes in plan fiduciary net position</b>              |                            |                   |                   |                   |                   |
| Employer contributions                                     | \$ 13,555                  | \$ 33,791         | \$ 47,047         | \$ 29,380         | \$ 13,803         |
| Employee contributions                                     | -                          | -                 | -                 | -                 | -                 |
| Net investment income                                      | 161,896                    | 20,107            | 33,879            | 36,810            | 43,390            |
| Benefit payments   | (13,555)                   | (33,791)          | (22,047)          | (18,719)          | (3,042)           |
| Administrative expenses                                    | (223)                      | (278)             | (112)             | (243)             | (211)             |
| Net changes in plan fiduciary net position                 | <u>161,673</u>             | <u>19,829</u>     | <u>58,767</u>     | <u>47,228</u>     | <u>53,940</u>     |
| Plan fiduciary net position - beginning                    | <u>588,775</u>             | <u>568,946</u>    | <u>510,179</u>    | <u>462,951</u>    | <u>409,011</u>    |
| Plan fiduciary net position - ending                       | <u>\$ 750,448</u>          | <u>\$ 588,775</u> | <u>\$ 568,946</u> | <u>\$ 510,179</u> | <u>\$ 462,951</u> |
| <b>Net OPEB liability (Asset)</b>                          |                            |                   |                   |                   |                   |
| Total OPEB liability                                       | \$ 951,381                 | \$ 544,479        | \$ 531,542        | \$ 524,955        | \$ 499,588        |
| Plan fiduciary net position                                | 750,448                    | 588,775           | 568,946           | 510,179           | 462,951           |
| Net OPEB liability (asset)                                 | 200,933                    | (44,296)          | (37,404)          | 14,776            | 36,637            |
| Net OPEB liability (asset) funded percentage               | 78.9%                      | 108.1%            | 107.0%            | 97.2%             | 92.7%             |
| Covered payroll *  | \$ 1,975,708               | \$ 2,494,879      | \$ 2,104,470      | \$ 1,909,079      | \$ 1,687,978      |
| Net OPEB liability (asset) as a percent of covered payroll | 10.17%                     | -1.78%            | -1.78%            | 0.77%             | 2.17%             |

<sup>^</sup> Fiscal year 2018 was the 1st year of implementation, therefore only five years are shown.

\* For the year ending on the measurement date.

**Sunnyslope County Water District**

*Required Supplementary Information*

June 30, 2022

Schedule of Employer OPEB Contributions

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