

Sunnyslope County Water District



Financial Statements



June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sunnyslope County Water District
Hollister, California

Report on the Financial Statements

We have audited the accompanying financial statements of Sunnyslope County Water District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Daniel M. McGilloway, Jr., CPA, CVA | Gerald C. Ray, CPA | Patricia M. Kaufman, CPA, CGMA | Larry W. Rollins, CPA | Jesus Montemayor, CPA

Sarita C. Shannon, CPA | Whitney Ernest, CPA | Devvyn MacBeth, CPA | Smriti Shrestha, CPA | Deanna Thomas, CPA

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunnyslope County Water District as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Sunnyslope County Water District's 2017 financial statements, and our report dated October 6, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

Implementation of New Accounting Standard

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an Amendment of GASB Statement No. 45*, during the year ended June 30, 2018. GASB Statement No.75 expands disclosures related to other post-employment benefit and requires the District to report the net other post-employment benefit liability in the statement of net position. The adoption of this statement reduced net position by \$198,253 as of July 1, 2017 as disclosed in Note 18. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xi, the schedule of changes in the net other post-employment benefit liability and related ratios, the schedule of other post-employment benefit contributions, the schedule of proportionate share of the net pension liability, and the schedule of pension plan contributions on pages 39 through 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

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

Other Information

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

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

McGilloway, Ray, Brown & Kaufman

McGilloway, Ray, Brown & Kaufman
Salinas, California
September 26, 2018

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2018

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, 2018 (with 2017 information provided for comparative purposes only). We encourage readers to consider the information presented here as complementary to the information contained in the accompanying basic financial statements, which begin immediately following the Independent Auditor's Report.

The District

Sunnyslope County Water District was formed December 17, 1954 as a California Special District pursuant to the California County Water District Act, §30000 et seq., to furnish water and wastewater services to residents of the District in San Benito County, California. The District's water system serves an area of approximately 3.9 square miles in the City of Hollister and surrounding areas. The District's wastewater system (of collection, treatment, and disposal) serves a smaller area within the County consisting of Ridgemark Estates and the Oak Creek and Quail Hollow subdivisions. The District serves approximately 5,993 water accounts, of which 99.8% are residential customers, and approximately 1,230 sewer accounts, of which 99.3% are residential customers.

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

The Basic Financial Statements

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

The **Statement of Net Position** includes all of the District's Assets and Liabilities, with the difference between the two reported as Net Position, some of which are restricted in accordance with Board action, or other legal commitments. This statement provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position can be found on pages 4 and 5.

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

The **Statement of Cash Flows** presents information relating to the District's cash receipts and cash payments during the year. When used with related disclosures and information in other financial statements, the information in this statement should help readers assess the District's

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2018

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 did cash come from, what was cash used for, and what was the change in cash balance during the reporting period. The Statement of Cash Flows can be found on pages 7 and 8.

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and supplementary information (not required and unaudited). The required supplementary information is concerning the District's liabilities related to pension and OPEB. The other supplementary information provides budgetary comparison schedules and more detailed schedules by class and fund, which are presented immediately following the required supplementary information.

Financial Analysis

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

Condensed Financial Information

Statement of Net Position

Condensed Statement of Net Position

	June 30, 2018	June 30, 2017	Dollar Change	Percent Change
Assets				
Capital assets, net	\$ 24,299,866	\$ 24,435,735	\$ (135,869)	-0.6%
Other assets	31,104,352	29,248,786	1,855,566	6.3%
Deferred outflows of resources	2,040,263	2,563,224	(522,961)	-20.4%
	57,444,481	56,247,745	1,196,736	2.1%

Sunnyslope County Water District

Management's Discussion and Analysis

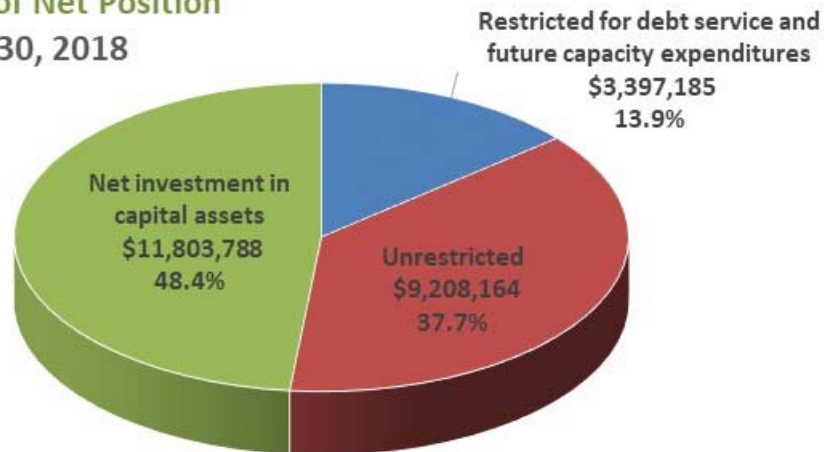
For the Year Ended June 30, 2018

	June 30, 2018	June 30, 2017	Dollar Change	Percent Change
Less: Liabilities				
Long-term liabilities	28,701,549	31,312,051	(2,610,502)	-8.3%
Other liabilities	3,049,385	3,008,296	41,089	1.4%
Deferred inflows of resources	1,284,410	138,219	1,146,191	829.3%
	33,035,344	34,458,566	(1,423,222)	-4.1%
	\$ 24,409,137	\$ 21,789,179	\$ 2,619,958	12.0%
Net Position				
Net investment in capital assets	\$ 11,803,788	\$ 11,570,668	\$ 233,120	2.0%
Restricted for debt service and capacity fees	3,397,185	2,061,103	1,336,082	64.8%
Unrestricted	9,208,164	8,157,408	1,050,756	12.9%
	\$ 24,409,137	\$ 21,789,179	\$ 2,619,958	12.0%

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. Sunnyslope County Water District's assets exceeded liabilities by \$24,409,137 at June 30, 2018, which is the District's net position. The largest portion of the District's net position (48.4%) reflects its investment in capital assets of \$11,803,788 (e.g., land, transmission and distribution systems, wells, tanks, pumps, buildings and structures, equipment, and vehicles), net of accumulated depreciation and related outstanding debt used to acquire those assets. The District uses its capital assets to provide water and wastewater service to its designated service area, and as such, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay the debt.

Statement of Net Position

June 30, 2018



Sunnyslope County Water District

Management's Discussion and Analysis

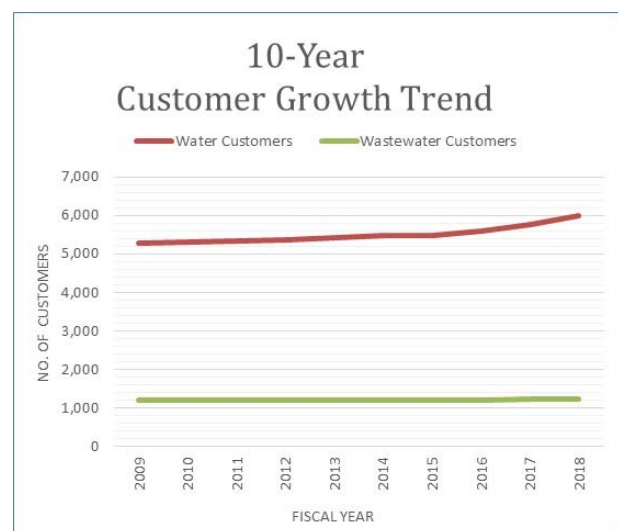
For the Year Ended June 30, 2018

After restricting net position for capacity fees and debt service of \$3,397,185 (13.9%), the remaining net position of \$9,208,164 (37.7%) is unrestricted and may be used at the Board's discretion to continue meeting the needs of the District. See the Notes to the Financial Statements, **Note 14 – Net Position**, for more details on the District's net position.

The District's net position increased \$2,619,958 from the prior fiscal year. The increase is primarily a result of the income from operations plus capacity fees collected, and interest earned, offset by interest expense.

Statement of Revenues, Expenses, and Changes in Net Position

The District's principal source of revenue is from water sales (71.8% of operating revenue) and wastewater sales (23.6% of operating revenue), which together constitutes 95.4% of operating revenue. The District's principal sources of water supply are from several wells owned by the District, from treated surface water received from the Lessalt Water Treatment Plant, and through interties with the City of Hollister, with the wells providing approximately 41.3% and the Lessalt WTP providing approximately 55.3% of the water pumped into the distribution system. The Board approved water rate increases by Ordinance No. 73 in August 2013, which phases the increases over a six-year period, beginning in December, 2013. The Board approved wastewater rate increases by Ordinance No. 74 in August 2013, which phased in the increases of 19.0% each year over a two-year period, beginning in December 2013. The water and wastewater rate increases were deemed necessary to implement the Hollister Urban Area Water Project (HUAWP). Several projects recommended in the HUAWP have been constructed, or are under construction, that improve drinking water quality for residents and help the District meet state and federal regulations for water and wastewater. The wastewater rate increase was also implemented to pay for the construction of the new Sequencing Batch Reactor at the Ridgemark Wastewater Treatment Plant.



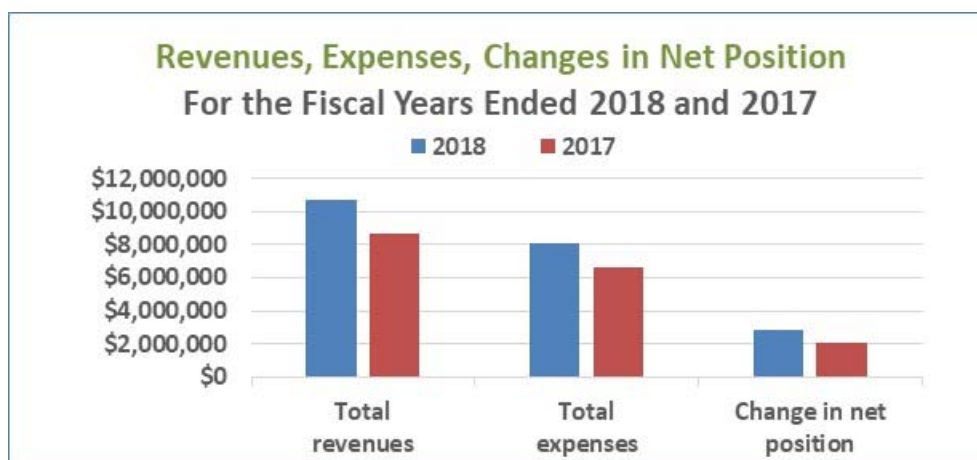
Water sales revenue has been fairly flat for the past few years, even though we have implemented five years of rate increases of approximately 11.5% each year, primarily due to slow customer growth and customer water conservation during the California drought. We expect to see water use vary with the seasons and the amount of rainfall, and water use increase over time as the customer base grows with new housing growth. We believe the increase in water sales revenue

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2018

this fiscal year was primarily attributable to relaxing conservation measures in April, 2017, water used for residential construction projects, and impacted slightly by the increase of 223 water customers this fiscal year and 130 water customers last fiscal year. We believe the small increase in wastewater sales revenue this fiscal year was due to adding two new customers and the adjustment of the variable component of the sewer rate, which is based on water consumption, and adjusted each April.



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

	June 30, 2018	June 30, 2017	Dollar Change	Percent Change
Operating revenues	\$ 8,065,708	\$ 7,000,290	\$ 1,065,418	15.2%
Non-operating revenues	2,636,743	1,683,276	953,467	56.6%
Total revenues	10,702,451	8,683,566	2,018,885	23.2%
Operating expenses	7,691,894	6,202,357	1,489,537	24.0%
Non-operating expenses	383,848	393,071	(9,223)	-2.3%
Total expenses	8,075,742	6,595,428	1,480,314	22.4%
Income before capital contrib.	2,626,709	2,088,138	538,571	25.8%
Contributed capital	191,502	-	191,502	0.0%
Change in net position	2,818,211	2,088,138	730,073	35.0%
Net position - beginning	21,789,179	19,701,041	2,088,138	10.6%
New accounting pronouncements	(198,253)	-	(198,253)	0.0%
Net position - ending	\$ 24,409,137	\$ 21,789,179	\$ 2,619,958	12.0%

The primary source of non-operating revenues are water and wastewater capacity fees and investment income. Development of new housing has been picking up momentum, and we had third year of strong capacity fee numbers. We received 233 water capacity fees this fiscal year, compared to 152 last year, and we received 3 wastewater capacity fees this fiscal year, compared to 2 last year. With the improvements to the Lessalt (surface) Water Treatment Plant and the

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2018

addition of a new well back in February, 2010, the District no longer has a limited water supply pumping capacity, and with the upgrades to the wastewater treatment system, including the construction of the sequencing batch reactor, the District no longer has limited wastewater disposal capabilities.

Operating expenses include salaries and benefits for 23 full-time employees, including water and wastewater system operations. We added one new office staff late in the fiscal year. 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 up 24.0% compared to last fiscal year, due primarily to operation and maintenance costs for the West Hills Water Treatment Plant.

Non-operating expenses include interest expense on our debt, and the unrealized loss on investments. Non-operating expenses were down primarily due to reduced interest expense.

Contributed capital usually comes from water and wastewater system infrastructure constructed by developers and turned over to the District for operation and maintenance. This fiscal year we received two completed subdivisions and accepted their water infrastructure and appurtenances into our system; the Klauer Development with a fair value of \$62,180, and the Del Curto Development with a fair value of \$129,322.

In June, 2015, the Governmental Accounting Standards Board issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits (OPEB) Other Than Pensions. The District implemented this statement effective July 1, 2017. The District has recognized the unfunded OPEB obligation, deferred outflows of OPEB resources, deferred inflows of OPEB resources, and OPEB expense.

Capital Assets and Debt Administration

Capital Assets

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

Sunnyslope County Water District's investment in capital assets as of June 30, 2018 was \$24,299,866, net of accumulated depreciation. The \$933,431 in major capital asset additions for the current year primarily included 546 new and replacement water meters installed (\$146,863), an update to the Hollister Urban Area Water/Wastewater Master Plan (\$832), completion of a 16" pipeline by the Santana Ranch developer (\$117,600), acceptance of two completed subdivisions (\$191,502), a new valve turner maintenance trailer (\$64,665), work-in-process for the crosstown pipeline to connect the District to the West Hills Water Treatment Plant (\$407,782), and other work-in-process projects (\$4,187). The capital additions were offset primarily by depreciation expense of \$1,069,300.

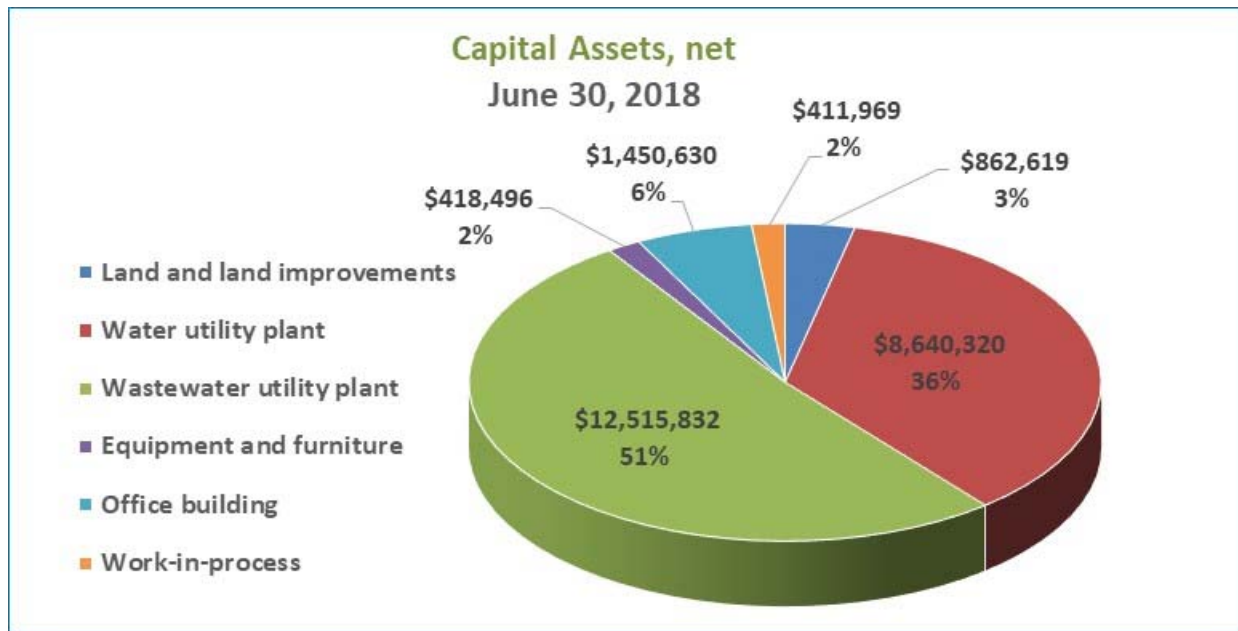
Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2018

Schedule of Capital Assets, net of depreciation

	June 30, 2018	June 30, 2017	Dollar Change	Percent Change
Land and land improvements	\$ 862,619	\$ 863,085	\$ (466)	-0.1%
Water utility plant	8,640,320	8,271,951	368,369	4.5%
Wastewater utility plant	12,515,832	12,895,503	(379,671)	-2.9%
Equipment and furniture	418,496	450,782	(32,286)	-7.2%
Office building	1,450,630	1,541,890	(91,260)	-5.9%
Work-in-process	411,969	412,524	(555)	-0.1%
Capital assets, net	\$ 24,299,866	\$ 24,435,735	\$ (135,869)	-0.6%



Long-Term Debt

At June 30, 2018, the District had long-term debt and long-term liabilities, totaling \$28,701,549.

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 is primarily due to the impact of the District making an extra contribution toward the unfunded liability in July, 2016 of \$1,655,673. More information on the District's pension plan can be found in **Note 11 – Pension Plan** of the financial statements. More information on the District's OPEB plan can be found in **Note 13 – Other Post-Employment Benefit Plan** of the financial statements.

Sunnyslope County Water District

Management's Discussion and Analysis

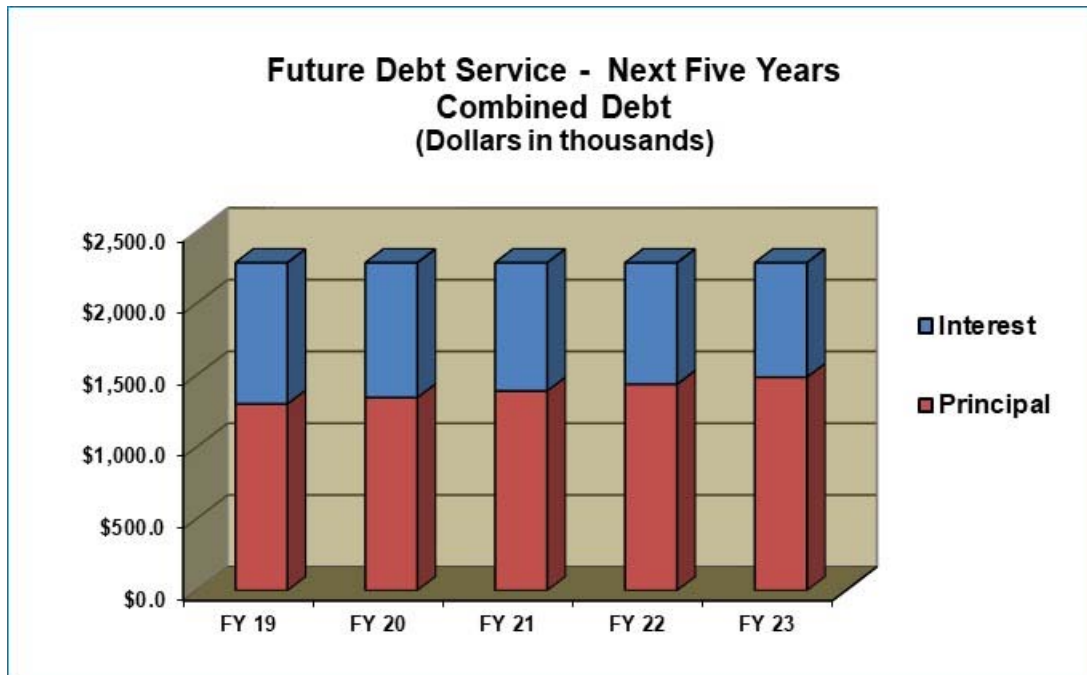
For the Year Ended June 30, 2018

Schedule of Long-Term Debt & Long-Term Liabilities

	June 30, 2018	June 30, 2017	Dollar Change	Percent Change
Accrued compensated absences	\$ 126,170	\$ 125,248	\$ 922	0.7%
Loans payable	12,302,309	13,037,478	(735,169)	-5.6%
Commitments payable	14,678,613	15,243,323	(564,710)	-3.7%
Deposits from customers	458,512	400,864	57,648	14.4%
Net pension liability	1,099,308	2,505,138	(1,405,830)	-56.1%
Net OPEB liability	36,637	-	36,637	N/A
Debt & long-term liabilities	\$ 28,701,549	\$ 31,312,051	\$ (2,610,502)	-8.3%

Future Debt Service

The District's debt service requirements for the next five years, through June 30, 2023, are shown on the following table, averaging \$2,282.4 thousand annually.



Other Future Economic Factors

From the years 2002 to 2015, the District experienced low to no housing growth, however, in fiscal years 2018 and 2017, new housing starts within the District service boundary have generated 233 and 152 new water connections, and 3 and 2 wastewater connections, respectively. In past years, the most prevalent issues affecting growth in the District have been: a housing moratorium imposed by the City of Hollister due to its limited wastewater treatment and disposal capabilities, the imposition of a 1% housing growth cap by the County of San Benito, and limited wastewater

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2018

treatment and disposal capacity at our Ridgemark Estates Wastewater Treatment Facilities. The City lifted the housing moratorium in late 2008 upon completion of their upgraded wastewater facility. The District completed the upgrades to its Ridgemark Wastewater Treatment Plant in 2013, which allows for future development within the Ridgemark area.

Rates and Fees

The District conducted a water rate study in 2013, in conjunction with the City of Hollister. New water rates were passed after a public hearing was held in August, 2013. The new water rates returned the District to a three tier rate structure. The first approved increase took effect on December 21, 2013, and occurs on December 21 of each subsequent year through 2018. The result of the series of rate increases spread over the six-year time frame should produce an 11.5% increase in water revenue each fiscal year for years 2014 to 2018, finishing with a 3% increase in fiscal year 2019.

The state of California is just coming off a period of severe drought. During the drought, the state imposed certain levels of mandatory water conservation in all water service municipalities and special districts throughout the state. Our customers were mandated to reduce their water consumption by 28% compared to their use in 2013, and were achieving better than a 28% reduction. In late June, 2016, the District was able to relax the water conservation mandate to 15%, then in April, 2017, the District was able to relax the conservation measures imposed on customers. The reduced water consumption, while good for the drought, translated into reduced revenues for the District. If a drought reoccurs in the near future, prolonged reduction in revenues could trigger the need to increase water rates.

The District also conducted a wastewater rate study in 2013. New wastewater rates were passed after a public hearing was held in August, 2013. The first approved increase took effect on December 21, 2013 and a second increase took effect on December 21, 2014, increasing by 19.0% each year. No increases in wastewater rates are anticipated for fiscal years 2017 through 2019.

Finally, the District conducted a water and wastewater capacity charge rate study in 2013. The new water and wastewater capacity charges were passed after a public hearing in August, 2013, effective October 6, 2013. These fees are charges imposed as a condition of providing new or increased water and wastewater services through new connections. The new water capacity fee for a 5/8", 3/4", or 1" meter size is \$10,600, effective July 1, 2017, was \$10,550, effective July 1, 2016, and is adjusted annually. The new wastewater capacity fee for a single-family residential dwelling is \$19,150 per dwelling unit, effective July 1, 2017, was \$19,050 per dwelling unit, effective July 1, 2016, and is adjusted annually. The capacity fees increase on July 1 of each year by the San Francisco Construction Index for the prior year as published in the Engineering News Record.

Waste Discharge Requirements

As a result of approval of the Waste Discharge Report and Monitoring from the California Regional Water Quality Control Board (December 3, 2004) for the Ridgemark Estates Wastewater Treatment Facilities, stringent discharge requirements must be achieved. To meet these new requirements, the Ridgemark Estates Wastewater Treatment Facilities were upgraded to include a Sequencing Batch Reactor plant, and as part of the effort to get customers to stop using their salt discharging water softeners, the existing Lessalt surface water treatment plant has been

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2018

renovated and a pipeline installed to connect this high quality water to the Ridgemark Estates, Oak Creek, and Quail Hollow subdivisions (the District's wastewater customers). Construction of the new West Hills surface water treatment plant is complete that will increase the delivery of high quality water to District and City of Hollister customers, which should also improve wastewater quality and help the District meet the imposed discharge requirements. These projects were recommended by RMC Water and Environment, a Sanitary Engineering Consulting firm that completed a Long-Term Wastewater Management Plan and Salts Management Program for the District.

Lessalt Water Treatment Plant

In September 2013, as agreed to in the Hollister Urban Area Water Master Plan, the Lessalt Water Treatment Plant ownership was transferred to San Benito County Water District (SBCWD), the wholesale water supplier for this area, by the District and the City of Hollister (the City). While SBCWD is now the owner, the District and the City are still each responsible for 50% of the costs to operate the Lessalt plant. The District will continue to operate the plant under an Agreement for Operations and Maintenance Services between the District and SBCWD, which was approved by the District's Board on August 14, 2013, and was recently extended on May 15, 2018.

Water Supply and Treatment Agreement

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

The agreement commits SBCWD to finance the HUAWP facilities up to \$30 million, and commits the City and the District to reimburse SBCWD for the capital costs, for operation of the facilities, and for the costs of raw water delivered to the treatment plants. The actual project cost projection is now \$41.6 million. The excess cost of \$11.6 million will be funded with \$4.2 million in Prop 84 Grant Funds, with \$1.7 million cash input from both the City and District, and the balance of \$4 million will be financed with a loan procured by SBCWD borrowing from a financial institution. The City and District will share equally in the repayment of the \$4 million loan.

The agreement also commits SBCWD to provide \$10 million (\$5 million each to the City and the District) to allow for gradual and stable water rate increases to fund the HUAWP. SBCWD has or will contribute \$0.5 million to the District in fiscal year 2014, \$1.5 million in each of the fiscal years 2015 and 2016, \$1 million in fiscal year 2017, and \$0.5 million in fiscal year 2018 to allow District water rates to gradually increase over six years to the level needed to make the obligated payments to SBCWD.

The remainder of the capital costs for the HUAWP will be split equally between the City and the District. The Water Supply and Treatment Agreement is for a term of 30 years, with subsequent 10-year renewal options, and required the execution of an Operations and Maintenance Agreement with the District for operating the two surface water treatment plants. The Operations and Maintenance Agreement between the District and SBCWD was executed in August, 2013, and was extended in May, 2018.

Sunnyslope County Water District

Management's Discussion and Analysis

For the Year Ended June 30, 2018

Contacting the District Financial Management

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

BASIC FINANCIAL STATEMENTS

Sunnyslope County Water District
Statement of Net Position
June 30, 2018
(with prior year data for comparative purposes only)

ASSETS

	<u>2018</u>	<u>2017</u>
<i>CURRENT ASSETS</i>		
Cash	\$ 4,673,554	\$ 4,374,123
Time certificates	-	2,525,243
Invested funds, at fair value	8,086,516	3,033,054
Accounts receivable from customers, less allowance for uncollectible accounts of \$19,823 and \$17,726	1,382,481	1,554,438
Interest receivable	33,725	8,001
Inventory supplies	395,010	314,759
Prepaid expenses	167,963	25,569
Total Current Assets	<u>14,739,249</u>	<u>11,835,187</u>
<i>CAPITAL ASSETS</i>		
Land and land improvements	871,948	871,948
Water utility plant	17,153,740	16,284,420
Wastewater utility plant	15,483,177	15,483,177
Equipment and furniture	2,215,939	2,151,273
Office building	2,737,613	2,737,613
Work-in-process	411,969	412,524
	<u>38,874,386</u>	<u>37,940,955</u>
Less accumulated depreciation	<u>(14,574,520)</u>	<u>(13,505,220)</u>
Total Capital Assets	<u>24,299,866</u>	<u>24,435,735</u>
<i>INTANGIBLE ASSETS</i>		
Water rights for Lessalt Water Treatment Plant, net of amortization of \$1,047,222 and \$830,556	5,452,778	5,669,444
Water rights for West Hills Water Treatment Plant amortization of \$1,868,056 and \$1,196,388	10,331,944	11,003,612
Total Intangible Asset, net	<u>15,784,722</u>	<u>16,673,056</u>
<i>OTHER NON-CURRENT ASSETS</i>		
Prepaid post-employment health benefits (OPEB)	-	160,162
Idle assets, net of accumulated depreciation of \$30,634 and \$30,634	580,381	580,381
Total Other Non-Current Assets	<u>580,381</u>	<u>740,543</u>
<i>DEFERRED OUTFLOWS OF RESOURCES</i>		
Deferred outflows - pension	2,010,460	2,563,224
Deferred outflows - OPEB	29,803	-
Total Deferred Outflows of Resources	<u>2,040,263</u>	<u>2,563,224</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 57,444,481</u>	<u>\$ 56,247,745</u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Net Position
June 30, 2018
(with prior year data for comparative purposes only)

LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
<i>CURRENT LIABILITIES</i>		
Accounts payable	\$ 1,530,274	\$ 1,516,025
Accrued expenses	219,232	234,949
Current portion of long-term debt	<u>1,299,879</u>	<u>1,257,322</u>
Total Current Liabilities	<u>3,049,385</u>	<u>3,008,296</u>
<i>LONG-TERM LIABILITIES</i>		
Accrued compensated absences	126,170	125,248
Bank loan payable	2,961,626	3,192,782
State Revolving Fund loan payable	9,340,683	9,844,696
Commitment payable for water rights	14,678,613	15,243,323
Deposits received	458,512	400,864
Net pension liability	1,099,308	2,505,138
Net OPEB liability	<u>36,637</u>	<u>-</u>
Total Non-Current Liabilities	<u>28,701,549</u>	<u>31,312,051</u>
<i>DEFERRED INFLOWS OF RESOURCES</i>		
Deferred inflows - pension	1,271,008	138,219
Deferred inflows - OPEB	<u>13,402</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>1,284,410</u>	<u>138,219</u>
Total Liabilities and Deferred Inflows	<u>33,035,344</u>	<u>34,458,566</u>
<i>NET POSITION</i>		
Net investment in capital assets	11,803,788	11,570,668
Restricted for connection fees	2,637,185	1,301,103
Restricted for debt service	760,000	760,000
Unrestricted	<u>9,208,164</u>	<u>8,157,408</u>
Total Net Position	<u>24,409,137</u>	<u>21,789,179</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 57,444,481</u>	<u>\$ 56,247,745</u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Revenues, Expenses, and Changes in Net Position
June 30, 2018

(with prior year data for comparative purposes only)

	<u>2018</u>	<u>2017</u>
<i>OPERATING REVENUES</i>		
Water sales	\$ 5,792,363	\$ 4,772,902
Wastewater service	1,899,620	1,896,654
Late fees	66,798	64,488
Customer fees	171,845	139,182
Other	135,082	127,064
	<u>8,065,708</u>	<u>7,000,290</u>
<i>OPERATING EXPENSES</i>		
Salaries and benefits	3,097,578	2,632,743
Operations and maintenance	5,010,983	4,663,390
Water rate stabilization credit	(416,667)	(1,093,776)
	<u>7,691,894</u>	<u>6,202,357</u>
	<u>373,814</u>	<u>797,933</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>		
Water connections	2,484,800	1,604,200
Wastewater connections	57,450	38,100
Interest income	94,493	37,926
Unrealized gain (loss) on investments	(11,959)	(6,299)
Gain (loss) on disposal of assets	-	3,050
Interest expense	(371,889)	(386,772)
	<u>2,252,895</u>	<u>1,290,205</u>
	<u>2,626,709</u>	<u>2,088,138</u>
<i>CAPITAL CONTRIBUTION</i>		
Donated assets	191,502	-
	<u>2,818,211</u>	<u>2,088,138</u>
<i>CHANGE IN NET POSITION</i>		
	<u>21,789,179</u>	<u>19,701,041</u>
<i>NEW ACCOUNTING PRONOUNCEMENTS - NOTE 18</i>		
	(198,253)	-
	<u>\$ 24,409,137</u>	<u>\$ 21,789,179</u>

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Cash Flows
June 30, 2018
(with prior year data for comparative purposes only)

	2018	2017
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash received from customers	\$ 8,237,665	\$ 6,508,995
Cash paid to suppliers	(3,331,390)	(3,458,419)
Cash paid to employees	(2,295,430)	(1,991,360)
Net Cash Provided by Operating Activities	2,610,845	1,059,216
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i>		
Water and wastewater connection fees received	2,542,250	1,642,300
Proceeds from sale of capital assets	-	3,050
Acquisition and construction of capital assets	(741,929)	(569,499)
Acquisition of intangible assets	-	(1,700,000)
Loan and commitment payments	(1,257,322)	(1,216,215)
Interest paid	(383,004)	(402,861)
Net Cash Used by Capital and Related Financing Activities	159,995	(2,243,225)
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Sale (purchase) of time certificates of deposit	2,525,243	(12,189)
Sale (purchase) of LAIF funds	(5,065,421)	1,925,151
Interest received	68,769	37,037
Net Cash Used by Investing Activities	(2,471,409)	1,949,999
<i>NET INCREASE IN CASH</i>	299,431	765,990
<i>CASH AT BEGINNING OF YEAR</i>	4,374,123	3,608,133
<i>CASH AT END OF YEAR</i>	\$ 4,673,554	\$ 4,374,123

See accompanying notes to basic financial statements

Sunnyslope County Water District
Statement of Cash Flows
June 30, 2018
(with prior year data for comparative purposes only)

	2018	2017
<i>Reconciliation of income from operations to net cash provided by operating activities:</i>		
Income from operations	\$ 373,814	\$ 797,933
Adjustments to reconcile income from operations to cash provided by operating activities:		
Depreciation and amortization	1,957,634	1,940,316
Bad debt provision	2,097	2,548
(Increase) decrease in:		
Accounts receivable	169,860	(493,843)
Inventory supplies	(80,251)	(60,545)
Prepaid expenses	(142,394)	11,401
Prepaid post-employment health benefits	160,162	(27)
Deferred outflows - pension	552,764	(367,794)
Deferred outflows - OPEB	(228,056)	-
Increase (decrease) in:		
Accounts payable	14,249	(1,164,608)
Accrued expenses	(3,680)	18,601
Deposits from customers	57,648	(56,916)
Net pension liability	(1,405,830)	547,525
Net OPEB liability	36,637	-
Deferred inflows - pension	1,132,789	(115,375)
Deferred inflows - OPEB	13,402	-
Net Cash Provided by Operating Activities	\$ 2,610,845	\$ 1,059,216
 <i>SUPPLEMENTAL DISCLOSURES OF NON-CASH AND RELATED FINANCING AND INVESTING ACTIVITIES:</i>		
Contributed Assets	\$ 191,502	\$ -

See accompanying notes to basic financial statements

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity and Basis of Presentation

Sunnyslope County Water District (the District) was formed December 17, 1954 as a California Special District pursuant to the California County Water District Act, §30000 et seq., to furnish water and wastewater services to residents of the District in San Benito County, California. The District is governed by a five-member Board of Directors who serve overlapping four-year terms. The District operates as a non-taxable governmental entity and earns the majority of its revenues from water sales and services to residential users. The District's water system serves an area of approximately 3.9 square miles in the City of Hollister and surrounding areas. The District's wastewater system serves a smaller area within the County consisting of Ridgemark Estates and the Oak Creek and Quail Hollow subdivisions. For fiscal year 2018, water sales constitute approximately 71.8% of operating revenues and wastewater sales are approximately 23.6% of operating revenues.

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

B. Measurement Focus and Basis of Accounting

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

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

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

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018

C. Budgetary Reporting

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

D. Cash and Cash Equivalents

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

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

E. Uncollectible Accounts and Credit/Market Risk

The District provides an allowance for doubtful accounts for all accounts deemed uncollectible. The allowance for fiscal year 2018 is calculated as 2.5% of the outstanding receivable balance on District accounts. The bad debt allowance is held low due to the District's strict shut-off policy for accounts that reach 3 months past due, and the District's deposit requirement policy. Management's periodic evaluation of outstanding receivables is based on the District's past loss experience. The majority of accounts that become uncollectible are final bills to customers who have left our service area. Once collection efforts have been exhausted, a list of accounts deemed uncollectible is provided to management for approval to write-off and are turned over to a collection agency for further attempts of collection.

The District provides water and wastewater services to residential and commercial customers who reside or do business in our service area. As part of normal operating practices, credit is granted to customers with a good prior credit history with the District on an unsecured basis. New customers or customers who have been shut-off for non-payment are required to pay, in addition to any other past-due balances or applicable fees, a deposit of \$125 if a water only customer, or a deposit of \$400 if a water and wastewater customer (less any amount currently held on deposit), prior to the start or reinstatement of service.

F. Inventories and Prepaid Items

Inventory consists primarily of water meters, 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 first-in, first-out basis.

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

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

G. Capital Assets

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

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

Capital Asset Category:	<u>Minimum Dollar Amount:</u>
Land (by purchase, gift, donation, or bequest)	Actual cost or FMV
Land Improvements	In excess of \$ 5,000
Buildings and Improvements	In excess of \$ 10,000
Leasehold Improvements	In excess of \$ 10,000
Furniture and Equipment	In excess of \$ 1,000
Property Leased from Others Under Capital Leases	In excess of \$ 1,000
Computer Software	In excess of \$ 1,000

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

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

H. Idle Assets

Idle assets consist of Well #1; a potential site for Well #9 or a water treatment plant on Union Road; a potential site for Well #12 on Southside Road, including some engineering and design work, hydrogeology and water quality testing, environmental review work, drilling a test well, and a 2-acre parcel lot line adjustment; and a potential site for expansion of the West Hills Water Treatment Plant.

Well #1 was placed in service in 1956, but was taken out of service in 1999 as new wells were constructed. The Well #9 site on Union Road was taken out of service in 2010 because it is not currently being pursued for a well location or water treatment plant site. The Well #12 test well

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018

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

I. Use of Restricted Resources

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

J. Proprietary Fund Accounting

The District reports its two proprietary funds as a combined total in the financial statements; however, the year-end water and wastewater proprietary fund balances and change in fund balances are detailed in the Supplementary Information – Unaudited section, Schedule of Net Position – By Fund.

K. Net Position

Net position represent the difference between assets and liabilities. When both restricted and unrestricted resources are available for expenses, the District expends the restricted funds and then the unrestricted funds. The District's net position is detailed in Note 14 – Net Position, and is further described as follows:

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

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

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

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

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

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

L. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position contains a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has deferred pension inflows as described further in Note 11 – Pension Plan. The District has deferred OPEB inflows as described further in Note 13 – Other Post-Employment Benefits.

M. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Sunnyslope County Water District’s California Public Employees’ Retirement System (CalPERS) plans (PERF C or the Plans) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS finance office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 11 – Pension Plan for the CalPERS Plan disclosures. Additional information presented in the Notes and Required Supplementary Information (RSI) can be found on CalPERS website in the CalPERS Risk Pool reports as of the June 30, 2017 Measurement Date:

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

GASB No. 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, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

The following District rate plans are included in this report:

	<u>Rate Plan #</u>	<u>Risk Pool</u>
Misc. Classic	620	Miscellaneous
Misc. PEPR	26656	Miscellaneous

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018

N. Revenue Recognition

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

O. Compensated Absences

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

Compensated Absences

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

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

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

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

Accumulated sick leave lapses when employees separate from the District in any other manner.

P. Use of Estimates

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

Q. New Accounting Pronouncements

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

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018

Effective for Fiscal Year Ended June 30, 2018

GASB Statement No. 74 and 75 – In June, 2015, GASB issued two final statements detailing how state and local governments should account for and report postemployment benefits other than pension plans, such as retiree health insurance. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial reporting by plans that administer OPEB benefits. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and financial reporting by governments that provide OPEB to their employees or employees of other governmental units. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The District implemented Statement 74 effective July 1, 2016, and implemented Statement 75 effective July 1, 2017.

GASB Statement No. 85 – In March, 2017, GASB issued Statement No. 85, *Omnibus 2017*, to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this statement are effective for fiscal years beginning after June 15, 2017. The District has implemented this statement effective July 1, 2017.

R. Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements and notes to the basic financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

NOTE 2 — CASH AND INVESTMENTS

Cash and Investments

At June 30, 2018, the District maintained cash at Heritage Bank of Commerce, a commercial bank with branch offices located in Hollister, California, of \$4,671,497, including a money market account totaling \$839,590, and cash investment in the State of California's Local Agency Investment Funds (LAIF), which administers a pool of local government funds of \$8,086,516.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

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

Current Assets (partial listing):

	2018
Cash	\$ 4,673,554
Less: Cash and postage stamps on hand	(2,057)
Cash funds – at Heritage Bank of Commerce	4,671,497
Invested funds – at LAIF (at fair value)	8,086,516
Plus: Cash and postage stamps on hand	2,057
Total cash and investments	\$ 12,760,070

Investments Authorized by the District's Investment Policy

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

Disclosures Relating to Interest Rate Risk

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

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

As of June 30, 2018, the District had the following cash and investment maturities:

	<u>Fair Value</u>	<u>Cost</u>	<u>0-3 Months</u>	<u>4-12 Months</u>	<u>13-36 Months</u>
Local Agency Investment Fund	\$ 8,086,516	\$ 8,101,692	\$ 8,101,692	\$ -	\$ -
Total	\$ 8,086,516	\$ 8,101,692	\$ 8,101,692	\$ -	\$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF is an unrated investment pool and, therefore, does not have a rating provided by a nationally recognized statistical rating organization. However, under federal regulations the State of California cannot declare bankruptcy, so money placed with the state treasurer for deposit in the Funds shall not be subject to impoundment or seizure by any state official or state agency.

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Heritage Bank of Commerce has a credit rating of Green/***/BB from Veribanc, Inc. (as of May 25, 2018).

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. Currently, all investments are in LAIF.

Custodial Credit Risk for Deposits and Investments

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2018, \$250,000 of the balance on deposit with Heritage Bank of Commerce was covered by federal depository insurance, and the excess of \$4,421,497 was collateralized by the pledging institution as required by Section 53652 of the California Government Code. As of June 30, 2017, \$250,000 of the balance on deposit with Union Bank, was covered by federal depository insurance, and the excess of \$4,120,488 was collateralized by the pledging institution as required by Section 53652 of the California Government Code.

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

Investment in State Investment Pool

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

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

Disclosures Related to Fair Value Measurement

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

- *Level 1:* Quoted prices in active markets for identical assets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

Deposits and withdrawals in the California Local Agency Investment Fund (LAIF) are made on the basis of \$1, and not fair value. Certificates of Deposits (CDs) are investments measured at amortized costs. Accordingly, the District’s investment in LAIF at June 30, 2018 of \$8,086,516 is uncategorized input not defined as Level 1, Level 2, or Level 3 input.

NOTE 3 — ACCOUNTS RECEIVABLE

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectible accounts) amount on the financial statements. Below is the detail of the receivables as of June 30, 2018, including applicable allowances for uncollectible accounts:

	Sunnyslope Water & Wastewater Sales and Services	City of Hollister Customer Billings	Other Receivables	Total June 30, 2018
Accounts receivable	\$ 792,936	\$ 389,207	\$ 220,161	\$ 1,402,304
Less: Allowance for uncollectible accounts	<u>(19,823)</u>	<u>-</u>	<u>-</u>	<u>(19,823)</u>
Net accounts receivable	<u>\$ 773,113</u>	<u>\$ 389,207</u>	<u>\$ 220,161</u>	<u>\$ 1,382,481</u>

Sunnyslope County Water District entered into an agency agreement with the City of Hollister to bill wastewater and street sweeping charges to Sunnyslope’s water customers who receive their wastewater service from the City beginning July 1, 2007. Accounts receivable from customers includes \$389,207 due from the City of Hollister’s customers as of June 30, 2018. Likewise, accounts payable includes \$389,207 due to the City of Hollister for the amount billed to their customers as of June 30, 2018. See Note 6 – Accounts Payable. No provision was made for uncollectible accounts for the accounts receivable balance due from the City’s customers.

Other receivables represent those billings outside of the normal water and wastewater sales and services billings, and include items such as damages to District property and billings for the operation and maintenance of the Lessalt Water Treatment Plant and the West Hills Water Treatment Plant.

Sunnyslope County Water District
Notes to Financial Statements
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NOTE 4 — CAPITAL ASSETS

A summary of property, plant, and equipment at June 30, 2018, is as follows:

	<u>Cost</u> <u>6/30/17</u>	<u>Transfers/ Adjustments</u>	<u>Additions</u>	<u>Disposals</u>	<u>Cost</u> <u>6/30/18</u>
Land and land improve. \$	871,948	\$ -	\$ -	\$ -	\$ 871,948
Water utility plant	16,284,420	412,524	456,796	-	17,153,740
Wastewater utility plant	15,483,177	-	-	-	15,483,177
Equipment & furniture	2,151,273	-	64,666	-	2,215,939
Office building	2,737,613	-	-	-	2,737,613
Work-in-process	412,524	(412,524)	411,969	-	411,969
	<u>\$ 37,940,955</u>	<u>\$ -</u>	<u>\$ 933,431</u>	<u>\$ -</u>	<u>\$ 38,874,386</u>
	<u>Accumulated Depreciation 6/30/17</u>	<u>Transfers/ Adjustments</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>Accumulated Depreciation 6/30/18</u>
Land and land improve. \$	8,863	\$ -	\$ 466	\$ -	\$ 9,329
Water utility plant	8,012,469	-	500,951	-	8,513,420
Wastewater utility plant	2,587,674	-	379,671	-	2,967,345
Equipment & furniture	1,700,491	-	96,952	-	1,797,443
Office building	1,195,723	-	91,260	-	1,286,983
	<u>\$ 13,505,220</u>	<u>\$ -</u>	<u>\$ 1,069,300</u>	<u>\$ -</u>	<u>\$ 14,574,520</u>
Net Book Value	<u>\$ 24,435,735</u>				<u>\$ 24,299,866</u>

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

NOTE 5 — IDLE ASSETS

A summary of idle assets at June 30, 2018, is as follows:

	Cost 6/30/17	Transfers/ Adjustments	Additions	Disposals	Cost 6/30/18
Well #1	\$ 69,884	\$ -	\$ -	\$ -	\$ 69,884
Site for Well #9 or Water Treat. Plant	69,790	-	-	-	69,790
Site for Well #12	115,194	-	-	-	115,194
Well #12 Test Well	176,676	-	-	-	176,676
Site for Future W. Hills Water Treat. Plant Expan.	179,471	-	-	-	179,471
	<u>\$ 611,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 611,015</u>
	Accumulated Depreciation 6/30/17	Transfers/ Adjustments	Depreciation	Disposals	Accumulated Depreciation 6/30/18
Well #1	\$ 30,634	\$ -	\$ -	\$ -	\$ 30,634
Net Book Value	<u>\$ 580,381</u>				<u>\$ 580,381</u>

NOTE 6 — ACCOUNTS PAYABLE

Sunnyslope County Water District entered into an agency agreement with the City of Hollister to bill wastewater and street sweeping charges to Sunnyslope's water customers who receive their wastewater service from the City beginning July 1, 2007. Accounts payable includes \$389,207 due to the City of Hollister for the amount billed to their customers as of June 30, 2018. Likewise, accounts receivable from customers includes \$389,207 due from the City of Hollister's customers as of June 30, 2018. See Note 3 – Accounts Receivable.

Amounts are aggregated into a single accounts payable total on the financial statements. Below is the detail of the payable amounts as of June 30, 2018:

	Sunnyslope Vendors	Developer Credit for Infrastructure Construction	City of Hollister Customer Billings	Total June 30, 2018
Accounts payable	\$ 1,082,267	\$ 58,800	\$ 389,207	<u>\$ 1,530,274</u>

NOTE 7 — COMPENSATED ABSENCES

Compensated absences comprise unpaid vacation and sick leave that qualifies for "cash-out" at retirement. The liability for compensated absences is determined annually, and based on District's historical experience, is considered to be a long-term liability. Accrued compensated absences at June 30, 2018 was \$126,170.

**Sunnyslope County Water District
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Of the four qualifying employees, three employees elected to “cash-out” unused sick leave in fiscal year ended 2018. The total amount expensed when they cashed out was \$9,777 for the year ended June 30, 2018.

Below is the detail of the compensated absence payable amounts as of June 30, 2018:

	Total June 30, 2017	Increase	Decrease	Total June 30, 2018
Vacation leave payable	\$ 102,938	\$ 1,976	\$ -	\$ 104,914
Qualifying sick leave payable	22,310	-	1,054	21,256
Total	<u>\$ 125,248</u>	<u>\$ 1,976</u>	<u>\$ 1,054</u>	<u>\$ 126,170</u>

NOTE 8 — LOANS PAYABLE

A. State Revolving Fund (SRF) Loan – State Water Resources Control Board

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

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

The outstanding SRF loan payable at June 30, 2018, is as follows:

	June 30, 2017	Borrowed	Repaid	June 30, 2018
Wastewater projects loan	\$ 11,400,000	\$ -	\$ -	\$ 11,400,000
Capitalized interest	345,037	-	-	345,037
Payments	(1,409,101)	-	491,240	(1,900,341)
Subtotal	<u>10,335,936</u>	<u>\$ -</u>	<u>\$ 491,240</u>	9,844,696
Less: current portion	<u>(491,240)</u>			<u>(504,013)</u>
Loan payable	<u>\$ 9,844,696</u>			<u>\$ 9,340,683</u>

**Sunnyslope County Water District
Notes to Financial Statements
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The following is a summary of principal maturities of SRF loan debt as of June 30, 2018:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2019	\$ 504,013	\$ 255,962	\$ 759,975
2020	517,117	242,858	759,975
2021	530,562	229,413	759,975
2022	544,356	215,619	759,975
2023	558,510	201,465	759,975
Next 5 years maturity sub-total	2,654,558	1,145,317	3,799,875
2024-2028	3,018,068	781,805	3,799,873
2029-2033	3,431,355	368,518	3,799,873
2034	740,715	19,257	759,972
Total debt outstanding June 30, 2018	\$ 9,844,696	\$ 2,314,897	\$ 12,159,593

B. Municipal Finance Corporation – City National Bank Loan

On October 1, 2014, the District entered into a loan agreement with Municipal Finance Corporation in the amount of \$3,943,126, for the purpose of refinancing the Capital Project Bond. The loan was immediately assigned to City National Bank. Loan repayment is over a term of 15 years at the rate of 3.4% interest and is payable in semiannual loan payments of \$168,881, beginning on April 16, 2015, and maturing on October 16, 2029. Principal and interest is to be paid from pledged future revenues.

The outstanding City National Bank loan payable at June 30, 2018, is as follows:

	<u>June 30, 2017</u>	<u>Borrowed</u>	<u>Repaid</u>	<u>June 30, 2018</u>
Refinance Bonds payable	\$ 3,943,126	\$ -	\$ -	\$ 3,943,126
Payments	(526,851)	-	223,493	(750,344)
Subtotal	3,416,275	\$ -	\$ 223,493	3,192,782
Less: current portion	(223,493)			(231,156)
Loan payable	<u>\$ 3,192,782</u>			<u>\$ 2,961,626</u>

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

The following is a summary of principal maturities for City National Bank loan debt as of June 30, 2018:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2019	\$ 231,156	\$ 106,607	\$ 337,763
2020	239,083	98,679	337,762
2021	247,280	90,483	337,763
2022	255,759	82,003	337,762
2023	264,529	73,234	337,763
Next 5 years maturity sub-total	1,237,807	451,006	1,688,813
2024-2028	1,465,082	223,729	1,688,811
2029-2030	489,893	16,750	506,643
Total debt outstanding June 30, 2018	\$ 3,192,782	\$ 691,485	\$ 3,884,267

NOTE 9 — COMMITMENTS PAYABLE

San Benito County Water District – Surface Water Treatment Facilities

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

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

The District's share of the first tranche capital cost is \$6.5 million and is spread in equal monthly payments over thirty years at an interest rate of 4.5%. The District's share of the second tranche capital cost is \$8.5 million and is spread in equal monthly payments over twenty years at an interest rate of 4.0%. The District's share of the third tranche capital cost is \$2 million, which is being repaid quarterly over a 15 year period at an interest rate of 3.45%, with the District's monthly payment based on one-third of its share of the quarterly payment. For more information, see Note 17 – Significant Commitments.

Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018

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

The outstanding Tranche 1 commitment payable at June 30, 2018 is as follows:

	<u>June 30,</u> <u>2017</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30,</u> <u>2018</u>
Lessalt Water Treat. Plant				
Upgrades/Water Rights	\$ 6,500,000	\$ -	\$ -	\$ 6,500,000
Payments	(428,864)	-	124,562	(553,426)
Subtotal	<u>6,071,136</u>	<u>\$ -</u>	<u>\$ 124,562</u>	5,946,574
Less: current portion	<u>(124,562)</u>			<u>(130,284)</u>
Commitment payable	<u>\$ 5,946,574</u>			<u>\$ 5,816,290</u>

The following is a summary of principal maturities of Tranche 1 commitment payable as of June 30, 2018:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Payments</u>
2019	\$ 130,284	\$ 264,931	\$ 395,215
2020	136,269	258,946	395,215
2021	142,530	252,684	395,214
2022	149,077	246,137	395,214
2023	<u>155,926</u>	<u>239,289</u>	<u>395,215</u>
Next 5 years maturity sub-total	714,086	1,261,987	1,976,073
2024-2028	893,889	1,082,184	1,976,073
2029-2033	1,118,968	857,105	1,976,073
2034-2038	1,400,720	575,353	1,976,073
2039-2043	1,753,414	222,659	1,976,073
2044	<u>65,497</u>	<u>368</u>	<u>65,865</u>
Total debt outstanding June 30, 2018	\$ <u>5,946,574</u>	\$ <u>3,999,656</u>	\$ <u>9,946,230</u>

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

The outstanding Tranche 2 commitment payable at June 30, 2018 is as follows:

	<u>June 30,</u> <u>2017</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30,</u> <u>2018</u>
West Hills Water Treat. Plant				
Constr./Water Rights	\$ 8,500,000	\$ -	\$ -	\$ 8,500,000
Payments	(628,339)	-	308,855	(937,194)
Subtotal	<u>7,871,661</u>	<u>\$ -</u>	<u>\$ 308,855</u>	7,562,806
Less: current portion	<u>(308,855)</u>			<u>(321,438)</u>
Commitment payable	<u>\$ 7,562,806</u>			<u>\$ 7,241,368</u>

Sunnyslope County Water District
Notes to Financial Statements
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The following is a summary of principal maturities of Tranche 2 commitment payable as of June 30, 2018:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2019	\$ 321,438	\$ 296,662	\$ 618,100
2020	334,534	283,566	618,100
2021	348,165	269,935	618,100
2022	362,348	255,752	618,100
2023	377,111	240,989	618,100
Next 5 years maturity sub-total	1,743,596	1,346,904	3,090,500
2024-2028	2,128,923	961,577	3,090,500
2029-2033	2,599,409	491,091	3,090,500
2034-2035	1,090,878	42,304	1,133,182
Total debt outstanding June 30, 2018	\$ 7,562,806	\$ 2,841,876	\$ 10,404,682

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

The outstanding Tranche 3 commitment payable at June 30, 2018 is as follows:

	<u>June 30, 2017</u>	<u>Commitment</u>	<u>Redeemed</u>	<u>June 30, 2018</u>
West Hills Water Treat. Plant				
Constr./Water Rights	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Payments	(156,885)	-	109,172	(266,057)
Subtotal	1,843,115	\$ -	\$ 109,172	1,733,943
Less: current portion	(109,172)			(112,988)
Commitment payable	\$ 1,733,943			\$ 1,620,955

The following is a summary of principal maturities of Tranche 3 commitment payable as of June 30, 2018:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2019	\$ 112,988	\$ 58,369	\$ 171,357
2020	116,936	54,421	171,357
2021	121,023	50,334	171,357
2022	125,253	46,105	171,358
2023	129,630	41,728	171,358
Next 5 years maturity sub-total	605,830	250,957	856,787
2024-2028	719,359	137,428	856,787
2029-2030	408,754	19,640	428,394
Total debt outstanding June 30, 2018	\$ 1,733,943	\$ 408,025	\$ 2,141,968

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

NOTE 10 —OPERATING LEASE

The District leases a copier under an operating lease with Konica Minolta. The agreement expires on February 10, 2021 and the rent expense for the year ended June 30, 2018 was \$5,012.

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

<u>Year ending June 30:</u>	
2019	5,013
2020	5,012
2021	<u>2,982</u>
Total	\$ <u>13,007</u>

NOTE 11 —PENSION PLAN

A. General Information about the Pension Plan

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

Employees Covered – All full-time District employees are eligible for benefits under the Plan in one of two tiers. Employees hired prior to January 1, 2013, or who are hired after December 31, 2012 and qualify as “classic” members on date of hire are in Tier 1, and employees hired after December 31, 2012 and who do not qualify as “classic” members are in Tier 2. The benefit formula for employees in Tier 1 is 2.7% at 55, and the benefit formula for employees in Tier 2 is 2% at 62. At June 30, 2018, there are 23 full-time employees, with 17 in Tier 1, and 6 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 Financial Statements
June 30, 2018**

The District's Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Classic	PEPRA
	Hire prior to 1/1/13	Hire after 1/1/13
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Monthly benefits, as a % of eligible compensation	2.5%	2.0%
Final compensation period	1 year	3 years
Required employee contribution rates	8.000%	6.250%
Required employer contribution rates:		
FY 2017/18 Normal cost rate	11.675%	6.533%
FY 2017/18 Payment of unfunded liability	\$ 6,065	\$ 86

On January 1, 2013, the Public Employee's 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 Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 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.

For the year ended June 30, 2018, the District's contributions were as follows:

	Fiscal Year Paid 2017/18
Required Misc. Classic Retirement Cost	\$ 185,135
Required Misc. PEPRA Retirement Cost	24,604
Total Contributions	209,739
Other Retirement Cost:	
Employer Paid Member Contributions	122,704
Employer Paid Survivor Benefit	532
Employee Cost Sharing	(30,676)
Total Contributions and Other	\$ 302,299

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

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

As of June 30, 2018, the District reported net pension liability for its proportionate share of the net pension liability as of June 30, 2018 and 2017 was as follows:

	Fiscal Year Ending	
	June 30, 2018	June 30, 2017
Total Pension Liability	\$ 1,099,308	\$ 2,505,137

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability (asset) as of June 30, 2018 and 2017 was as follows:

	Percentage Share of Plan		Change: Increase/ (Decrease)
	June 30, 2018	June 30, 2017	
Measurement Date	6/30/17	6/30/16	
Percentage of Plan (PERF C) NPL	0.011085%	0.028951%	-0.017866%

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

	Discount Rate		
	6.15% (1% Decrease)	7.15% (Current Rate)	8.15% (1% Increase)
Measurement Date		6/30/17	
Fiscal Year End		6/30/18	
Net Pension Liability (Asset)	\$ 2,659,711	\$ 1,099,308	\$ (193,047)

For the year ended June 30, 2018, the District recognized pension expense of \$489,464. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,815	\$ 54,660
Changes of assumptions	473,382	36,096
Net differences between projected and actual earnings on plan investments	107,060	-
Change in employer's proportion	70,518	1,155,877
Differences between the employer's contributions and the employer's proportionate share of contributions	1,145,946	24,375
Pension contributions subsequent to measurement date	209,739	-
Total Outflows / Inflows of Resources	<u>\$ 2,010,460</u>	<u>\$ 1,271,008</u>

The \$209,739 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Recognition of the remaining amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<u>Fiscal Year Ending June 30:</u>	<u>Deferred Outflows / (Inflows) of Resources</u>
2019	\$ 162,016
2020	268,190
2021	163,071
2022	(63,564)
2023	-
Thereafter	-

Actuarial Assumptions – The actuarial methods and assumptions used determine the total pension liability for the measurement period ended June 30, 2017 (the measurement date), was determined by rolling forward the total pension liability determined in the June 30, 2016 actuarial accounting valuation to June 30, 2017. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

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¹ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

Other significant actuarial assumptions used in the June 30, 2016 valuations were based on the results of the actuarial experience study for the period from 1997 to 2011.

Changes of Assumptions – In fiscal year 2016/17, the financial reporting discount rate for the PERF C was lowered from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represent the unamortized portion of this assumption change.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), the amortization and smoothing periods adopted by the Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results can be found on CalPERS' website at <https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>.

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.

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 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 the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017.

Amortization of Deferred Outflows and Deferred Inflows of Resources – The Net Difference Between Projected and Actual Investment 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 Earnings on Pension Plan Investments is amortized over the remaining amortization periods. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in

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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, 2017 measurement date is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of all active employees) by 130,595 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Payable to the Pension Plan – At June 30, 2018, the District reported a liability of \$1,099,308 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. All pension costs are paid timely.

Pension Plan Fiduciary Net Positions – Detailed information about each plan' fiduciary net position is available in the separately issued CalPERS financial reports. The effect of CalPERS on the District's net position has been determined on the same basis used by CalPERS.

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

NOTE 12 — DEFERRED COMPENSATION PLAN

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

Effective July 1, 2010, the District agreed to match the lesser of 30% of the employee deferral contribution or \$468, to the extent that District contributions and employee deferral do not exceed the maximum permitted by law. Prior to July 1, 2010, the District match was the lesser of 25% of employee deferral or \$360.

For the year ended June 30, 2018, employee contributions consisting of employee deferrals, compensated absences, and cash in lieu of insurance benefits converted to deferred compensation totaled \$269,910. For the year ended June 30, 2018, the required employer matching contribution was \$7,645. The investment balance in the deferred compensation plan at June 30, 2018 was \$2,515,078.

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Notes to Financial Statements
June 30, 2018**

NOTE 13 — OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN

For purposes of measuring the net OPEB liability, 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. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require 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	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Actuarial techniques were used to adjust the total OPEB liability back from the valuation date to the beginning of the measurement period, June 30, 2016.

Plan Description – 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 OPEB plan reports under GASB Statement 74 as part of CalPERS CAFR which is available here: <https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf>.

The District rejoined CalPERS health plan for employees' health insurance coverage in January, 2011. Under the CalPERS health plan, the District is required to pay the minimum employer health premium contribution for the District's eligible retirees and eligible surviving spouses. The employee is responsible for paying the remainder of the monthly healthcare premium. The minimum employer contribution for retirees' health premiums for calendar year 2018 is \$133 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.

Employees Covered – As of June 30, 2017 the following current and former employees were covered by the benefit terms under the HC Plan:

Active employees	22
Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to, but not yet receiving benefits	<u>3</u>
Total	27

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, 2018, the District's cash contributions were \$3,142 in premium payments made on behalf of retirees, \$10,661 payments to the trust, and implied subsidy payments of \$16,000, resulting in total payments of \$29,803.

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Net OPEB Liability – The District’s net OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation dated June 30, 2017 based on the following actuarial methods and assumptions:

Actuarial Assumptions:

Discount rate	6.50%
Inflation	2.75%
Salary Increases	3% per year
Long term rate of return on investments	6.50%
Mortality rate	2014 CalPERS OPEB Assumptions Model for “public agency miscellaneous” based on the 1997-2011 experience study
Pre-Retirement turnover and retirement	2014 CalPERS OPEB Assumptions Model for “public agency miscellaneous 2.7% at 55” based on the 1997-2011 experience study
Healthcare trend rate	The CalPERS minimum required employer contribution is assumed to increase 4% per year after 2018
Participation	50% of active employees are assumed to elect health care benefits at retirement

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:

	<u>% of Fund</u>	<u>Real return, next 10 years</u>
Global equity	57%	5.25%
Fixed income	27%	0.99%
Treasury securities	5%	0.45%
Real estate trusts	8%	4.50%
Commodities	<u>3%</u>	3.90%
	100%	

The estimated yield of 3.9% for commodities was obtained from various sources, and is a rough guess. Using these figures, the weighted-average real rate of return is estimated to be 3.73%. Adding estimated inflation of 2.75%, 6.48% is the expected rate of return, which is rounded to 6.5%.

Discount rate – The cash flows of the OPEB plan were projected to future years, assuming that the District will contribute an amount equal to retirees’ benefits for the next 7 years (at which point the Net OPEB Liability is expected to be \$0) and then small amounts for the following twenty years to keep the NOL at \$0. Under that projection, the plan assets are projected to be adequate to pay all benefits to retirees in all future years, so the discount rate has been set equal to the long-term expected rate of return on investments, 6.50%.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

Changes in the OPEB Liability – The changes in the net OPEB liability for the Retiree Healthcare Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/ (Asset) (c)=(a)-(b)
Balance at June 30, 2017 (Measurement Date 6/30/16)	\$ 460,905	\$ 409,011	\$ 51,894
Changes recognized for measurement period:			
Service cost	11,865	-	11,865
Interest	29,860	-	29,860
Differences between actual and expected experience	-	-	-
Contributions - employer	-	13,803	(13,803)
Net investment income	-	43,390	(43,390)
Benefit payments	(3,042)	(3,042)	-
Administrative expense	-	(211)	211
Net changes	<u>38,683</u>	<u>53,940</u>	<u>(15,257)</u>
Balance at June 30, 2018 (Measurement Date 6/30/17)	<u>\$ 499,588</u>	<u>\$ 462,951</u>	<u>\$ 36,637</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District’s net OPEB liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	Discount Rate		
	5.5% (1% Decrease)	6.5% (Current Rate)	7.5% (1% Increase)
Net OPEB Liability (Asset)	\$ 111,285	\$ 36,637	\$ (23,819)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates – The following presents District’s the net OPEB liability if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	Healthcare Cost Trend Rates		
	3.0% (1% Decrease)	4.0% (Current Rate)	5.0% (1% Increase)
Net OPEB Liability (Asset)	\$ (24,564)	\$ 36,637	\$ 111,534

OPEB Plan Fiduciary Net Position – 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.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

Recognition of Deferred Outflows and Deferred Inflows of Resources – Gains 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, 2018, the District recognized OPEB expense of \$11,948.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – At fiscal year end June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	13,402
District contributions subsequent to the measurement date	29,803	-
Total	\$ 29,803	\$ 13,402

The \$29,803 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows / (Inflows) of Resources
2019	\$ (3,351)
2020	(3,351)
2021	(3,351)
2022	(3,349)
2023	-
Thereafter	-

NOTE 14 — NET POSITION

The District reports its two proprietary funds as a combined total in the financial statements; however, the year-end water and wastewater proprietary fund balance and change in fund balance are presented in the Supplementary Information – Unaudited section, titled Schedule of Net Position – By Fund.

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

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

	June 30, 2018
Investment in capital assets, net of related debt:	
Capital assets, net of accum. depreciation	\$ 24,299,866
Intangible assets, net of accum. amortization	15,784,722
Less: Current debt payable	(1,299,878)
Non-current debt payable	(26,980,922)
	11,803,788
Legally restricted reserves:	
Water capacity fees	2,579,599
Wastewater capacity fees	57,586
Debt service reserve	760,000
	3,397,185
Unrestricted net position:	
Board designated reserves:	
Capital improvement reserve	1,800,000
Vehicle replacement	161,200
Emergency equipment replacement	100,000
Office and miscellaneous equipment replacement	254,700
Drought contingency reserve	400,000
	2,715,900
Undesignated net position	6,492,264
	9,208,164
NET POSITION	\$ 24,409,137

NOTE 15 — RELATED PARTY TRANSACTIONS

Several District employees live or own property in the District and all five Directors must live in the District, consequently, they purchase water and/or wastewater services from the District at standard rates. At June 30, 2018, all related parties were current on their bills payable to the District.

NOTE 16 — RISK MANAGEMENT

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

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

Sunnyslope County Water District
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June 30, 2018

NOTE 17 — SIGNIFICANT COMMITMENTS

Hollister Urban Area Water Supply and Treatment Agreement

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

The SBCWD committed to finance up to \$30 million of the project costs. These funds were committed in two tranches. The first tranche of \$13 million was made available on the effective date of the agreement, September 1, 2013. The second tranche of \$17 million was made available at the time of execution of the start of the construction phase for the West Hills Water Treatment Plant, May 1, 2015. The agreement calls for the SBCWD to recover its investment in the capital projects from the District and COH over a 20-30 year period through a capital component, including interest, in the finished water rate. The actual project cost projection exceeds the \$30 million financing in place by \$11.6 million. The additional funding consists of \$4.2 million in Prop 84 Grant Funds, \$1.7 million cash input from both the City of Hollister and Sunnyslope County Water District, and the balance of \$4 million financed as a third tranche loan to SBCWD from a financial institution, to be repaid equally by the City of Hollister and Sunnyslope County Water District. The third tranche loan of \$4 million was borrowed January 1, 2016 at a rate of 3.45% interest, and is to be repaid quarterly over a 15 year period. For more information on the debt schedules, see Note 9.

Of the project costs, SBCWD is contributing \$10 million in non-reimbursable funds; \$5 million to the District and \$5 million to the COH. The District plans to use the \$5 million to stabilize water rates and allow a gradual increase to meet future revenue needs. The water rate stabilization credit reported in the operating expenses for the year ended June 30, 2018 is \$416,667, which brings the total credit received from SBCWD to the \$5 million.

Hollister Urban Area Agreement for Operation and Maintenance Services

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

For the year ended June 30, 2018, SBCWD was billed for actual operations and maintenance costs of the Lessalt Water Treatment Plant of \$838,039 and of the West Hills Water Treatment Plant of \$995,301, 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.

**Sunnyslope County Water District
Notes to Financial Statements
June 30, 2018**

Crosstown Pipeline Construction Project

The District has entered into various contracts, Memorandums of Understanding, and Reimbursement Agreements with various vendors and agencies for the purchase of material and construction of a pipeline to connect the District to the West Hills Water Treatment Plant, which will enable the District's customers to receive treated surface water from this source. The pipeline begins on Nash Road and continues around the west and south sides of San Benito High School, where it will continue on San Benito Street to the City's Bundeson Well and Sunnyslope's Wells #2 and #11 on Southside Road. The amounts contracted for are based on the various contractor's and agencies estimated cost of construction. At June 30, 2018, the total unpaid amounts on these contracts, net of reimbursement's to be received from other agencies, are approximately \$4,570,787. The District plans to pay for the crosstown pipeline construction from its existing available funds.

NOTE 18 — NEW ACCOUNTING PRONOUNCEMENTS

As part of implementing the requirements of GASB Statement 75, the District adjusted its beginning net position as of July 1, 2017 for the portion of other post-employment benefits (OPEB) for health insurance attributable to periods before the year ended June 30, 2017. In fiscal year ended June 30, 2017, the net OPEB asset of \$160,162 recorded under GASB Statement 45 was reversed, a net OPEB liability of \$51,894, and deferred outflows of resources related to OPEB contributions of \$13,803 were recorded as prior year adjustments. This resulted in a net decrease to net position of \$198,253.

The restatement of beginning net position is summarized as follows:

Net position at July 1, 2017, as previously stated	\$ 21,789,179
Implementation of GASB No. 75, net OPEB liability as of measurement date of June 30, 2017	<u>(198,253)</u>
Net position at July 1, 2017, as restated	<u><u>\$ 21,590,926</u></u>

In accordance with GASB No. 75, the restatement of all deferred outflows and inflows was not practical, and therefore not included in the restatement of the beginning balance.

NOTE 19 — SUBSEQUENT EVENTS

There have been re-occurring landslides in the same general area on Southside Road, on a parcel of land that is adjacent to our Ridgemark Wastewater Treatment Facility and treatment ponds. The first landslide occurred late-May 2018, with additional slides occurring between June and August, and with a fifth, partial slide occurring on August 17, 2018. The contractor hired to work on the slides and geotechnical consultants hired by San Benito County have been trying to determine a cause, but none has been identified at this date.

The District has had no claim, threat, or pending litigation filed against it regarding the landslides. The District believes the ultimate outcome is not presently determinable. In the opinion of the District, this matter will not have a material adverse effect on the financial position of the District.

The District evaluated subsequent events for recognition and disclosure through September 26, 2018, the date which these financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since June 30, 2018 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**Sunnyslope County Water District
Required Supplementary Information**

**Schedule of Changes in the Net OPEB Liability and Related Ratios
for the Measurement Periods Ended June 30**

<i>Measurement Period</i>	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 11,865
Interest on the total OPEB liability	29,860
Actual and expected experience difference	-
Changes in assumptions	-
Changes in benefit terms	-
Benefit payments	<u>(3,042)</u>
Net change in total OPEB liability	38,683
Total OPEB Liability - beginning	<u>460,905</u>
Total OPEB Liability - ending (a)	\$ <u>499,588</u>
Plan Fiduciary Net Position	
Contribution - employer	\$ 13,803
Net investment income	43,390
Benefit payments	(3,042)
Administrative expense	<u>(211)</u>
Net change in plan fiduciary net position	53,940
Plan fiduciary net position - beginning	<u>409,011</u>
Plan fiduciary net position - ending (b)	\$ <u>462,951</u>
Net OPEB liability - ending (a)-(b)	\$ <u>36,637</u>
Plan fiduciary net position as a percentage of the total OPEB liability	92.67%
Covered-employee payroll	\$ 1,687,978
Net OPEB liability as a percentage of covered-employee payroll	2.17%

Notes to Schedule:

Historical information is required only for measurement periods for which GASB No. 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Sunnyslope County Water District
Required Supplementary Information**

Schedule of OPEB Contributions

<i>Fiscal Year Ended June 30</i>	<u>2018</u>
Actuarially Determined Contributions (ADC)	\$ 13,803
Contributions in relation to the ADC	<u>29,803</u>
Contribution deficiency (excess)	<u>\$ (16,000)</u>
Covered-employee payroll	\$ 1,909,079
Contributions as a percentage of covered-employee payroll	1.56%

Notes to Schedule:

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June 30, 2015 actuarial valuation.

Methods and assumptions used to determine OPEB contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level dollar payment over a closed 30 year period beginning July 1, 2010
Asset Valuation Method	Market value
Inflation	2.75%
Investment Rate of Return	7.28% per annum
Healthcare cost-trend rates	4% per annum after 2018
Retirement and termination rates	The probability of retirement are based on the CalPERS 1997-2011 Experience Study covering CalPERS participants.
Mortality	Pre-retirement and post-retirement mortality probability based on the CalPERS 1997-2011 Experience Study covering CalPERS participants.
Participation	100% of active employees are assumed to elect coverage upon retirement
Implied subsidy	Not considered in calculating the actuarially determined contribution

Notes to Schedule:

Historical information is required only for measurement periods for which GASB No. 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Sunnyslope County Water District
Required Supplementary Information**

**Schedule of the District's Proportionate Share
of the Plan's (PERF C) Net Pension Liability**

	<u>Fiscal Year 6/30/18</u>	<u>Fiscal Year 6/30/17</u>	<u>Fiscal Year 6/30/16</u>	<u>Fiscal Year 6/30/15</u>
<u>Measurement Date</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
District's proportion of the net pension liability	0.011085%	0.028951%	0.028520%	0.024507%
District's proportionate share of the net pension liability	\$1,099,308	\$2,505,138	\$1,957,613	\$1,524,958
District's covered-employee payroll *	\$1,687,978	\$1,488,922	\$1,434,655	\$1,519,954
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	65.13%	168.25%	136.45%	100.33%
Plan's fiduciary net position as a percentage of the plan's total pension liability	73.31%	74.06%	78.40%	79.82%

* For the year ending on the measurement date

Notes to Schedule:

Historical information is required only for measurement periods for which GASB No. 68 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Sunnyslope County Water District
Required Supplementary Information**

Schedule of the District's Pension Plan Contributions

	Fiscal Year 6/30/18	Fiscal Year 6/30/17	Fiscal Year 6/30/16	Fiscal Year 6/30/14
Actuarially determined contribution	\$ 209,739	\$ 287,182	\$ 245,300	\$ 233,521
Contributions in relation to the actuarially determined contribution	209,739	1,942,855	245,300	233,521
Contribution deficiency (excess)	\$ -	\$ (1,655,673)	\$ -	\$ -
District's covered-employee payroll *	\$ 1,909,079	\$ 1,687,978	\$ 1,488,922	\$ 1,434,655
Contributions as a percentage of covered-employee payroll	10.99%	115.10%	16.48%	16.28%

* For the fiscal year ending on the date shown

Notes to Schedule:

Historical information is required only for measurement periods for which GASB No. 68 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Actuarial Methods and Assumptions

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015/16 rates, CalPERS employed an amortization and smoothing policy that pays for all gains and losses over a fixed 30-year period with the increases or decreases in rate spread directly over a 5-year period. The new amortization and smoothing policy is used in this valuation.

A change in the calculation of termination with vested benefits liability was made this year to better reflect the retirement experience. After termination with vested benefits, a miscellaneous member is assumed to retire at age 59 and a safety member at age 54 rather than at earliest retirement age. The higher benefit factors at these ages results in a higher liability and an increase in normal cost.

SUPPLEMENTARY INFORMATION – UNAUDITED

Notes to Supplementary Information

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

Sunnyslope County Water District
Budgetary Comparison Schedule
June 30, 2018

	2018 Actual	Original and Final Budget	Variance Fav(Unfav)
OPERATING REVENUES			
Water and wastewater sales	\$ 7,691,983	\$ 7,472,000	\$ 219,983
Late fees	66,798	65,000	1,798
Customer fees	171,845	265,200	(93,355)
Other	135,082	2,200	132,882
Total operating revenues	8,065,708	7,804,400	261,308
OPERATING EXPENSES			
<i>SALARIES AND BENEFITS</i>			
Salaries	2,269,532	2,316,090	46,558
Employee benefits	302,585	271,910	(30,675)
CalPERS pension	489,463	310,265	(179,198)
OPEB expense	11,682	-	(11,682)
Payroll taxes	33,051	34,593	1,542
Directors fees	10,100	13,200	3,100
Labor billed to others	(18,835)	(12,000)	6,835
Total salaries and benefits	3,097,578	2,934,058	(163,520)
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>			
Electrical services	255,767	278,000	22,233
Phone services	9,751	11,200	1,449
Professional services	52,676	75,300	22,624
Postage	29,638	30,600	962
Contract services	45,303	40,600	(4,703)
Office supplies	27,200	34,000	6,800
Legal advertising	420	3,000	2,580
Repair and maintenance	94,512	156,500	61,988
Diesel	641	2,500	1,859
Vehicle operating expenses	46,538	52,500	5,962
Professional development	8,506	6,500	(2,006)
Supplies	39,406	63,000	23,594
Meeting expense	169	100	(69)
Insurance	59,618	60,000	382
Research and monitoring	99,038	110,000	10,962
Depreciation	1,069,300	1,038,500	(30,800)
Pumping fees	32,879	34,000	1,121
Lessalt water treatment	1,234,075	1,417,844	183,769
West Hills water treatment	1,684,838	1,915,603	230,765
Water conservation	119,739	120,000	261
Bad debts	6,672	7,800	1,128
Taxes, fees, permits	94,297	93,500	(797)
Total operations and maint. exp.	5,010,983	5,551,047	540,064
<i>WATER RATE STABILIZATION CREDIT</i>	(416,667)	(500,000)	(83,333)
Total operating expenses	7,691,894	7,985,105	293,211
INCOME FROM OPERATIONS	373,814	(180,705)	554,519
OTHER NON-OPERATING REVENUES (EXPENSE), NET	2,252,895	(372,000)	2,624,895
INCOME BEFORE CAPITAL CONTRIBUTION	2,626,709	(552,705)	3,179,414
CAPITAL CONTRIBUTION	191,502	-	191,502
CHANGE IN NET POSITION	\$ 2,818,211	\$ (552,705)	\$ 3,370,916

Sunnyslope County Water District
Schedule of Net Position - By Fund
June 30, 2018

	2018	Water Fund	Wastewater Fund
<u>ASSETS</u>			
<i>CURRENT ASSETS</i>			
Cash	\$ 4,673,554	\$ 3,221,098	\$ 1,452,456
Invested funds	8,086,516	6,411,064	1,675,452
Other current assets	1,979,179	1,749,937	229,242
Total Current Assets	14,739,249	11,382,099	3,357,150
<i>CAPITAL ASSETS</i>			
Land and land improvements	871,948	717,282	154,666
Utility plant	32,636,917	17,153,740	15,483,177
Equipment and furniture	2,215,939	1,552,242	663,697
Office building	2,737,613	2,190,090	547,523
Work-in-process	411,969	407,782	4,187
	38,874,386	22,021,136	16,853,250
Less accumulated depreciation	(14,574,520)	(10,859,942)	(3,714,578)
Total Capital Assets	24,299,866	11,161,194	13,138,672
<i>INTANGIBLE ASSETS, NET</i>	15,784,722	15,784,722	-
<i>OTHER NON-CURRENT ASSETS</i>	580,381	580,381	-
<i>DEFERRED OUTFLOWS OF RESOURCES</i>	2,040,263	1,632,210	408,053
TOTAL ASSETS	\$ 57,444,481	\$ 40,540,606	\$ 16,903,875
<u>LIABILITIES AND NET POSITION</u>			
<i>CURRENT LIABILITIES</i>	\$ 3,049,385	\$ 2,085,616	\$ 963,769
<i>LONG-TERM LIABILITIES</i>	27,565,604	17,974,557	9,591,047
<i>NET PENSION LIABILITY</i>	1,099,308	879,446	219,862
<i>NET OPEB LIABILITY</i>	36,637	29,310	7,327
<i>DEFERRED INFLOWS OF RESOURCES</i>	1,284,410	1,027,528	256,882
Total Liabilities	33,035,344	21,996,457	11,038,887
<i>NET POSITION</i>			
Balance July 1, 2017, restated	21,590,926	16,444,933	5,145,993
Change in net position	2,818,211	2,099,216	718,995
Total Net Position	24,409,137	18,544,149	5,864,988
TOTAL LIABILITIES AND NET POSITION	\$ 57,444,481	\$ 40,540,606	\$ 16,903,875

See note to supplementary information.

Sunnyslope County Water District
Schedule of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2018 (with comparative total for 2017)

	<u>2018</u>			<u>2017</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATING REVENUES</i>				
Water sales	\$ 5,792,363	\$ -	\$ 5,792,363	\$ 4,772,902
Wastewater service	-	1,899,620	1,899,620	1,896,654
Late fees	53,438	13,360	66,798	64,488
Customer fees	156,560	15,285	171,845	139,182
Other	108,635	26,447	135,082	127,064
Total operating revenues	<u>6,110,996</u>	<u>1,954,712</u>	<u>8,065,708</u>	<u>7,000,290</u>
<i>OPERATING EXPENSES</i>				
Salaries and benefits	2,567,432	530,146	3,097,578	2,632,743
Operations and maintenance	4,345,833	665,150	5,010,983	4,663,390
Water rate stabilization credit	(416,667)	-	(416,667)	(1,093,776)
Total operating expenses	<u>6,496,598</u>	<u>1,195,296</u>	<u>7,691,894</u>	<u>6,202,357</u>
<i>INCOME FROM OPERATIONS</i>	<u>(385,602)</u>	<u>759,416</u>	<u>373,814</u>	<u>797,933</u>
<i>NON-OPERATING REVENUES (EXPENSES)</i>				
Water connections	2,484,800	-	2,484,800	1,604,200
Wastewater connections	-	57,450	57,450	38,100
Interest	80,827	13,666	94,493	37,926
Unrealized gain (loss) on investments	(9,567)	(2,392)	(11,959)	(6,299)
Interest expense	(104,142)	(267,747)	(371,889)	(386,772)
Gain (loss) on disposal of assets	-	-	-	3,050
Total non-operating revenues (expenses), net	<u>2,451,918</u>	<u>(199,023)</u>	<u>2,252,895</u>	<u>1,290,205</u>
<i>INCOME BEFORE CAPITAL CONTRIBUTION</i>	2,066,316	560,393	2,626,709	2,088,138
<i>CAPITAL CONTRIBUTION</i>				
Donated assets	<u>191,502</u>	<u>-</u>	<u>191,502</u>	<u>-</u>
<i>CHANGES IN NET POSITION</i>	\$ <u>2,257,818</u>	\$ <u>560,393</u>	2,818,211	2,088,138
<i>NET POSITION - BEGINNING OF YEAR</i>			21,789,179	19,701,041
<i>NEW ACCOUNTING PRONOUNCEMENTS - NOTE 18</i>			<u>(198,253)</u>	<u>-</u>
<i>NET POSITION - END OF YEAR</i>			\$ <u>24,409,137</u>	\$ <u>21,789,179</u>

See note to supplementary information.

Sunnyslope County Water District
Schedule of Salaries and Benefits
Year Ended June 30, 2018 (with comparative total for 2017)

	<u>2018</u>					<u>2017</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>GENERAL & ADMIN</u>	<u>CUSTOMER SERVICE</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>SALARIES AND BENEFITS</i>						
Salaries	\$ 1,454,004	\$ 254,189	\$ 218,551	\$ 342,788	\$ 2,269,532	\$ 1,996,823
Employee benefits	189,698	38,081	38,296	36,510	302,585	318,395
CalPERS pension	279,302	74,085	56,617	79,459	489,463	351,536
OPEB expense	7,577	1,366	1,388	1,351	11,682	13,776
Directors fees	-	-	10,100	-	10,100	11,200
Payroll taxes	20,481	3,623	3,986	4,961	33,051	28,419
Allocation (from) to:						
Customer service	372,055	93,014	-	(465,069)	-	-
Gen. and admin.	263,150	65,788	(328,938)	-	-	-
Subtotal	2,586,267	530,146	-	-	3,116,413	2,720,149
Labor billed to others	(18,835)	-	-	-	(18,835)	(87,406)
Total salaries and benefits	<u>\$ 2,567,432</u>	<u>\$ 530,146</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,097,578</u>	<u>\$ 2,632,743</u>

See note to supplementary information.

Sunnyslope County Water District
Schedule of Operations and Maintenance Expenses
Year Ended June 30, 2018 (with comparative total for 2017)

	<u>2018</u>					<u>2017</u>
	<u>WATER UTILITY</u>	<u>WASTE WATER</u>	<u>GENERAL & ADMIN</u>	<u>CUSTOMER SERVICE</u>	<u>TOTAL</u>	<u>TOTAL</u>
<i>OPERATIONS AND MAINTENANCE EXPENSES</i>						
Electrical services	\$ 179,063	\$ 62,813	\$ 13,891	\$ -	\$ 255,767	\$ 288,178
Phone services	1,231	3,649	1,327	3,544	9,751	9,070
Professional services	2,457	733	46,933	2,553	52,676	60,980
Postage	1,245	-	1,178	27,215	29,638	28,829
Contract services	4,811	1,608	23,334	15,550	45,303	37,952
Office supplies	(551)	58	15,147	12,546	27,200	30,636
Legal advertising	-	-	420	-	420	8,197
Repair and maintenance	72,345	19,286	2,881	-	94,512	141,392
Diesel	513	128	-	-	641	1,140
Vehicle operating expense	35,274	8,818	2,446	-	46,538	50,473
Professional development	2,291	307	5,638	270	8,506	5,306
Supplies	16,823	22,453	130	-	39,406	61,621
Meeting expense	18	-	151	-	169	93
Insurance	-	-	59,618	-	59,618	56,825
Research and monitoring	58,164	40,874	-	-	99,038	109,261
Depreciation	526,048	409,433	129,474	4,345	1,069,300	1,089,761
Pumping fees	32,879	-	-	-	32,879	37,554
Lessalt water treat. plant	1,234,075	-	-	-	1,234,075	1,359,555
West Hills water treat. plant	1,684,838	-	-	-	1,684,838	1,109,716
Water conservation	119,739	-	-	-	119,739	54,908
Bad debts	5,333	1,076	164	99	6,672	831
Taxes, fees, permits, dues, and subscriptions	48,292	13,677	8,301	24,027	94,297	121,112
Allocated from (to):						
General and admin.	248,826	62,207	(311,033)	-	-	-
Customer service	72,119	18,030	-	(90,149)	-	-
Total operations and maint. exps.	<u>\$ 4,345,833</u>	<u>\$ 665,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,010,983</u>	<u>\$ 4,663,390</u>

See note to supplementary information.