



**May 17, 2017**

Dear Shareholder:

Thank you for taking time this afternoon to attend the San Miguelito Mutual Water Company Annual Shareholder Meeting. We appreciate the interest you have shown in our water company.

Many hours of preparation have gone into today's meeting. We hope the information presented will provide you with a clear picture of the Company's operations. There will be a question and answer session after the reports.

Please take a moment to review the meeting packet; most particularly the minutes from last year's meeting.

Sincerely,

San Miguelito Mutual Water Company

Board of Directors and Staff

# San Miguelito Mutual Water Company

## Annual Meeting

May 17, 2017, 2:00 p.m.

Registration begins at 1:30 p.m.

*San Miguelito Mutual Water Company Office*

### Agenda

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Registration of Shares – 1:30 to 2:00	Michelle Edson, Admin Manager
Pledge of Allegiance	John Delehant, President
Minutes of Last Meeting	Gerri Hall, Secretary
President’s Remarks	John Delehant, President
Nomination of Directors	John Delehant, President
Election of Directors	John Delehant, President
Financial Report	Tom Athey, Financial Officer
Manager’s Report	Rick Koon, General Manager
Capital Projects Review	Rick Koon, General Manager
Questions and Answers Management	Board of Directors, Consultants and
Election Results	Gerri Hall, Secretary
Adjourn	John Delehant, President

Board of Directors

May 17, 2017

OFFICE HELD	NAME	EXPIRATION OF TERM
President	John Delehant	May, 2017
Financial Officer	Tom Athey	May, 2017
Secretary	Gerri Hall	May, 2019
Vice President	Ben Banks	May, 2019
Director	Vic Montgomery	May, 2017
Director	Robin L. Rossi	May, 2017
Director	Rick Koon	May, 2019

SAN MIGUELITO MUTUAL WATER COMPANY  
SHAREHOLDERS LIST  
AS OF 05/16/2017

PELICAN POINT RESIDENTS .....	117 SHARES
INDIAN HILL RESIDENTS .....	162 SHARES
SAN LUIS BAY MOBILE ESTATES .....	2 SHARES
PACHO LTD. PARTNERSHIP .....	4 SHARES
SAN LUIS BAY INN TIMESHARE (SAN LUIS BAY INN) .....	144 SHARES
SILVER OAKS ESTATES RESIDENTS .....	6 SHARES
KINGFISHER DEVELOPMENT .....	14 SHARES
BDC/AVILA LAND INVESTMENT LLC .....	17 SHARES
KINGFISHER RESIDENTS .....	99 SHARES
CDF-FIRESTATION #13 .....	1 SHARE
SKYLARK MEADOW RESIDENTS .....	65 SHARES
HERON CREST RESIDENTS .....	66 SHARES
HERON CREST/QUAIL CANYON RESIDENTS .....	22 SHARES
MALLARD GREEN RESIDENTS .....	53 SHARES
SCM AVILA BEACH PARTNERS LLC .....	51 SHARES
ROBIN L. ROSSI (GOLF COURSE) .....	141 SHARES
ROBIN L. ROSSI TRUST .....	3 SHARES
AVILA VILLAGE II LLC .....	6 SHARES
OUAT/LEXINGTON REAL PROP PTNRS LLC .....	30 SHARES
ROBIN L. ROSSI (East & West Harford & TR 2149 L 279) .....	3 SHARES
OUAT/COVELOP HOLDINGS, LLC .....	14 SHARES
AVILA BAY ATHLETIC CLUB (AVILA VILLAGE) .....	3 SHARES
AVILA VALLEY ORCHARDS RESIDENTS .....	14 SHARES
COVELOP .....	1 SHARE
SMMWC .....	2 SHARES
MADDEN CUMBERLAND ADAMSKI .....	1 SHARE
<b>TOTAL SHARES IN SMMWC .....</b>	<b>1041 SHARES</b>

SAN MIGUELITO MUTUAL WATER COMPANY

Annual Shareholder Meeting  
Minutes

2:00 PM Wednesday, May 18, 2016

SMMWC Office, 1561 Sparrow Street  
San Luis Obispo, CA

REGISTRATION OF SHAREHOLDERS

Each Shareholder was asked to sign in and was provided with copies of the Agenda, List of Directors, Shareholder List, May 20, 2015 Minutes, 2015 Reviewed Financial Statements, 2016 Budget, 2015/2016 Rate Schedule, Manager's Report, Operations Report.

PRESENT

Directors: Gerri Hall, John Delehant, Tom Athey, Rick Koon, Rob Rossi, Ben Banks, Vic Montgomery  
Staff: Dawn Barlow, Customer Service and Operations Support; Michelle Edson, Accounting and Administrative Support  
ABSENT: None  
Legal Counsel: Tim Carmel, Carmel & Naccasha LLP  
Shareholders: Pat and Tony Sweet, Karla Bittner, Carol Hayden, T.J. Gamble, Martin Suits, Robert Pusanik, Rich Vorie, Robert and Dominique Dunn, Rita Hoffman, Sharon and William Smith, Elizabeth Ann Markarian, Art Jacqmin, Heather Nelson, Ray and Ann Feeser, Arthur Hotchkiss  
Guest: Paul Metchik

PLEDGE OF ALLEGIANCE & PRESIDENT'S REMARKS

President Delehant opened the meeting at 2:05 p.m. with the pledge of allegiance, welcomed the shareholders in attendance and introduced the Board of Directors, staff and consultants present.

President Delehant asked if there was a quorum.

The San Miguelito Mutual Water Company Bylaws state: *"The presence in person or by proxy of twenty percent (20%) of the shareholders shall constitute a quorum for the transaction of business at any meeting of shareholders."*

Dawn confirmed there were a sufficient percentage of the shares represented and a quorum was declared. (See representation detail attached.)

MINUTES OF LAST MEETING

President Delehant asked the shareholders to review the minutes of the last meeting. There was a motion made by Gerri Hall, seconded by Rob Rossi to accept the minutes of the May 20, 2015 meeting as written. Motion passed.

NOMINATION & ELECTION OF OFFICERS – AMENDMENT OF BYLAWS

President Delehant announced there were three vacancies on the Board this year. Incumbents Gerri Hall, Ben Banks and Rick Koon have expressed interest in running again. President Delehant asked if there were any additional nominations from the floor. Dominique Dunn nominated Robert Dunn as a candidate for the Board election. Mr. Dunn was present and accepted the nomination. President Delehant closed the nominations.

President Delehant told the attendees that the committee would also be counting the votes requesting the removal of Parcel 4b from SMMWC's service area via an amendment to the company bylaws.

The voting committee was excused to count the votes. Michelle Edson, Accounting and Administrative Support, audience members Ann Feeser, Carol Hayden, and Sharon Smith opened and counted the ballots.

## FINANCIAL REPORT

Financial Officer Tom Athey presented the San Miguelito Mutual Water Company 2015 Financial Statements, as prepared by the accounting firm of Moss, Levy & Hartzheim LLP.

## MANAGER'S REPORT, OPERATIONS REPORT, 2015 and 2016 CAPITAL PROJECTS REVIEW

General Manager, Rick Koon, presented the reports as follows:

### General Managers Report –

- Total water connections are 669 and total number of shares is 1041.
- Water production for 2015 was 154 acre feet. Of that, 62% or 95 acre feet were delivered by state water; the remaining 38% came from our three wells.
- Total wastewater production for 2015 was 78 acre feet.

### Operations Report -

- The water distribution system and wastewater collections system are functioning normally. A solar chlorination device was installed at tanks 100/200.
- Booster pump replacements were completed in conjunction with our best efforts to stay ahead of PG&E rate increases.
- The sewer and water systems had new control systems installed for the implementation of our new SCADA system.
- We relined one of our sewage pumps and its auger was re-chromed.
- For our 2016 system maintenance we will be replacing our older control and level indicator systems for the tanks and lift stations to be included with our new SCADA system.
- Capital Projects for 2016 include continued replacement of monitoring equipment; installation of control equipment for the telemetry system at our water treatment plant; installing control equipment for the telemetry system at our lift stations; realignment of the effluent line at the wastewater treatment plant; investigation of Well #3 for use as a domestic well and looking into the possibility of using reclaimed water for irrigation.

### Presentation -

- Pictures were shown of the various repairs completed in 2015. Also shown were some of the organisms in the wastewater that aid in the breakdown of effluent material.
- General Manager Koon also provided a brief overview of a rebate program provided by the State DWR: [www.saveourwaterrebates.com](http://www.saveourwaterrebates.com). The program offers rebates for turf replacement and low flow toilets.

### Questions and Answers:

Question: Why was there so much money spent on the review and assignment of shares?

Answer: Several shareholders questioned how the shares had been issued and requested an accounting of their distribution. Staff and legal counsel worked together for many hours to ensure the share allocation and assignments were correct.

Question: Of the 1,041 shares, how many are in good standing as of the close of business date May 13, 2016?

Answer: All but ten of the shares were in good standing as of that date.

Question: What is the purpose of the antenna that's installed in Heron Crest?

Answer: The antenna receives data from our new SCADA system and then transmits it to our office.

Question: What was the cost of the new SCADA system? Does the company own the program?

Answer: The cost was about \$11,000.00 which includes the program and a computer to run it on. The program is not installed on our company server. We own the program, so we can make any additions/changes as we feel necessary.

## ELECTION RESULTS

Board Secretary Gerri Hall announced the results of the election of directors. Gerri Hall, Ben Banks and Rick Koon received the greatest number of votes and have been elected, by the shareholders, to serve as directors for a three year term ending in May 2019.

Board Secretary Gerri Hall announced there were sufficient votes to amend the bylaws to remove Parcel 4b from SMMWC's service area.

## ADJOURNMENT

The meeting was adjourned at 3:02 p.m.

Proceedings recorded by:  
Dawn Barlow, Administrative Support

Respectfully Submitted,

Approved:

Gerri Hall, Secretary

John Delehant, President

## ANNUAL SHAREHOLDERS MEETING

May 18, 2016

### SHARE REPRESENTATION

1041 Total Shares – 20% Necessary for Quorum 209 Shares

Rob Rossi – Cottage, Golf, E. Hartford, AVLLC	197 shares
Tom Athey	1 share
Rick Koon – KFD & KFCI Proxies	35 Shares
Gerri Hall – 1 plus 2 Res. Proxy	3 shares
John Delehant	1 shares
Ben Banks – SLBI Proxy	144 shares
Residents in Attendance – 19	69 shares
Ballots by Mail - 246	250 shares
Guest - 1	
<b>TOTAL SHARES REPRESENTED</b>	<b>700 shares</b>

### ELECTION RESULTS – BY BALLOT

Gerri Hall	3 year term
Ben Banks	3 year term
Rick Koon	3 year term

### AMENDMENT TO BY-LAWS – PASSED BY BALLOT

Removal of Parcel 4b from the San Miguelito Mutual Water Company Service Area	687 Shares
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**San Miguelito Mutual Water Company**  
**Reviewed Financial Statements**  
**December 31, 2016**

**San Miguelito Mutual Water Company**

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Stockholders  
San Miguelito Mutual Water Company  
Avila Beach, CA 93424

We have reviewed the accompanying balance sheet of San Miguelito Mutual Water Company as of December 31, 2016, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

### Accountants' Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

### Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

*Moss, Levy & Hartzheim LLP*

Santa Maria, California  
May 17, 2017

San Miguelito Mutual Water Company  
Balance Sheet  
December 31, 2016

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**Assets**

Current assets

Cash and cash equivalents (Note 1)	\$ 489,111
Accounts receivable (Note 1)	62,541
Deposits	448
Prepaid expenses	2,936

Total current assets	<u>555,036</u>
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Property and equipment (Note 4)	10,654,363
Less accumulated depreciation	<u>(4,196,607)</u>

Net property and equipment	<u>6,457,756</u>
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Other assets

Capital and state water reserves (Note 3)	1,708,065
Reimbursable projects, restricted cash (Note 3)	11,285
Local water rights (Note 1)	238,030

Total other assets	<u>1,957,380</u>
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Total assets	<u><u>\$ 8,970,172</u></u>
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**Liabilities and stockholders' equity**

Current liabilities

Accounts payable	\$ 34,997
Payroll liabilities	44,884

Total current liabilities	<u>79,881</u>
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Other liabilities

Reimbursable projects (Note 1)	11,285
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Total liabilities	<u>91,166</u>
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Stockholders' equity

Common stock, no par value, 10,000 shares authorized	
1,041 shares issued and outstanding	677,383
Additional paid in capital (Note 7)	9,627,442
Retained earnings	
Reserved for state water construction, existing customers	8,466
Reserved for state water construction, subcontractors	12,699
Unreserved	<u>(1,446,984)</u>

Total stockholders' equity	<u>8,879,006</u>
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Total liabilities and stockholders' equity	<u><u>\$ 8,970,172</u></u>
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See accompanying notes and independent accountants' review report.

San Miguelito Mutual Water Company  
Statement of Income  
For the Year Ended December 31, 2016

Revenue		
Water and sewer usage fees	\$ 1,511,782	
New service fees	1,568	
Late and other administrative fees	30,971	
Contract services	16,692	
Building rent	20,400	
Sewer facilities rent	45,420	
State water payment, stockholders with undeveloped property	41,042	
	<u>Total revenue</u>	<u>1,667,875</u>
Operating expenses		
State water	267,985	
Personnel costs	228,520	
Consulting	68,301	
Depreciation (Note 4)	361,637	
Lab tests	15,441	
Other programs	1,758	
Repairs and maintenance	45,430	
Supplies	12,662	
Training, education, health and safety	5,635	
Telephone and communications	6,104	
Uniforms	4,694	
Vehicles	13,475	
	<u>Total operating expenses</u>	<u>1,031,642</u>
General and administrative expenses		
Accounting and legal	39,264	
Bank fees	4,413	
Consulting	9,676	
Insurance	22,932	
Licenses, fees and dues	13,426	
Miscellaneous	22,918	
Office supplies and equipment	16,577	
Personnel costs	102,838	
Property taxes	7,586	
Rent	20,400	
Repairs and maintenance	4,099	
Strategic planning	37,295	
Telephone and internet	3,992	
Tools	1,738	
Utilities	72,044	
	<u>Total general and administrative expenses</u>	<u>379,198</u>
	<u>Total expenses</u>	<u>1,410,840</u>
	<u>Profit from operations</u>	<u>257,035</u>
Other income (expense)		
Gain on sale of asset	810	
Interest	12,802	
	<u>Total other income (expense)</u>	<u>13,612</u>
	<u>Profit before income taxes</u>	<u>270,647</u>
Provision for income taxes, current (Notes 1 and 6)	(800)	
Net	<u>Net profit</u>	<u>\$ 269,847</u>

See accompanying notes and independent accountants' review report.

**San Miguelito Mutual Water Company**  
 Statement of Changes in Stockholders' Equity  
 For the Year Ended December 31, 2016

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	Common Stock		Additional	Retained	
	Shares	Cost	Paid-in	Earnings	Total
			Capital	(Deficit)	
Balance, December 31, 2015	1,041	\$ 677,383	\$ 9,627,442	\$ (1,695,666)	\$ 8,609,159
Net income				269,847	269,847
Balance, December 31, 2016	<u>1,041</u>	<u>\$ 677,383</u>	<u>\$ 9,627,442</u>	<u>\$ (1,425,819)</u>	<u>\$ 8,879,006</u>

See accompanying notes and independent accountants' review report.

**San Miguelito Mutual Water Company**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2016**

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Cash flows from operating activities:	
Net profit	\$ 269,847
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	361,637
Earnings (loss) in investments	(10,406)
(Increase) decrease in:	
Accounts receivable	29,534
Prepaid expenses	12,352
Reimbursable projects	17,027
Increase (decrease) in:	
Accounts payable	(14,989)
Payroll liabilities	2,476
Reimbursable projects	(17,027)
Net cash provided by operating activities	<u>650,451</u>
Cash flows from investing activities:	
Proceeds from sale of asset	810
Purchases of property and equipment	(307,907)
Purchases of investments	<u>(251,978)</u>
Net cash used by investing activities	<u>(559,885)</u>
Net increase in cash and cash equivalents	90,566
Cash and cash equivalents at beginning of year	<u>398,545</u>
Cash and cash equivalents at end of year	<u><u>\$ 489,111</u></u>
Supplementary cash flow information:	
Cash paid for state taxes	<u><u>\$ 800</u></u>

See accompanying notes and independent accountants' review report.

## **Note 1 - Nature of Operations and Significant Accounting Policies**

### **Nature of Operations**

San Miguelito Mutual Water Company (SMMWC) is a California corporation established to acquire and hold water and water rights, and to maintain water works and distribution facilities for the purpose of furnishing and distributing water for domestic and irrigation purposes to its stockholders, at cost; including the use of the water works and distribution facilities for the purpose of conserving, treating and reclaiming water; and providing sewage treatment services to its stockholders, at cost.

### **Significant Accounting Policies**

#### ***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other accruals.

#### ***Use of Estimates***

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

#### ***Revenue Recognition***

SMMWC recognizes its revenues, including water and sewer utility fees, rentals, and interest, when earned on accrual basis of accounting.

#### ***Income Taxes***

Income taxes are provided for the tax effect of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, that will either be taxable or deductible when the assets and liabilities are recovered or settled.

The Income Taxes Topic of Financial Accounting Standards Board (FASB) Accounting Standards Codification requires, among other things, the recognition and measurement of tax positions based on a "more likely than not" (likelihood greater than 50% approach). As of December 31, 2016, the SMMWC did not maintain any tax positions that did not meet the "more likely than not" threshold and, accordingly, all tax positions have been fully recorded in the provision for income taxes. SMMWC's policy is to consistently classify interest and penalties associated with income taxes separately from the provision for income taxes, accordingly, no interest or penalties associated with income taxes have been included in the provision for income taxes. SMMWC does not expect any material changes through December 31, 2016. Although SMMWC does not maintain any uncertain tax positions, tax returns remain subject to examination by the Internal Revenue Service for years ended on or after December 31, 2013, and by the California Franchise Tax Board for the years ended on or after December 31, 2012.

#### ***Comprehensive Income***

There are currently no differences between net income or loss, and comprehensive income or loss.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of a non-interest bearing checking account, and an interest bearing savings account that are used for operations. Reimbursable projects, restricted cash, and working capital reserves invested in certificates of deposit are not considered cash equivalents since these amounts are restricted in use.

#### ***Accounts Receivable***

Receivables are accounted for on the accrual basis and become past due after 30 days. No allowance for uncollectable accounts has been provided, as SMMWC typically collects all outstanding amounts. Receivables are written off if all efforts at collection have failed and management determines that collection is unlikely. At December 31, 2016, accounts receivable totaled \$62,541, consisting of \$55,988 owed for December utility bills and the state water receivable of \$6,553.



**Note 1 - Nature of Operations and Significant Accounting Policies (continued)**

**Water Rights**

Local water rights are recorded at cost, and do not reflect fair value. SMMWC is the grantee of water rights. Local water is a renewable asset; therefore local water rights are not amortized.

**Property, Plant and Equipment**

Expenditures for property and equipment in excess of \$5,000 are capitalized and recorded at cost. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation accounts and any resulting gain or loss is recorded in the year of disposal.

**Reimbursable Projects**

Reimbursable projects are water or sewer utility projects or research, governed by contract agreements, completed by SMMWC and reimbursed by the contracting entity. Funds for reimbursable projects are held in a separate bank account restricted for this purpose, and are offset by a reimbursable projects liability on the accompanying balance sheet. At December 31, 2016, SMMWC has reimbursable contract agreements with San Luis Bay Inn Timeshares, Inc.

**Subsequent Events**

Subsequent events have been evaluated through May 17, 2017, which was the date the financial statements were available to be issued.

**Note 2 - Concentrations of Risk**

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. SMMWC deposits its cash with high quality financial institutions, and management believes SMMWC is not exposed to significant credit risk on those amounts. At December 31, 2016, SMMWC had \$1,283,461 in excess of depository insurance limits.

SMMWC's income is generated from consumers who are also stockholders of the Company. Accordingly, concentrations of sales or receivables are expected.

**Note 3 - Restricted Cash**

SMMWC has multiple restricted cash accounts, consisting of capital and working capital reserves totaling \$1,719,350. Included in this amount is \$1,708,065 for repair and replacement of fixed assets, and \$11,285 for reimbursable projects, at December 31, 2016.

**Note 4 - Property and Equipment**

Depreciation expense totaled \$361,637 for the year ended December 31, 2016. Property and equipment consisted of the following at December 31, 2016:

	Estimated Useful Lives in Years	2015	Additions	Disposals	2016
Water and sewage distribution	15-45	\$ 8,448,814	\$ 307,907	\$ -	\$ 8,756,721
State water construction	39	836,072			836,072
Building	39	619,203			619,203
Vehicles	5-7	102,064			102,064
Office equipment	3-7	79,455			79,455
Land, Lot 17		130,424			130,424
Land, Lot 67		130,424			130,424
Property, plant and equipment at cost		10,346,456	307,907		10,654,363
Accumulated depreciation		(3,834,970)	(361,637)		(4,196,607)
Net property and equipment		<u>\$ 6,511,486</u>	<u>\$ (53,730)</u>	<u>\$ -</u>	<u>\$ 6,457,756</u>

**Note 5 - Line of Credit**

SMMWC has a \$350,000 business revolving line of credit with Wells Fargo Bank that matured on December 31, 2016 and is secured by SMMWC's certificates of deposit, and bears an interest rate of prime plus .5%, or 6% minimum on borrowed funds. There was no activity for the line of credit in 2016 and had no outstanding principal balance on December 31, 2016.

**Note 6 - Deferred Income Taxes**

SMMWC uses accounting methods that recognize depreciation sooner for income tax reporting than for financial statement reporting, resulting in a valuation difference that would normally create a deferred income tax liability. SMMWC has also accrued both federal and state income tax net operating losses, over the past ten years, which would normally create a deferred income tax asset. The deferred income tax asset created by SMMWC's net operating losses exceeds the deferred income tax liability created by SMMWC's depreciation expense differences. A net deferred income tax asset totaling \$495,219 was calculated for the year ended December 31, 2016. Since SMMWC does not expect to utilize this deferred tax asset in the foreseeable future a valuation allowance totaling (\$495,219) that offsets the deferred tax asset was recorded, for net deferred taxes of zero at December 31, 2016. The net change in the net deferred tax asset and valuation allowance totaled \$(40,477) for the year ended December 31, 2016.

SMMWC is subject to state income tax at 8.84% of taxable income, or \$800, whichever is greater. The provision for state income tax for the year ended December 31, 2016 was \$800.

**Note 7 - Contributed Capital**

SMMWC charges a monthly special assessment to all stockholders for the repair and replacement of property and equipment. This amount is recorded as additional paid in capital on the accompanying balance sheet, and totaled \$9,627,442, for the year ended December 31, 2016.

**Note 8 - Commitments and Contingencies**

SMMWC entered into agreements with San Luis Obispo County Flood Control and Water Conservation District, and the Central Coast Water Authority to bring state and local water to the area serviced by SMMWC in exchange for payment of SMMWC's pro rata portion of the state's water construction costs based on the annual amount of water requested, and its pro-rata share of ongoing operating and maintenance costs of the state water system. State water construction costs including capitalized interest and other fees totaled \$836,072, at December 31, 2016. See Note 4.

**Note 9 - Retirement Plan**

SMMWC offers an individual retirement account (IRA) retirement plan to its employees who work thirty or more hours each week, and have completed ninety days of employment. SMMWC contributes an amount equal to three percent of all eligible employees' pre-tax wages each month. Participating employees are enrolled in the plan after six months of continuous employment, when all accrued retirement funds are placed in the plan trust. Retirement plan expense for the year ended December 31, 2016 totaled \$7,632.

**Note 10 - Rent**

Monthly transfers of \$1,700, or \$20,400 annually, are transferred from operations to capital reserves for use of the building. The amounts are recorded as building rent revenue and rent expense in the accompanying statement of income.

San Miguelito Mutual Water Company  
2017 O & M Summary Report

**Water**

	2016 Budget	Est. 2016 Actual YE	2017 Budget
Water Revenue (w/o capital)	\$748,254	\$743,708	\$720,371
Residential	\$379,999	\$391,003	\$367,376
Commerical	\$166,369	\$173,367	\$164,549
Irrigation	\$144,118	\$138,296	\$141,097
State Water ( undeveloped shares)	\$57,768	\$41,042	\$47,349
Water Expenses	(\$748,257)	(\$645,487)	(\$707,950)
State Water	(\$345,644)	(\$270,281)	(\$311,800)
Operating Expense	(\$250,550)	(\$229,140)	(\$213,200)
Gen Admin Expense (50%)	(\$152,063)	(\$146,067)	(\$182,950)
Net Water Operating Earnings	(\$3)	\$98,221	\$12,421

**Wastewater**

	2016 Budget	Est. 2016 Actual YE	2017 Budget
Wastewater Revenue (w/o capital)	\$437,494	\$442,830	\$422,471
Residential	\$289,754	\$281,000	\$290,658
Commerical	\$125,240	\$128,076	\$124,378
2016 general revenue @50%	\$15,000	\$17,150	
Contract Customers	\$7,500	\$16,604	\$7,435
Wastewater Expenses	(\$434,305)	(\$357,659)	(\$433,350)
Operating Expense	(\$250,550)	(\$177,750)	(\$250,400)
Gen Admin Expense (50%)	(\$183,755)	(\$179,909)	(\$182,950)
Net Water Operating Earnings	\$3,189	\$85,171	(\$10,879)

**SMMWC Overall Operating Earnings**

**\$1,542**

Cash and Reserve Funds				
	Operating Cash	Contingency Reserves	State Water Reserves	Capital Reserves
Dec-16	\$118,922	\$355,054	\$261,868	\$2,161,844
YE 2016	\$70,000	\$350,000	\$180,000	\$2,200,000
Min Target				

(\$405 in Cd's, \$998K in  
Cash, \$747K Office Bldg &  
\$100k in Operational \$'s)

San Miguelito Mutual Water Company  
Summary Changes to State Water Reserves  
**2017 State Water Budget**

State Water Reserves as of Dec 31, 2016	\$293,522	EST. Jan 2017 payment \$159,000
State Water Reserves as of Dec 31, 2017	\$296,522	
Min Target	\$180,000	

	2016 Budget	2016 Est Actuals	2017 Budget
Money Transferred to State Water Reserve Fund (221.16 AF/2017 80.42 %)	\$287,876	\$228,000	\$264,451
Developer State Water Reimbursement (53.84 AF/2017 19.58%)	\$57,768	\$41,042	\$47,349
Investment Income, Late Fees, and Interest Income from SWR	\$3,000	\$2,600	\$3,000
	<u>\$348,644</u>	<u>\$271,642</u>	<u>\$314,800</u>
<b>CONTRIBUTIONS to State Water Reserve</b>			
DWR Charges for State Water - (275 AF)	(\$263,178)	(\$177,826)	(\$211,800)
DWR Charges for State Water Drought Buffer	(\$28,875)	(\$29,455)	(\$30,000)
CCWA(O&M Wheeling-State Water Aqueduct to Lopez)	(\$31,591)	(\$31,000)	(\$37,000)
SLOFCWCD (O&M, Wheeling - Lopez to SMMWC)	(\$22,000)	(\$32,000)	(\$33,000)
	<u>(\$345,644)</u>	<u>(\$270,281)</u>	<u>(\$311,800)</u>
<b>PAYMENTS from State Water Reserve</b>			
<b>NET CHANGE to State Water Reserves</b>	<u>\$3,000</u>	<u>\$1,361</u>	<u>\$3,000</u>

**Notes:**

1. Money Transferred to State Water Reserve is based monthly on Water Billing Revenue from shareholders.
2. Developer State Water Reimbursement payments are to cover reserved State Water allocations for current undeveloped property  
These payments are made in January and July of each year.
3. Payments to DWR for the cost of State Water and the Drought Buffer are made in January (60%) and July (40%) of each year.  
DWR State Water Drought Buffer is money paid to insure that SMMWC's State Water allocation (of 275 AF) is covered in drought conditions.
4. CCWA (Central Coast Water Authority) charges are for the treatment, O&M and wheeling of State Water from the California State Aqueduct to Lopez via the Central Coast Branch. Fixed O&M (90% of charges) billed in May. Variable O&M (10%) billed quarterly.
5. SLOFCWCD (SLO Flood Control and Water Conservation District ) charges are for the treatment, O&M and wheeling of State Water from Lopez (Zone 3) to SMMWC via CSA (County Service Area) 12.
6. DWR charges are primarily based on the full entitlement of 275 AFY. CCWA & SLOFCWCD (transmission charges) are based on a combination of entitlement, requested deliveries and actual deliveries. 275 Acre Feet is approximately 90 million gallons. (325,851 gallons per Acre Foot)
7. San Miguelito accounting is accrual basis, meaning the amount shown in Developer State Water Reimbursement, is the amount that has been invoiced not received. An accrual to cash adjustment has been added to show monies still outstanding for state water invoices.

San Miguelito Mutual Water Company  
**2017 Capital Summary Reserve Report**

	2016 Budget	2016 EST. Actual YE	2017 Budget
<b>Capital Reserve Inflow</b>			
Capital Reserve Fee Income (developed)	\$303,177	\$303,177	\$362,788
Capital Reserve Fee Income (undeveloped)	\$83,880	\$83,880	\$98,496
Investment Interest	\$5,000	\$10,000	\$5,000
Sycamore Capital Rent	\$45,420	\$45,420	\$45,420
SMMWC Office Building Rent	\$20,400	\$20,400	\$21,600
Total Capital Reserves Inflow	<u>\$457,877</u>	<u>\$462,877</u>	<u>\$533,304</u>
<b>Capital Reserve Outflow</b>			
System Infrastructure Projects	\$258,000	\$320,000	\$245,000
Residential/Commercial Projects	\$0	\$0	\$0
Total Capital Outflow	<u>\$258,000</u>	<u>\$320,000</u>	<u>\$245,000</u>
Net Capital Reserves	<u>\$457,877</u>	<u>\$462,877</u>	<u>\$288,304</u>
<b>Capital Reserve Distribution</b>			
	2017 Target	2017 Available	2017 Projects
System Infrastructure Projects	\$200,000	\$200,000	\$245,000
Residential/Commercial Projects	\$300,000	\$300,000	\$0
CD Reserves	\$50,000	\$33,304	\$0
	<u>\$550,000</u>	<u>\$533,304</u>	<u>\$245,000</u>
			2017 Additions
			\$0
			\$288,304
			\$0
			<u>\$288,304</u>

**NOTES      2017**

1. Operating Earnings Transferred to Capital Reserves should be at least equal to the number of active shares times the implicit water and sewer Capital Charges per month. Then times 12 months for the year.

2. Contribution from Gross Operating Earnings + Capital Reserve fee income from active shares should be at least equal to the Depreciation Expense. As of December 31, 2015 Depreciation Expense was about \$352,756.

3. Capital Reserve Fee Income is a capital assessment that applies only to those shares where the developer is not developing their property, but must participate in their share of SMMWC capital improvements.

4. Office building rent of \$1800 per month is paid to Capital Reserves, which funded the building.

Capital Fee		
	Water	WW
2016	\$15.00	\$15.00
2017	\$18.00	\$18.00

San Miguelito Mutual Water Company  
2017 Capital Projects - System Infrastructure

<u>System</u>	Water/ Wastewater	Acct #	Staff Contract	Priority	Start QTR	Finish QTR	Capital Labor	2017 Budget Primary	Spent YTD	2017 Budget Remaining	Cost to Complete	Projected Total Project Cost	YTD Under (Over) Budget
Telemetry System Implementation Phase	W	1420.1	S/C					\$15,000		\$15,000	\$15,000	\$15,000	\$0
Water Tank 100-550 Paint & Staff Gage Replacem	W	1425.1	C					\$80,000		\$80,000	\$80,000	\$80,000	\$0
Telemetry System Implementation Phase	WW	1420.5	S/C					\$60,000		\$60,000	\$60,000	\$60,000	\$0
Replacement WW2 Electrical Service LS 2	WW	1420.4	C	Def				\$0		\$0	\$0	\$0	\$0
Purchase Backup Aerator	WW	1423.3	S					\$20,000		\$20,000	\$20,000	\$20,000	\$0
Realign Effluent Line From WWTP	WW	1424.2	S/C					\$55,000		\$55,000	\$55,000	\$55,000	\$0

Other

Capital Labor Reimbursement

ALL PROJECTS								\$15,000		\$15,000	\$15,000	\$15,000	\$0
2017 Capital Projects Water Totals								\$0	\$245,000	\$0	\$245,000	\$245,000	\$0
Remaining Balance													

2017 Capital Projects - Residential/Commercial Infrastructure

<u>Residential/Commercial</u>	Water/ Wastewater	Acct #	Staff Contract	Priority	Start QTR	Finish QTR	Capital Labor	2017 Budget Primary	Spent YTD	2017 Budget Remaining	Cost to Complete	Projected Total Project Cost	YTD Under (Over) Budget
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Other

Capital Labor Reimbursement

ALL PROJECTS								\$0		\$0	\$0	\$0	\$0
2017 Capital Projects Wastewater Totals								\$0	\$0	\$0	\$0	\$0	\$0
Remaining Balance													

2017 Total Capital Projects

\$245,000

LEGEND	
Priority:	Projects in:
HIGH - Critical for System Operations	White - Have not been started
MED - Recommended Improvement to System	Yellow - Have been started
LOW - Can be Postponed	## - Have been completed
DEF - Project has been Deferred	Lined Through - Have been canceled

**SAN MIGUELITO MUTUAL WATER COMPANY  
RATE SCHEDULE  
2017**

12/8/2016

**RESIDENTIAL - Shareholders**

Water Rates	Monthly Availability Charge (includes capital reserve) 5/8", 3/4" & 1" residential meters	\$48.90
	Monthly Usage Charges (per 100 gallons)	
	0 gal. to 1500 gal.	\$0.000
	1,500 gal. to 10,000 gal.	\$1.100
	10,000 gal. to 50,000 gal.	\$1.350
	50,000 gal. & over	\$1.450
Sewer Rates	Monthly Availability Charge (includes capital reserve)	\$57.50

**COMMERCIAL, IRRIGATION & CONSTRUCTION - Shareholders**

Water Rates	Monthly Availability Charge (includes capital reserve) 3/4" or smaller meter	\$73.35
	1" meter	\$122.25
	1 1/2" meter	\$244.50 (hydrant mtr)
	2" meter	\$391.20
	3" meter	\$733.50
	4" meter	\$1,075.80
	6" meter	\$2,445.00
	8" meter	\$3,912.00
	Monthly Usage Charges (per 100 gallons)	
	0 gal. to 1500 gal.	\$0.000
	1500 gal. to 3500 gal.	\$1.100
	3500 gal. to 15000 gal.	\$1.350
	15000 gal. to 50000 gal.	\$1.450
Commercial Sewer Rates	Per 3000 gal. Water Usage (minimum charge \$47.02 - includes capital reserve)	\$57.50

**CAPITAL RESERVE FEE - Shareholders**

Monthly Undeveloped Shares (per share)	\$36.00
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**MISCELLANEOUS MONTHLY CHARGES**

Dormant Account Charge	\$77.50
Water Softener Surcharge	\$150.00
Special Meter Read Fee (Sub-meters)	\$25.00

## SERVICE CHARGES & FEES

Administration Fee	\$25.00
New Account Set-up Charge	\$35.00 (one-time fee)
Share Transfer w/certificate	\$125.00
Lost Share Fee (additional charge)	\$125.00
State Wtr Surcharge Transfer Fee (undev property)	\$75.00
State Water Allocation (undev property)	% of County Chg
Disconnect Fee/Cust Req Mtr Shut Off	\$50.00
Reconnection Fee - Cust Req	\$50.00
Reconnection Fee/Mtr Shut Off Non Pay	\$150.00
Return Check Fee - SW	\$25.00
Meter Testing (per occurrence)	\$130.00
New Service Installations	\$450.00
(standard installation 1" or smaller meter)	
New Service Installations	Time & Material
(1 1/2" and larger meters and all meter downsizing)	
Misc. Receivables	Time & Material
Copy Cost (1st. Three pages free per month)	.33 per page

## TIME & MATERIAL RATES

HOURLY LABOR RATES	REGULAR (7 am - 3:30 pm)	AFTER HOURS (3:30 pm - 7 am)
General Manager	\$95.00	\$142.50
Utility Manager	\$75.00	\$112.50
System Operator	\$60.00	\$90.00
Laborer	\$40.00	\$60.00
Clerical	\$50.00	

Note: Staff time will be portal to portal.

### Expenses

Reimbursement for expenses included, as a direct result of the scope of work or at the request of the customer will be invoiced at cost plus 15%.

- All material used in drawing, printing and reproduction
- Postage and delivery charges
- Long distance telephone and data transmission
- Outside professional consultant/contractor fees
- All material required for installation and repair

## PENALTIES & INTEREST

-Utility Billing Late Penalty (after the 28th of mo)	10% of balance
-Secondary Receivables Late Penalty (after 30 days)	10% of balance
-Interest - 60+ days (all receivables)	1.5% of balance per month



## BILLING SCHEDULE

### Utility Billing

-Meters are read at the end of each month and all charges are billed monthly on the 1st of the next month, due on the 28th.

### Secondary Receivables

-State Water Availability for Undeveloped Properties - Billed in January and July each year - net 30.

-Time & Material Receivables - Billed at time of service - net 30.

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NOTE: Contracts for Non-shareholders are established on a case-by-case basis to include, but not limited to, standard shareholder usage charges plus a 30% surcharge, capital fees, legal and administrative costs.

# San Miguelito Mutual Water Company

## General Manager's Report

Meter and Share Activity – In 2016 we installed 0 new residential water meters. As of May 2017 our totals for meters and shares are as follows:

### Meter Summary

Residential	619
Commercial	21
Irrigation	33
Total	673

### Share Summary

Residential	616
Commercial	195
Inactive	230
Total	1,041

Water Production 2016 – Last year we produced 49,883,158 gallons (153 acft) of water, down 1 acft from 2015. 117 acft (76%) was delivered by State water with the other 36 acft (24%) coming from our wells. There were several times throughout 2016 when we exclusively used our well water as it was easier to maintain water quality and disinfectant levels.

The distribution of our water use is:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Residential	56%	56%	52%	52%	55%	54%	53%	53%
Commercial	22%	21%	21%	20%	20%	21%	21%	21%
Irrigation	18%	18%	22%	25%	23%	23%	24%	25%
System	04%	05%	05%	03%	02%	02%	02%	01%

Wastewater Production – For 2016, our treatment plant processed 82 acft of wastewater. Average Daily flows varied from a low of 63,100 gals per day in April to a high of 82,990 gals per day in December. For the previous five years, July had been our highest flow month. This past year our highest flow month occurred during the winter months.

State Water 2016/2017 – For 2016 and 2017 we requested 110 acft to be delivered. According to the County, SMMWC will have 275 acft available for use by the end of 2017. For 2017 the DWR is delivering 85%. Our previous stored water has been reduced to 0 acft due to the heavy rains this past winter.

## **San Miguelito Mutual Water Company**

### **Operations Report**

#### **2016**

##### **Systems Maintenance**

Both the water system and wastewater system had few relatively minor problems in 2016. We experienced no leaks in the distribution system and some minor blockages in the sewer system due to root intrusion. Staff continues to proactively remove tree roots from our sewer lines and manholes. We also flushed our water mains and exercised the water valves.

##### **Capital Projects**

Booster pump replacements were completed in conjunction with our continued efforts to stay ahead of PG&E rate increases.

The sewer and water systems both had new monitoring systems installed as part of our new SCADA system.

We constructed a new building at the water treatment plant. This building combines our water lab, our well filters and our chemical storage that were originally in 3 separate buildings.

#### **2017**

##### **System Maintenance**

We continue to replace our older controls and level indicator systems for both the tanks and lift stations.

We are repainting tanks 100 and 200 and replacing the sight gauge.

We had to replace the waterline crossing at Lift Station #3. The winter storms caused an oak tree to fall and break the pipe bridge crossing.

We drain and pump each one of our lift stations down on a monthly schedule or when necessary, to eliminate problems with pumps or controls.

##### **Capital Projects**

1. Continued replacement of some of our control equipment.
2. Installation of control equipment for the telemetry system at our wastewater treatment plant.
3. Installation of control equipment for the telemetry system at lift station #3 and tanks 100/200.
4. Releveling the effluent line at the WWTP.
5. Investigate new water well locations for a new water supply well.
6. Look at the possibility of reclaimed water for irrigation.