

Sunnyslope County Water District

San Benito County, California

INCORPORATED, DECEMBER 17, 1954



**BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR
ENDED JUNE 30, 2023
PREPARED BY THE FINANCE DEPARTMENT**

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FINANCIAL SECTION



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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, 2023, 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, 2023, 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 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.

Change in Accounting Principle

As discussed in Note 14 to the financial statements, in 2023 the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. Our opinion was not modified with respect to this matter.

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.

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

Daniel McGilloway Jr, CPA | Sarita Shannon, CPA | Whitney Ernest, CPA
Laura Armbruster, CPA | Rose Maxwell, CPA | Eleonora Garra, CPA | Lisette Craft, CPA

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 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, Schedule of District's Proportionate Share of the Plan's (PERF C) of the Net Pension Liability (Asset) and Related Ratios, Schedule of the District's Required Employer Contributions, Schedule of Changes in the District's Net OPEB Liability (Asset) and Related Ratios, and the Schedule of the District's OPEB Contributions, 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.

Report on Summarized Comparative Information

We have previously audited the District's 2022 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated December 13, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, with the exceptions of the change in accounting principle described in Note 14, in all material respects, with the audited financial statements from which it has been derived.



McGilloway, Ray, Brown & Kaufman
Salinas, California
November 21, 2023

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2023

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, 2023 (with 2022 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 7,426 water accounts, of which 97.9% are residential customers, and approximately 1,298 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, 2023

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 creditworthiness. 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 with 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 the required supplementary information. The required supplementary information concerns 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, 2023

Condensed Financial Information

Statement of Net Position

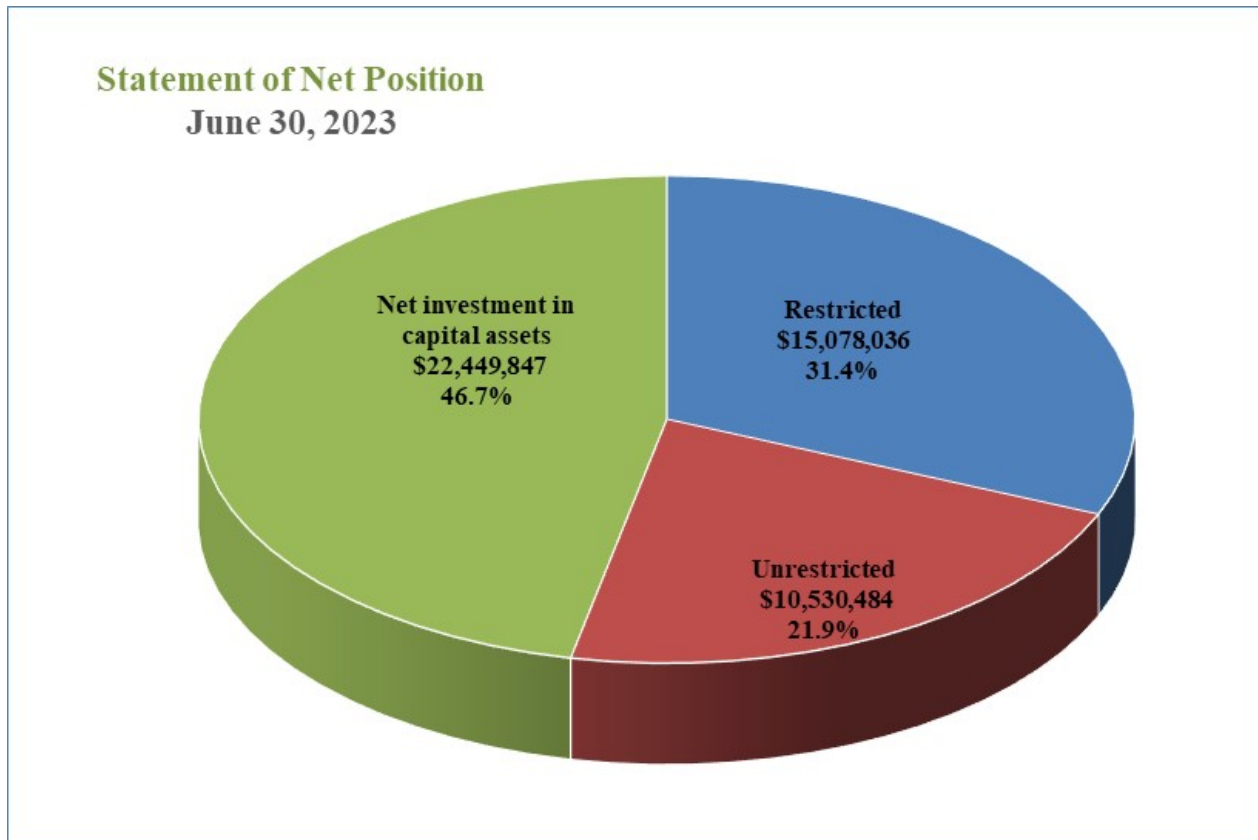
The following is the condensed Statement of Net Position for the fiscal year ended June 30, 2023 and 2022:

Condensed Statement of Net Position

	June 30, 2023	June 30, 2022	Amount Change	Percent Change
Current assets	\$ 26,896,584	\$ 25,643,221	\$ 1,253,363	4.9%
Other assets	471,341	2,209,616	(1,738,275)	-78.7%
Capital assets, net	41,865,797	40,405,465	1,460,332	3.6%
Total Assets	69,233,722	68,258,302	975,420	1.4%
Deferred outflows of resources	2,987,185	2,939,258	47,927	1.6%
Current liabilities	2,548,975	3,452,793	(903,818)	-26.2%
Long-term liabilities	20,890,721	20,314,137	576,584	2.8%
Total Liabilities	23,439,696	23,766,930	(327,234)	-1.4%
Deferred inflows of resources	722,844	965,838	(242,994)	-25.2%
Net Position				
Net investment in capital assets	22,449,847	19,734,859	2,714,988	13.8%
Restricted for capacity fees, debt service, and pension benefits	15,078,036	14,130,542	947,494	6.7%
Unrestricted	10,530,484	12,599,391	(2,068,907)	-16.4%
Total Net Position	\$ 48,058,367	\$ 46,464,792	\$ 1,593,575	3.4%

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 \$48,058,367 at June 30, 2023, which is the District's net position. The largest portion of the District's net position (46.7%) reflects its investment in capital assets of \$22,449,847 (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 \$1,593,575. Pension balances are evaluated based on the previous fiscal year activity. In fiscal year 2022 the pension funds experienced returns on investments significantly below projections.

Sunnyslope County Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2023



After restricting net position for capacity fees and debt service of \$15,078,036 (31.4%), the remaining net position of \$10,530,484 (21.9%) is unrestricted and may be used at the Board's discretion to continue meeting the needs of the District. See the Notes to Financial Statements, Note 11 – Net Position, for more details on the District's net position.

The District's net position increased \$1,593,575 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

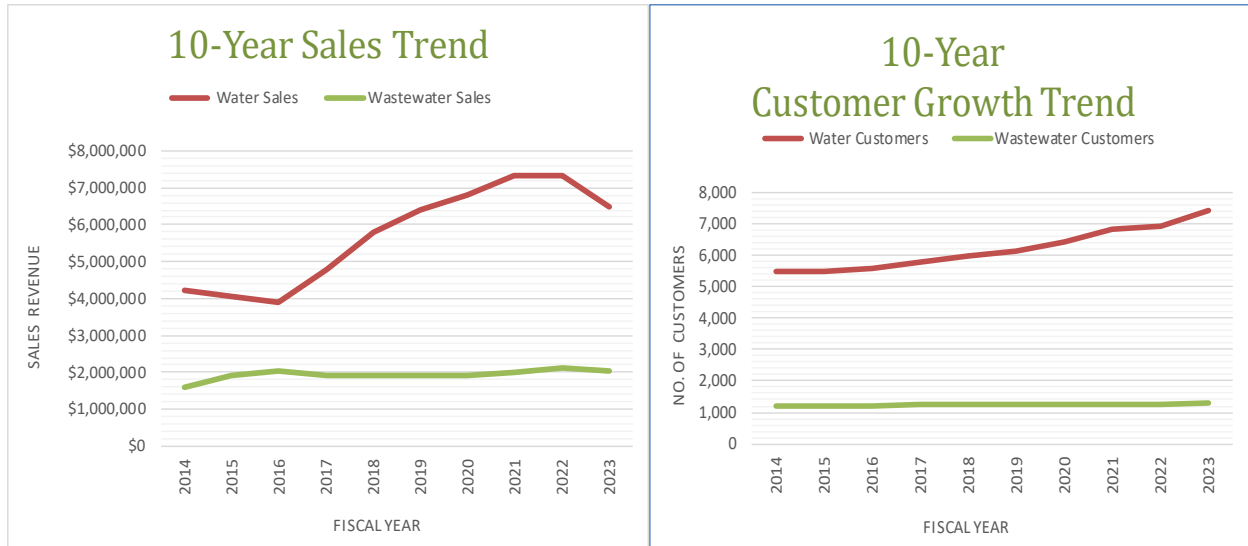
The District's principal source of revenue is from water sales (53.8% of operating revenue) and wastewater sales (16.8% of operating revenue), which together constitute 70.6% of operating revenue. The District's principal sources of water supply are from several wells owned by the District, from treated 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 provide approximately 50.0%, the Lessalt WTP providing approximately 21.3% and the West Hills WTP providing approximately 28.7% 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 being lifted. 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-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

Sunnyslope County Water District

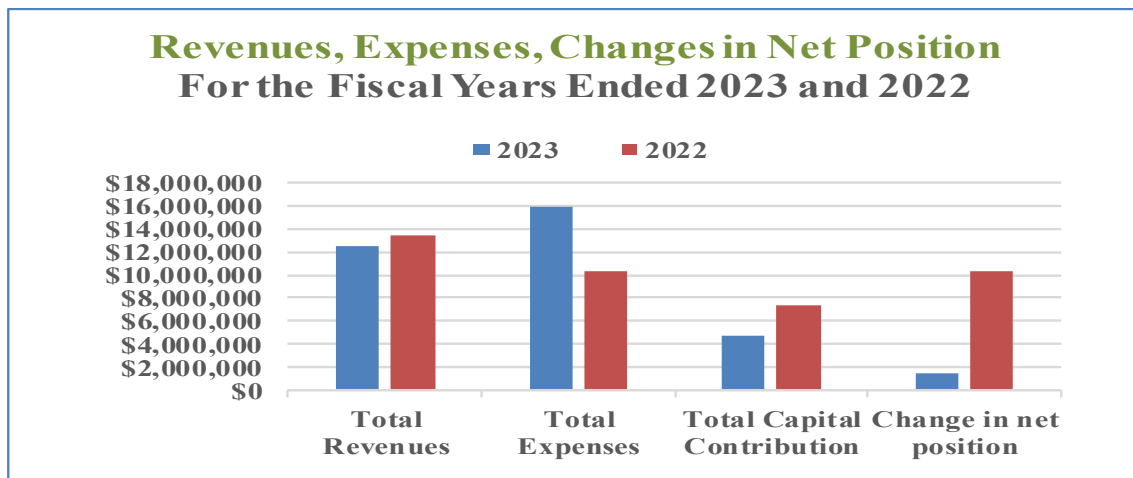
Management's Discussion and Analysis

For the Year Ended June 30, 2023

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, despite the rate increases, was due to slow customer growth and customer water conservation during the California drought. Water sales revenue decreased 11.8% in the current years due to state-imposed drought restrictions. We expect to see water use fluctuate with the seasons and the amount of rainfall received. The customer base grew 331 in fiscal year 22 and 287 in fiscal year 23. Wastewater sales revenue decreased 4.6% this fiscal year. The effect on revenue from drought restrictions is tempered by the fixed component built into the sewer rate.



Sunnyslope County Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2023

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

	June 30, 2023	June 30, 2022	Dollar Change	Percent Change
Revenues				
Operating revenues	\$ 12,044,101	\$ 13,345,614	\$ (1,301,513)	-9.8%
Non-operating revenues	459,884	44,846	415,038	925.5%
Total revenues	12,503,985	13,390,460	(886,475)	-6.6%
Expenses				
Operating expenses	15,413,771	9,669,593	5,744,178	59.4%
Non-operating expenses	290,847	691,880	(401,033)	-58.0%
Total expenses	15,704,618	10,361,473	5,343,145	51.6%
Gain (loss) before capital contributions	(3,200,633)	3,028,987	(6,229,620)	205.7%
Capital Contributions				
Capacity and connection fees	1,438,150	7,349,525	(5,911,375)	-80.4%
Developer capital asset contributions	3,356,058	-	3,356,058	100.0%
Total capital contribution	4,794,208	7,349,525	(2,555,317)	-34.8%
Change in net position	1,593,575	10,378,512	(8,784,937)	-84.6%
Net position - beginning	46,464,792	36,086,280	10,378,512	28.8%
Net position - ending	\$ 48,058,367	\$ 46,464,792	\$ 1,593,575	3.4%

The primary source of non-operating revenues are water and wastewater capacity fees and investment income. Development of new housing moderated in the current year. Connection fees totaled \$1,438,150. We received 104 water capacity fees this fiscal year, compared to 331 last year, and we received zero wastewater capacity fees this fiscal year, compared to 61 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 3.4% compared to last fiscal year excluding pension adjustments. The decrease in 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.

Sunnyslope County Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2023

Contributed capital comes from water and wastewater system infrastructure constructed by developers and turned over to the District for operation and maintenance. In fiscal year 2023, we accepted the water infrastructure and appurtenances of four completed subdivisions into our system for a total value of \$3,356,058. The five subdivisions include, West of Fairview Phase 1A & 1B (\$1,650,330), Robert Ranch Phase 1&2 (\$1,191,857), Santana Ranch Phase 7 (\$246,881) and Twin Oaks Phase 4&5 (\$266,990).

Capital Assets and Debt Administration

Capital Assets

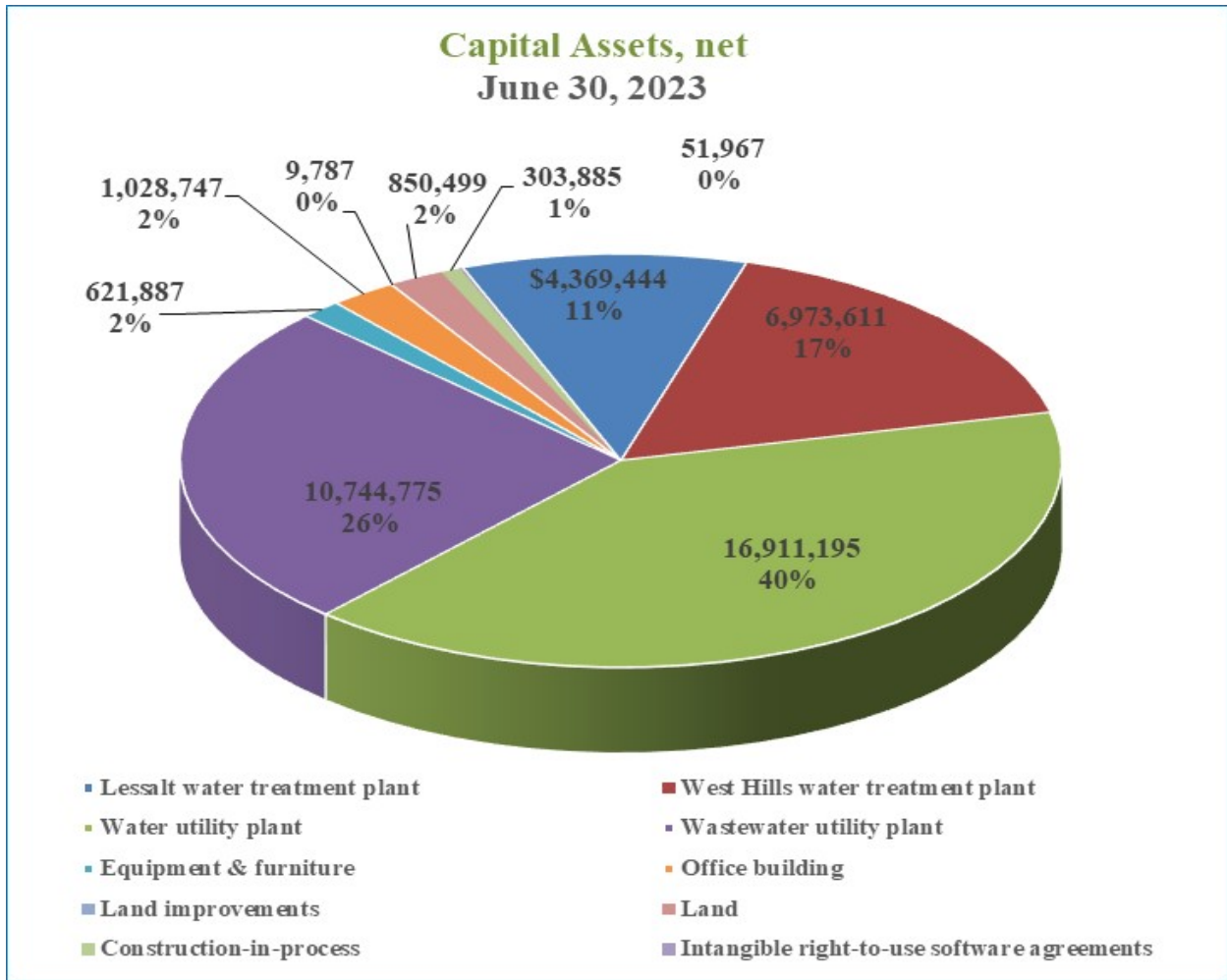
Capital assets include the District's water infrastructure, wastewater infrastructure, land, buildings, equipment, furniture, and work-in-process.

The District's investment in capital assets as of June 30, 2023 was \$41,865,797, net of accumulated amortization and depreciation. The \$3,927,587 in major capital asset additions for the current year included \$3,356,058 in donated assets, 549 new and replacement water meters installed (\$189,023), and work-in-process (\$238,092). The capital additions are offset by disposition of capital assets which were immaterial, amortization expense (\$921,454), and depreciation expense (\$1,545,534).

Schedule of Capital Assets, net of depreciation

	June 30, 2023	June 30, 2022	Dollar Change	Percent Change
Water rights				
Lessalt water treatment plant	\$ 4,369,444	\$ 4,474,166	\$ (104,722)	-2.3%
West Hills water treatment plant	6,973,611	7,757,222	(783,611)	-10.1%
Water utility plant	16,911,195	14,292,526	2,618,669	18.3%
Wastewater utility plant	10,744,775	11,134,627	(389,852)	-3.5%
Equipment & furniture	621,887	431,247	190,640	44.2%
Office building	1,028,747	1,130,804	(102,057)	-9.0%
Land improvements	9,787	10,255	(468)	-4.6%
Land	850,499	850,499	-	0.0%
Construction-in-process	303,885	239,030	64,855	27.1%
Intangible right-to-use software agreements	51,967	85,089	(33,122)	-38.9%
Capital assets, net	\$ 41,865,797	\$ 40,405,465	\$ 1,460,332	3.6%

Sunnyslope County Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2023



Long-Term Debt

As of June 30, 2023, the District had long-term debt and long-term liabilities, totaling \$22,199,474. 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

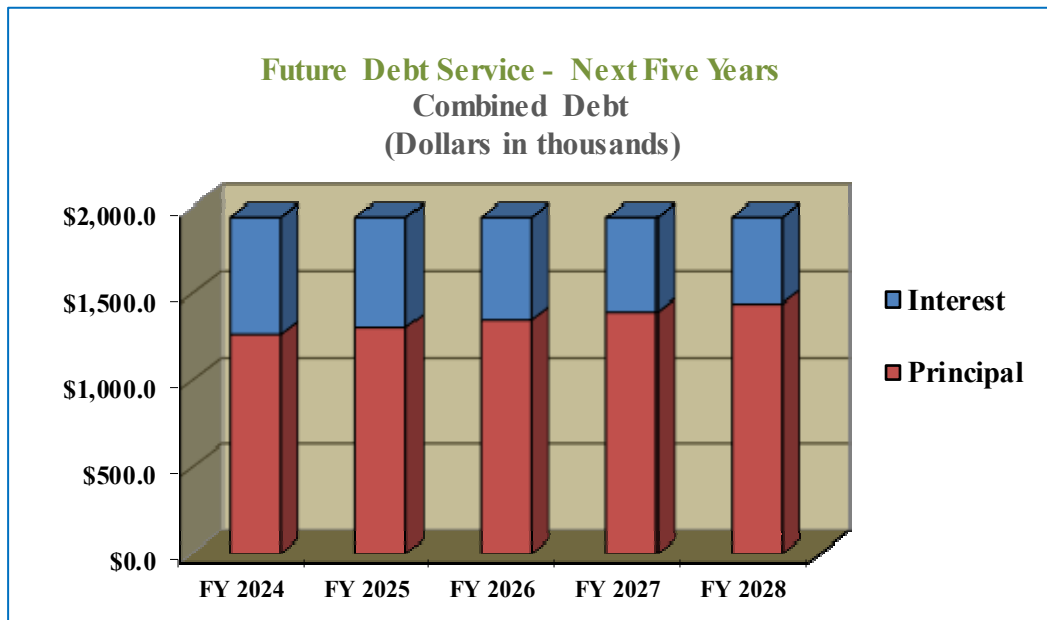
For the Year Ended June 30, 2023

Schedule of Long-Term Debt & Long-Term Liabilities

	June 30, 2023	June 30, 2022	Dollar Change	Percent Change
Accrued compensated absences	\$ 138,549	\$ 172,598	\$ (34,049)	-19.7%
Subscription Liability	56,568	88,276	(31,708)	-35.9%
Loans payable	7,190,138	7,748,648	(558,510)	-7.2%
Commitments payable	12,170,654	12,833,682	(663,028)	-5.2%
Deposits from customers	1,117,437	542,815	574,622	105.9%
Net pension liability	1,132,465	-	1,132,465	N/A
Net OPEB liability	393,663	200,933	192,730	95.9%
Debt and long-term liabilities	\$ 22,199,474	\$ 21,586,952	\$ 612,522	2.8%

Future Debt Service

The District's debt service requirements for the next five years, through June 30, 2028, are shown on the following table, averaging \$1,941.7 thousand annually.



Other Future Economic Factors

From the years 2002 to 2015, the District experienced low to no housing growth, however, in fiscal years 2023 and 2022, new housing starts within the District service boundary have generated 287 and 331 new water connections, and 61 and 3 wastewater connections, respectively. Due to drought conditions, the state cut the District's surface water allocation to zero in 2022 through spring of 2023. The effect was offset from the storage of prior allocations in the San Justo reservoir. 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 2024.

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 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 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 2024. 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.



Sunnyslope County Water District
Statement of Net Position
June 30, 2023
(with prior year data for comparative purposes only)

	2023	Restated 2022
Assets		
Current Assets		
Cash and investments	\$ 8,962,314	\$ 8,580,416
Accounts receivable, net	3,128,686	2,300,236
Inventory supplies	389,226	373,658
Prepaid expenses	237,965	258,369
Restricted cash and investments	14,178,393	14,130,542
Total Current Assets	<u>26,896,584</u>	<u>25,643,221</u>
Noncurrent Assets		
Capital assets		
Water rights, net	11,343,056	12,231,388
Depreciable, net	29,294,961	26,978,009
Nondepreciable	1,175,813	1,110,979
Intangible right-to-use software agreement, net	51,967	85,089
Idle assets	471,341	471,341
Net pension asset	-	1,738,275
Total Noncurrent Assets	<u>42,337,138</u>	<u>42,615,081</u>
Total Assets	<u>69,233,722</u>	<u>68,258,302</u>
Deferred Outflows of Resources		
Deferred outflows - pension	2,529,684	2,550,801
Deferred outflows - OPEB	457,501	388,457
Total Deferred Outflows of Resources	<u>2,987,185</u>	<u>2,939,258</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 72,220,907</u></u>	<u><u>\$ 71,197,560</u></u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Net Position
June 30, 2023
(with prior year data for comparative purposes only)

	2023	Restated 2022
Liabilities		
Current Liabilities		
Accounts payable	\$ 784,620	\$ 1,501,869
Accrued expenses	455,602	678,109
Accrued compensated absences - current portion	11,397	19,571
Loan and commitment payable - current portion	1,262,794	1,221,536
Subscription liability - current portion	34,562	31,708
Total Current Liabilities	2,548,975	3,452,793
Long-Term Liabilities		
Accrued compensated absences - less current portion	127,152	153,027
State Revolving Fund loan payable	6,617,107	7,190,138
Commitment payable for water rights	11,480,891	12,170,656
Deposits received	1,117,437	542,815
Subscription liability - less current portion	22,006	56,568
Net pension liability	1,132,465	-
Net OPEB liability	393,663	200,933
Total Long-Term Liabilities	20,890,721	20,314,137
Total Liabilities	23,439,696	23,766,930
Deferred Inflows of Resources		
Deferred inflows - pension	713,586	863,434
Deferred inflows - OPEB	9,258	102,404
Total Deferred Inflows of Resources	722,844	965,838
Total Liabilities and Deferred Inflows of Resources	24,162,540	24,732,768
Net Position		
Net investment in capital assets	22,449,847	19,734,859
Restricted for capacity fees	13,398,342	12,730,141
Restricted for debt service	780,051	1,400,401
Restricted for pension benefits	899,643	-
Unrestricted	10,530,484	12,599,391
Total Net Position	48,058,367	46,464,792
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 72,220,907	\$ 71,197,560

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, 2023
(with prior year data for comparative purposes only)

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Water services	\$ 6,480,883	\$ 7,346,626
Wastewater service	2,019,649	2,116,652
Contracted services	3,221,968	3,513,647
Late fees	84,884	115,540
Customer fees	52,157	207,940
Other	184,560	45,209
Total Operating Revenues	<u>12,044,101</u>	<u>13,345,614</u>
Operating Expenses		
Salaries and benefits	3,401,910	3,468,707
Pension	2,792,861	(3,532,778)
Operations and maintenance	6,762,696	7,342,410
Amortization and depreciation	2,456,304	2,391,254
Total Operating Expenses	<u>15,413,771</u>	<u>9,669,593</u>
Operating Income (Loss)	<u>(3,369,670)</u>	<u>3,676,021</u>
Non-Operating Revenues (Expenses)		
Interest income	449,391	44,846
Unrealized (loss) on investments	(275,856)	(675,297)
Gain on disposal of assets	10,493	-
Other expense	(8,593)	(8,412)
Interest expense	(6,398)	(8,171)
Net Non-Operating Revenues (Expenses)	<u>169,037</u>	<u>(647,034)</u>
Income (loss) Before Capital Contribution	<u>(3,200,633)</u>	<u>3,028,987</u>
Capital Contribution		
Capacity and connection fees	1,438,150	7,349,525
Developer capital asset contributions	3,356,058	-
Total Capital Contributions	<u>4,794,208</u>	<u>7,349,525</u>
Change in Net Position	1,593,575	10,378,512
Net Position - Beginning of Year, as restated Note 14	<u>46,464,792</u>	<u>36,086,280</u>
Net Position - End of Year	<u>\$ 48,058,367</u>	<u>\$ 46,464,792</u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Cash Flows
For The Year Ended June 30, 2023
(with prior year data for comparative purposes only)

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 11,790,273	\$ 12,975,737
Cash paid to suppliers	(7,706,209)	(7,414,100)
Cash paid to employees	(3,456,271)	(3,542,815)
Net Cash Provided by Operating Activities	<u>627,793</u>	<u>2,018,822</u>
Cash Flows from Capital and Related Financing Activities		
Capacity and connection fees received	4,794,208	7,349,525
Acquisition and construction of capital assets	(3,927,587)	(564,843)
Loan and commitment payments	(1,221,538)	(3,656,957)
Net Cash (Used) Provided by Capital and Related Financing Activities	<u>(354,917)</u>	<u>3,127,725</u>
Cash Flows from Investing Activities		
Interest received	447,720	44,848
Change in value of LAIF	(290,847)	(721,817)
Net Cash Provided (Used) by Investing Activities	<u>156,873</u>	<u>(676,969)</u>
Net increase in cash and cash equivalents and restricted cash and cash equivalents	429,749	4,469,578
Cash and Cash Equivalents at Beginning of Year	<u>22,710,958</u>	<u>18,241,380</u>
Cash and Cash Equivalents at End of Year	<u>\$ 23,140,707</u>	<u>\$ 22,710,958</u>
Unrestricted Cash and Cash Equivalent	\$ 8,962,314	\$ 8,580,416
Restricted Cash and Cash Equivalent	<u>14,178,393</u>	<u>14,130,542</u>
	<u>\$ 23,140,707</u>	<u>\$ 22,710,958</u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Cash Flows
For The Year Ended June 30, 2023
(with prior year data for comparative purposes only)

	2023	2022
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (3,369,670)	\$ 3,676,021
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Amortization and depreciation	2,456,304	2,391,254
(Increase) in accounts receivable	(828,450)	(402,204)
(Increase) decrease in inventory supplies	(15,568)	58,429
(Increase) in prepaid expenses	20,404	(174,985)
Increase (decrease) in net OPEB asset	192,730	245,229
Decrease in deferred outflows - pension	2,093,300	569,497
Decrease in deferred outflows - OPEB	(2,141,227)	(2,528,190)
Increase (decrease) in accounts payable	(717,249)	(236,181)
(Decrease) Increase in accrued expenses	(265,149)	277,964
Increase (decrease) in deposits from customers	574,622	(5,779)
Increase (decrease) in net pension liability	2,870,740	(2,106,950)
Increase (decrease) in deferred inflows - pension	(149,848)	167,019
Increase (decrease) in deferred inflows - OPEB	(93,146)	87,698
Net Cash Provided by Operating Activities	\$ 627,793	\$ 2,018,822
Supplemental Disclosures of noncash Investing and Financing Activities		
Intangible right-to-use software agreement and subscription liability		\$ 118,211

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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 2023, water sales constitute approximately 53.80% of operating revenues and wastewater sales are approximately 16.77% 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, depreciation, and other recoverable charges 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, 2023

E. Budgets

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

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 statement for the year ended June 30, 2023:

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. The District has implemented this pronouncement for the year 2022-2023.
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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. 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.

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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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, 2023, 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 2023 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 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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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. Additionally, the District maintains a Section 115 trust with the California Public Employees' Retirement System (CalPERS) called California Employers' Pension Prefunding Trust (CEPPT) that is dedicated to pre-funding employer contributions to the defined benefits pension plan.

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, 2023

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 Commitments Payable.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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, 2023

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, 2021
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July1, 2021 to June 30, 2022

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, 2022
Measurement Period (MP)	July1, 2021 to June 30, 2022

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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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:

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 and amounts held in a Section 115 trust with CalPERS, called the California Employer's Pension Prefunding Trust (CEPPT), that are restricted for future contributions to the pension plan. 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 20th of the month. Meter readings usually begin 3 to 4 working days prior to the 20th of the month. Wastewater customers are also billed monthly and are included with the water billing. Bills are mailed on or near the last working day of the month.

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 Commitments 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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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. 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, 2023 are classified in the accompanying financials statements as follows:

Cash and investments	\$ 8,962,314
Restricted cash and investments	14,178,393
	<hr/>
Total cash and investments	<u>\$ 23,140,707</u>

The carrying value of the District’s cash and investments, including restricted and designated balances as of June 30, 2023 were as follows:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Petty Cash	\$ -	\$ 800	\$ 800
Heritage Bank of Commerce	-	1,237,452	1,237,452
California Employers' Pension Prefunding Trust (CEPPT)	899,643	-	899,643
MBS Securities	14,178,393	2,312,280	16,490,673
Local Agency Investment Fund	-	4,512,139	4,512,139
Total	<u>\$ 15,078,036</u>	<u>\$ 8,062,671</u>	<u>\$ 23,140,707</u>

See Note 11, Net Position for additional detail regarding restricted and board designated net position.

Pension Trust

The District established a Section 115 trust account with CalPERS entitled CEPPT to hold assets that are legally restricted for use in administering the District’s pension plan. Trust account holders can select one of two strategy options for investments. The District selected the CEPPT allocation Strategy 2 portfolio, which seeks to provide capital appreciation and income consistent with its strategic asset allocation. The CEPPT Strategy 2 portfolio is invested in various asset classes that are passively managed to an index. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. Generally, equities are intended to help build the value of the portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

Compared with CEPPT Strategy 1, this portfolio has a lower allocation of equities to bonds. The CEPPT Strategy 2 portfolio consists of the following asset classes and corresponding benchmarks:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Target Range</u>	<u>Benchmark</u>
Global Equity	21%	+/- 5%	MSCI All Country World Index IMI (Net)
Fixed Income	61%	+/- 5%	Bloomberg US Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	9%	+/- 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	9%	+/- 5%	FTSE EPRA/NAREIT Developed Index (Net)
Cash	-	+2%	91-Day Treasury Bill

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, 2023, the total fair value amount invested by all public agencies in LAIF is \$176,442,053,163 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 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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

As of June 30, 2023, the balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The District's other investments are composed primarily of Certificates of Deposits traded on the open market. See leveling of the investments below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ 16,490,673	\$ -	\$ -	\$ 16,490,673

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, 2023, \$250,000 of the balance on deposit with Heritage Bank of Commerce was covered by federal depository insurance, and the excess of \$1,880,766 was collateralized by the pledging institution as required by Section 53652 of the California Government Code.

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

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, CEPPT is managed by CalPERS and 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.

Sunnyslope County Water District

Notes to Basic Financial Statements
June 30, 2023

The LAIF investment portfolio is as follows at June 30, 2023:

	Amortized Cost	0-3 Months
Local Agency Investment Fund	\$ 4,512,139	\$ 4,512,139

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, 2023, including applicable allowances for uncollectible accounts:

	Sunnyslope Water & Wastewater Sales and Services	City of Hollister Customer Billings	Other Receivables	Total June 30, 2023
Accounts receivable	\$ 935,359	\$ 556,019	\$ 1,660,692	\$ 3,152,070
Less: Allowance for uncollectible accounts	(23,384)	-	-	(23,384)
Net accounts receivable	\$ 911,975	\$ 556,019	\$ 1,660,692	\$ 3,128,686

The District entered into an agency agreement with the City of Hollister (City) 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 \$556,019 due from the City’s customers as of June 30, 2023. Likewise, accounts payable includes \$556,019 due to the City for the amount billed to their customers as of June 30, 2023. 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 \$1,119,878 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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

4. CAPITAL ASSETS, NET

The change in capital assets of the District for the year ended June 30, 2023 are summarized as follows:

	June 30, 2022	Additions	Disposals	Transfers	June 30, 2023
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	25,802,884	3,545,080	-	-	29,347,964
Wastewater utility plant	15,628,605	-	-	-	15,628,605
Equipment and furniture	2,311,239	144,415	(69,869)	173,238	2,559,023
Office building	2,823,517	-	-	-	2,823,517
Land improvements	21,449	-	-	-	21,449
Non-depreciable assets					
Land	850,499	-	-	-	850,499
Construction-in-process	239,030	238,092	-	(173,238)	303,884
Intangible right-to-use software agreement	118,211	-	-	-	118,211
Total capital assets	<u>66,495,434</u>	<u>3,927,587</u>	<u>(69,869)</u>	<u>-</u>	<u>70,353,152</u>
Accumulated amortization	<u>(6,501,732)</u>	<u>(921,454)</u>	<u>-</u>	<u>-</u>	<u>(7,423,186)</u>
Accumulated depreciation	<u>(19,588,237)</u>	<u>(1,545,534)</u>	<u>69,602</u>	<u>-</u>	<u>(21,064,169)</u>
Capital assets, net	<u>\$ 40,405,465</u>	<u>\$ 1,460,599</u>	<u>\$ (267)</u>	<u>\$ -</u>	<u>\$ 41,865,797</u>

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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

	June 30, 2022	Additions	Disposals	June 30, 2023
Amortization				
Water rights				
Lessalt water treatment plant	\$ (1,913,890)	\$ (216,666)	\$ -	\$ (2,130,556)
West Hills water treatment plant	(4,554,720)	(671,666)	-	(5,226,386)
Software agreement	(33,122)	(33,122)	-	(66,244)
Total amortization	(6,501,732)	(921,454)	-	(7,423,186)
Depreciation				
Water utility plant	(11,510,360)	(926,380)	-	(12,436,740)
Wastewater utility plant	(4,493,978)	(389,852)	-	(4,883,830)
Equipment and furniture	(1,898,493)	(57,175)	-	(1,955,668)
Office building	(1,674,210)	(102,057)	-	(1,776,267)
Land improvements	(11,196)	(468)	-	(11,664)
Total depreciation	(19,588,237)	(1,475,932)	-	(21,064,169)
Total amortization and depreciation	\$ (26,089,969)	\$ (2,397,386)	\$ -	\$ (28,487,355)

The District implemented Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, in fiscal year 2023. The District has two software arrangements that require recognition under GASBS No. 96. The software amortization expense is included on the Statement of Revenues, Expenses and Change in Fund Net Position related to the District's intangible asset of two software, which is included in the above tables as Intangible Right-to Use Software arrangements. The District now recognizes a subscription-based information technology arrangements (SBITA) liability and an intangible right-to-use asset for the accounting software and water monitoring software.

The accounting software arrangement is a 4-year agreement of \$71,392, initiated in fiscal year 2020 with a monthly payment of \$2,046. The District used an 8.65% discount rate for this arrangement based on a quote from Heritage Bank. There is no option to purchase the software.

The water monitoring software is a 5 year agreement of \$46,819, initiated in fiscal year 2020 with a monthly payment of \$1,129. The District used an 8.65% discount rate for this arrangement based on a quote from Heritage Bank. There is no option to purchase the software.

5. IDLE ASSETS

Idle assets are recorded at cost. Management believes there is no impairment to the carrying amount of the idle assets at June 30, 2023 which 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

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

6. ACCOUNTS PAYABLE

The District entered into an agency agreement with the City of Hollister (City) 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 \$566,019 due to the City for the amount billed to their customers as of June 30, 2023. Likewise, accounts receivable from customers includes \$556,019 due from the City's customers as of June 30, 2023 - 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, 2023:

Sunnyslope Water District Vendors	City of Hollister Customer Billings	Total
\$ 228,601	\$ 556,019	\$ 784,620

7. LONG TERM DEBT PAYABLE

The change in loans and commitments payable of the District for the year ended June 30, 2023, are summarized as follows:

	June 30, 2022	Increase	Decrease	June 30, 2023	Due Within One Year
Accrued compensated absences	\$ 172,598	\$ 290,584	\$ (290,765)	\$ 138,549	\$ 11,397
Subscription liability	88,276	-	(31,708)	56,568	34,562
Direct Borrowings and Placements					
State Revolving Fund loan payable	7,748,648	-	(558,510)	7,190,138	573,031
Commitment payable	12,833,682	-	(663,028)	12,170,654	689,763
Total Direct Borrowings and Placements	20,582,330	-	(1,221,538)	19,360,792	1,262,794
Total Long-Term Liabilities	\$20,843,204	\$ 290,584	\$(1,544,011)	\$ 19,555,909	\$1,308,753

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

The aggregate maturities of loans and commitments are as follows:

Fiscal Year Ending June 30,	Direct Borrowings and Placements		
	Principal	Interest	Total
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	1,443,076	498,622	1,941,698
2029-2033	7,552,800	1,734,660	9,287,460
2034-2038	3,232,313	636,917	3,869,230
2039-2043	1,753,414	222,659	1,976,073
2044	65,496	369	65,865
	<u>\$ 19,360,792</u>	<u>\$ 5,546,318</u>	<u>\$ 24,907,110</u>

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.

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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

Net revenue available for debt service for the year ended June 30, 2023, is determined as follows:

Wastewater System Revenue	\$ 2,064,479
Cost of Good Sold	472,650
Other Expenses	1,329,105
Total Expenses	1,801,755
Operating Wastewater System Income	262,724
Add:	
Capacity fees	1,357,257
Depreciation	423,143
Net Revenue	\$ 2,043,124
Annual Debt Service	\$ 759,975
Net Revenue Ratio	2.69
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 Ending June 30,	Direct Borrowing and Placement		
	Principal	Interest	Total
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	634,990	124,987	759,977
2029-2033	3,431,355	368,517	3,799,872
2034-2035	740,716	19,259	759,975
	\$ 7,190,138	\$ 1,169,586	\$ 8,359,724

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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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.

The aggregate maturities of commitments are as follows:

Fiscal Year Ending June 30,	Direct Borrowing and Placement		
	Principal	Interest	Total
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	808,086	373,635	1,181,721
2029-2033	4,121,445	1,366,143	5,487,588
2034-2038	2,491,597	617,658	3,109,255
2039-2043	1,753,414	222,659	1,976,073
2044-2045	65,496	369	65,865
	<u>\$ 12,170,654</u>	<u>\$ 4,376,732</u>	<u>\$ 16,547,386</u>

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

The maturities of Tranche 1 commitment payable are as follows:

Fiscal Year Ending June 30,	Direct Borrowing and Placement		
	Principal	Interest	Total
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	195,188	200,027	395,215
2029-2033	1,118,968	857,105	1,976,073
2034-2038	1,400,719	575,354	1,976,073
2039-2043	1,753,414	222,659	1,976,073
2044	65,496	369	65,865
	<u>\$ 5,232,487</u>	<u>\$ 2,737,672</u>	<u>\$ 7,970,159</u>

The maturities of Tranche 2 commitment payable are as follows:

Fiscal Year Ending June 30,	Direct Borrowing and Placement		
	Principal	Interest	Total
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	460,451	157,649	618,100
2029-2033	2,599,409	491,091	3,090,500
2034-2035	1,090,878	42,304	1,133,182
	<u>\$ 5,819,211</u>	<u>\$ 1,494,971</u>	<u>\$ 7,314,182</u>

The maturities of Tranche 3 commitment payable are as follows:

Fiscal Year Ending June 30,	Direct Borrowing and Placement		
	Principal	Interest	Total
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	152,447	15,959	168,406
2029-2031	403,068	17,947	421,015
	<u>\$ 1,118,956</u>	<u>\$ 144,089</u>	<u>\$ 1,263,045</u>

C. Commitments Payable – Subscription Liability (SBITA)

At June 30, 2023, \$51,967 (net) has been recorded as intangible right-to-use software arrangements in the statement of net position. Due to the implementation of GASB Statement No. 96, these arrangements for accounting software and water monitoring software met the

Sunnyslope County Water District

Notes to Basic Financial Statements
June 30, 2023

criteria of a SBITA; thus, requiring it to be recorded by the District as intangible assets and a SBITA Liability. These assets will be amortized over the lease terms of four and five years. There are no residual value guarantees in the arrangement provisions. The accounting software arrangement will end in 2025 and the water monitoring software arrangement will end in 2026. A summary of the subscription liability (SBITA) is as follows.

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 34,562	\$ 3,544	\$ 38,106
2025	20,877	860	21,737
2026	1,129	8	1,137
	<u>\$ 56,568</u>	<u>\$ 4,412</u>	<u>\$ 60,980</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, 2023, there are 25 full-time employees, with 7 in Tier 1, and 18 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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

The District's Plans' provisions and benefits in effect as of June 30, 2023, are summarized as follows:

	Miscellaneous	
	Classic	PEPRA
Hire date	Hire prior to January 1, 2013	Hire on or after 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	14.030%	7.470%
Required Payment of Unfunded Liability	\$47,971	\$2,882

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	
	2022/23	2021/22
Misc. Classic	\$ 168,549	\$ 159,139
Misc. PEPRA	107,124	102,036
	<u>\$ 275,673</u>	<u>\$ 261,175</u>

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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

As of June 30, 2023, the District reported net pension assets (liabilities) for its proportionate share of the net pension asset (liability) as of June 30, 2023 and 2022 were as follows:

	Fiscal Year Ended	
	June 30, 2023	June 30, 2022
Total Net Pension Asset (Liability)	\$ (1,132,465)	\$ 1,738,275

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, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 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, 2023 and 2022 were as follows:

	Percentage Share of Risk		Change: Increase/(Decrease)
	6/30/2023	6/30/2022	
Fiscal year ended	6/30/2023	6/30/2022	
Measurement date	6/30/2022	6/30/2021	
Percentage of Plan (PERF C) NPL	0.00980%	-0.03214%	0.04194%

For the year ended June 30, 2023, the District recognized pension expense of \$3,017,681. As of June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,743	\$ 15,232
Changes in assumption	116,045	-
Net differences between projected and actual earnings on plan investments	207,438	-
Change in employer's proportion	1,907,785	-
Differences between the employer's contributions and the employer's proportionate share of contributions	-	698,354
Pension contributions subsequent to measurement date	275,673	-
Total	\$ 2,529,684	\$ 713,586

The deferred outflows of resources to contributions of \$275,673 were subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending June 30, 2024.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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>	
2024	\$ 540,887
2025	534,186
2026	338,474
2027	126,878
Total	<u>\$ 1,540,425</u>

Actuarial Methods and Assumptions used to determine Total Pension Liability - For the measurement period ended June 30, 2022 (the measurement date), the total pension liability was determined by an actuarial valuation as of June 30, 2020, with update procedures used to roll forward the total pension liability to June 30, 2022. 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	2.30%
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 2.30% until Purchasing Power 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.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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, 2022 as followed:

Asset Class	Assumed Asset Allocation	Real Return Years 1-10*
Global equity - cap-weighted	30.00%	4.45%
Global equity non-cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	50.00%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real assets	15.00%	3.21%
Leverage	-5.00%	-0.59%

*An expected inflation of 2.30% 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, 2022 measurement date is 3.7 years, which was obtained by dividing the total service years of 574,665 (the sum of remaining service lifetimes of all active employees) by 153,587 (the total number of participants: active, inactive, and retired) in PERF C. Inactive

Sunnyslope County Water District

Notes to Basic Financial Statements

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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.

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, 2022, calculated using the discount rate of 6.90%, 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 (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

	Discount Rate		
	5.90%	6.90%	7.90%
	(1% Decrease)	(Current Rate)	(1% Increase)
Measurement date		June 30, 2022	
Fiscal Year End		June 30, 2023	
Net Pension Liability (Asset)	\$ 3,458,221	\$ 1,132,465	\$ (781,055)

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, 2023, employee contributions consisting of employee deferrals, compensated absences, and cash in lieu of insurance benefits converted to deferred compensation totaled \$262,097. For the year ended June 30, 2023, the required employer matching contribution was \$7,159.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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

Plan Administrator	Investment Balance
Nationwide Retirement Solutions, Inc.	\$ 4,058,570
CalPERS Supplemental Income Plan	111,066
Total	\$ 4,169,636

10. OTHER POST-EMPLOYMENT BENEFIT 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:

Fiscal Year End	June 30, 2023
Plan Type	Agent Multiple Employer
OPEB Trust	Yes
Special Funding Situations	No
Nonemployer Contributing Entities	No

Employees Covered: As of the June 30, 2022 actuarial valuation, the following current and former employees were covered by the benefit terms under the healthcare plan:

June 30, 2023 Fiscal Year End June 30, 2022 Measurement Date June 30, 2022 Valuation Date	Number of Covered Participants
Actives Employees	24
Inactive Employees Currently Receiving Benefit Payments	7
Inactive Employees Entitled to but not yet Receiving Benefit Payments	6
Total Employees	37

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 2023 is \$151 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.

Sunnyslope County Water District

Notes to Basic Financial Statements
June 30, 2023

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, 2023, the District's cash contributions were \$13,953 in premium payments made on behalf of retirees, implied subsidy payments of \$57,268, and administrative expenses of 458, resulting in total payments of \$71,679. No trust contributions were made in 2022/23 fiscal year.

B. OPEB Liability, OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB

OPEB Asset: As of the June 30, 2022 measurement date, the District's total OPEB liability were as follows:

Fiscal Year Ended	June 30, 2023
Measurement Date	June 30, 2022
Total OPEB Liability (TOL)	\$ 1,033,949
Fiduciary Net Position (FNP)	640,286
Total Net OPEB Liability	\$ 393,663
Funded status (FNP/TOL)	61.9%

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

Changes in Net OPEB Liability	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2022 (Measurement Date June 30, 2021)	\$ 951,381	\$ 750,448	\$ 200,933
Service Cost	40,869	-	40,869
Interest	59,081	-	59,081
Changes of Benefit Terms	-	-	-
Actual versus Expected Experience	-	-	-
Changes of Assumptions	47,205	-	47,205
Employer Contributions	-	54,710	(54,710)
Employee Contributions	-	-	-
Net Investment Income	-	(99,820)	99,820
Benefit Payments	(64,587)	(64,587)	-
Administrative Expenses	-	(465)	465
Net Changes	82,568	(110,162)	192,730
Balance at June 30, 2023 (Measure Date June 30, 2022)	\$ 1,033,949	\$ 640,286	\$ 393,663

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: As of fiscal year ended June 30, 2023, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Differences Between Projected and Actual Earnings on Plan Investments	\$ 51,296	\$ -
Differences Between Expected and Actual Experience	282,190	9,258
Changes of Assumptions	52,336	-
Employer Contributions after Measurement Date	71,679	-
Total	\$ 457,501	\$ 9,258

Deferred outflows of resources in the amount of \$71,679 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, 2024.

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

Year Ending June 30,	Deferred Outflows of Resources
2024	\$ 51,922
2025	52,067
2026	48,696
2027	74,827
2028	46,048
Thereafter	103,004
Total	\$ 376,564

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, 2023, the District recognized OPEB expense of \$102,219.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

Actuarial Methods and Assumptions Used to Determine the OPEB Liability: The District's net OPEB asset was measured as of June 30, 2022. 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, 2023
Measurement Date	June 30, 2022
Valuation Date	June 30, 2021
<hr/>	
Discount Rate	6.00%
Long-Term Expected	6.00%
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 6.00%. 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, 6.00%.

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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 (5.00%) or 1 percentage-point higher (7.00%) than the current rate (6.00%) for measurement period ended June 30, 2022:

	Discount Rate		
	(1% Decrease)	(Current Rate)	(1% Increase)
	5.00%	6.00%	7.00%
Net OPEB Liability	\$ 527,295	\$ 393,663	\$ 284,183

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, 2022:

	Healthcare Trend		
	(1% Decrease)	(Current Rate)	(1% Increase)
	4.0%	5.0%	6.0%
Net OPEB Liability	\$ 272,836	\$ 393,663	\$ 541,769

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

Notes to Basic Financial Statements

June 30, 2023

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, 2023 were as follows:

Net investment in capital assets	\$ 22,449,847
Restricted:	
Water capacity fees	12,041,086
Wastewater capacity fees	1,357,256
Debt service reserve	780,051
Pension benefits	899,643
Total restricted	<u>15,078,036</u>
Unrestricted:	
Designated:	
Capital improvement reserve	5,772,624
Vehicle replacement	398,132
Emergency equipment replacement	1,000,000
Office and miscellaneous equipment replacement	420,864
Rate stabilization fund	250,000
Drought contingency reserve	500,000
	<u>8,341,620</u>
Undesignated	2,188,864
Total unrestricted	<u>10,530,484</u>
Total Net Position	<u>\$ 48,058,367</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, 2023

Condensed financial information of ACWA-JPIA as of September 30, 2022 is as follows:

Total Assets	\$ 246,615,214
Deferred Outflows of Resources	6,108,562
Total Liabilities	(137,126,606)
Deferred Inflows of Resources	<u>(2,813,249)</u>
Net Position	<u>\$ 112,783,921</u>
Total Revenues	\$ 175,619,417
Total Expenditures	<u>(212,646,028)</u>
Net Decrease	<u>\$ (37,026,611)</u>

The District has the following commercial insurance policies:

<u>Coverage</u>	<u>Deductible</u>	<u>Coverage Limit</u>
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, 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.

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

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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, 2023 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 and again on July 26, 2023.

For the year ended June 30, 2023, SBCWD was billed for actual operations and maintenance costs of the Lessalt Water Treatment Plant of \$868,479 and of the West Hills Water Treatment Plant of \$1,375,816, 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, 2023, 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 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

Sunnyslope County Water District

Notes to Basic Financial Statements

June 30, 2023

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, Michael Laredo, 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 non-binding mediation. The most recent session was held November 6, 2023. Resolution of the disagreement has not yet been reached.

14. CHANGE IN ACCOUNTING PRINCIPLE

The District has subscription-based information technology arrangements for accounting and water monitoring software. In accordance with GASB 96, these amounts have been classified as an intangible right-to-use software agreement and a corresponding subscription liability. These amounts and assumptions used to calculate these amounts are further detailed in Notes 4 and 7.

The accounting software and water monitoring software were initially leased in fiscal year 2021 with the implementation of GASB No. 96 SBITA, requiring retroactive application. The prior period adjustment for this subscription-based information technology arrangement requires the following restatement to prior balances at July 1, 2021:

Increase in intangible right-to-use software agreement	\$ 118,211
Increase in accumulated amortization	(33,122)
Increase in subscription liability	<u>(88,276)</u>
Decrease in net position	<u>\$ (3,187)</u>

15. SUBSEQUENT EVENTS

Date of Management Review

Events occurring after June 30, 2023 have been evaluated by Management for possible adjustment to the financial statements or disclosure as of November 21, 2023 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY
INFORMATION

Sunnyslope County Water District
Required Supplementary Information
 June 30, 2023

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

	Fiscal Year End								
	06/30/23	06/30/22	06/30/21	06/30/20	6/30/19	6/30/18	6/30/17	6/30/16	6/30/15
Measurement Date	6/30/22	6/30/21	6/30/20	6/30/19	6/30/18	6/30/17	6/30/16	6/30/15	6/30/14
District's proportion of the net pension liability (asset)	0.009800%	-0.032140%	0.00339%	0.00021%	0.00922%	0.01108%	0.02895%	0.02852%	0.02451%
District's proportionate share of the net pension liability (asset)	\$ 1,132,465	\$ (1,738,275)	\$ 368,675	\$ 21,460	\$ 888,029	\$ 1,099,308	\$ 2,505,138	\$ 1,957,613	\$ 1,524,958
District's covered-employee 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	\$ 1,519,954
District's proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	49.06%	-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)	76.68%	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 nine years are shown.

* For the year ending on the measurement date

Sunnyslope County Water District
Required Supplementary Information
 June 30, 2023

Schedule of the District's Required Employer Contributions
 Pension Plan
 Last 10 Years^

Fiscal year ended	Fiscal Year End								
	6/30/23	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	\$ 275,673	\$ 261,175	\$ 241,361	\$ 229,705	\$ 257,869	\$ 209,739	\$ 287,182	\$ 245,300	\$ 233,521
Contributions in relation to the actuarially determined contribution	275,673	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 *	\$ 2,279,900	\$ 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	12.09%	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 nine years are shown.

* For the fiscal year ending on the date shown

Acturially Determined Contribution Assumptions (From the CalPERS reports (Appendix A))

Valuation Date	June 30, 2020
Actuarial cost method	Entry age normal cost method
Amortization method	Varies by date established and source. May be level dollar or level percent of pay and may include indirect rate
Remaining Amortization Periods	Differs by employer rate plan but not more than 28 years
Asset valuation method	Market value of assets
Inflation	2.500%
Salary increases	Varies by category, entry age, and service
Discount Rate *	7.00% (net of investment and 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, 2023

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

Last 10 Years[^]

Measurement Date	Fiscal Year End					
	06/30/23	06/30/22	06/30/21	06/30/20	06/30/19	06/30/18
	06/30/22	06/30/21	06/30/20	06/30/19	06/30/18	06/30/17
Changes in total OPEB liability						
Service cost	\$ 40,869	\$ 13,674	\$ 13,276	\$ 12,588	\$ 12,221	\$ 11,865
Interest	59,081	34,951	33,452	33,406	31,865	29,860
Actual benefits payments	(64,587)	(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	47,205	-	-	2,794	-	-
Net changes in total OPEB liability	82,568	406,902	12,937	6,587	25,367	38,683
Total OPEB liability - beginning	951,381	544,479	531,542	524,955	499,588	460,905
Total OPEB liability - ending	<u>\$ 1,033,949</u>	<u>\$ 951,381</u>	<u>\$ 544,479</u>	<u>\$ 531,542</u>	<u>\$ 524,955</u>	<u>\$ 499,588</u>
Changes in plan fiduciary net position						
Employer contributions	\$ 54,435	\$ 13,555	\$ 33,791	\$ 47,047	\$ 29,380	\$ 13,803
Employee contributions	-	-	-	-	-	-
Net investment income	(99,820)	161,896	20,107	33,879	36,810	43,390
Benefit payments	(64,587)	(13,555)	(33,791)	(22,047)	(18,719)	(3,042)
Administrative expenses	(190)	(223)	(278)	(112)	(243)	(211)
Net changes in plan fiduciary net position	(110,162)	161,673	19,829	58,767	47,228	53,940
Plan fiduciary net position - beginning	750,448	588,775	568,946	510,179	462,951	409,011
Plan fiduciary net position - ending	<u>\$ 640,286</u>	<u>\$ 750,448</u>	<u>\$ 588,775</u>	<u>\$ 568,946</u>	<u>\$ 510,179</u>	<u>\$ 462,951</u>
Net OPEB liability (Asset)						
Total OPEB liability	\$ 1,033,949	\$ 951,381	\$ 544,479	\$ 531,542	\$ 524,955	\$ 499,588
Plan fiduciary net position	640,286	750,448	588,775	568,946	510,179	462,951
Net OPEB liability (asset)	393,663	200,933	(44,296)	(37,404)	14,776	36,637
Net OPEB liability (asset) funded percentage	61.9%	78.9%	108.1%	107.0%	97.2%	92.7%
Covered payroll *	\$ 2,281,876	\$ 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	17.25%	10.17%	-1.78%	-1.78%	0.77%	2.17%

[^] Fiscal year 2018 was the 1st year of implementation, therefore only six years are shown.

* For the year ending on the measurement date.

Sunnyslope County Water District

Required Supplementary Information

June 30, 2023

Schedule of the District's 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.