



Montecito Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

Our Mission Statement

“To provide an adequate and reliable supply of high quality water to the residents of Montecito and Summerland, at the most reasonable cost.”

Montecito Water District

Board of Directors as of June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Term Expires</u>
Sam Frye	President	Elected	12/14
Douglas Morgan	Vice-President	Elected	12/14
Jan E. Abel	Director	Elected	12/16
Darlene Bierig	Director	Elected	12/16
Richard Shaikewitz	Director	Elected	12/14

**Montecito Water District
Tom Mosby, General Manager
583 San Ysidro Road
Montecito, California 93108
(805) 969-2271 – www.montecitowater.com**

Montecito Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

**Montecito Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012**

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Financial Section



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Independent Auditor's Report

Board of Directors
Montecito Water District
Montecito, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Montecito Water District (District) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2013 and 2012, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Change in Accounting Principle

As discussed in note 1.E to the basic financial statements, in 2013 the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

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 3 through 6 and the required supplementary information on page 35 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 36 and 37.

Charles Z. Fedak = Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPAs – An Accountancy Corporation
Cypress, California
October 31, 2013

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Montecito Water District (District) provides an introduction to the financial statements of the District for the years ended June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2013, the District's net position decreased 4.89% or \$1,442,042 from \$29,466,267 to \$28,024,225. In 2012, the District's net position decreased 3.51% or \$1,073,159 from \$30,539,426 to \$29,466,267.
- The District's 2013 operating revenues increased 9.63% or \$1,226,427 primarily from an increase in seasonal demand for water. The District's 2012 operating revenues increased 8.08% or \$952,607 primarily from an increase in seasonal demand for water.
- In 2013, the District's total expenses increased 10.62% or \$1,512,810 due primarily to an increase in depreciation expense of \$650,434, and an increase in non-operating expenses of 899,316 due to various items. In 2012, the District's total expenses increased 5.16% or \$699,122 due primarily to an increase in general and administrative expenses of \$363,461 and the recognition of the CalPERS side-fund liability of \$476,532.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if 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 final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 12 through 34.

Statement of Net Position

	Condensed Statements of Net Position				
	2013	2012	Change	2011	Change
Assets:					
Current assets	\$ 17,128,218	17,099,798	28,420	17,621,814	(522,016)
Non-current assets	-	529,030	(529,030)	571,676	(42,646)
Capital assets, net	34,750,171	42,721,207	(7,971,036)	40,944,671	1,776,536
Total assets	51,878,389	60,350,035	(8,471,646)	59,138,161	1,211,874
Liabilities:					
Current liabilities	1,202,207	1,952,362	(750,155)	2,000,664	(48,302)
Non-current liabilities	21,805,246	28,031,772	(6,226,526)	25,645,513	2,386,259
Total liabilities	23,007,453	29,984,134	(6,976,681)	27,646,177	2,337,957
Deferred inflows of resources	846,711	899,634	(52,923)	952,558	(52,924)
Net position:					
Net investment in capital assets	12,609,070	14,141,894	(1,532,824)	14,055,676	86,218
Restricted	3,938,844	4,148,739	(209,895)	4,149,284	(545)
Unrestricted	11,476,311	11,175,634	300,677	12,334,466	(1,158,832)
Total net position	28,024,225	29,466,267	(1,442,042)	30,539,426	(1,073,159)
Total liabilities, deferred inflows of resources and net position	\$ 51,878,389	60,350,035	(8,471,646)	59,138,161	1,211,874

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$28,024,225 and \$29,466,267 as of June 30, 2013 and 2012, respectively.

A portion of the District's net position, 45% and 48% as of June 30, 2013 and 2012, respectively, reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of years 2013 and 2012, the District showed a positive balance in its unrestricted net position of \$11,476,311 and \$11,175,634, respectively, which may be utilized in future years.

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>2011</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 13,965,538	12,739,111	1,226,427	11,786,504	952,607
Non-operating revenues	151,741	298,332	(146,591)	243,930	54,402
Total revenues	<u>14,117,279</u>	<u>13,037,443</u>	<u>1,079,836</u>	<u>12,030,434</u>	<u>1,007,009</u>
Expenses:					
Operating expenses	10,944,473	10,981,413	(36,940)	10,699,323	282,090
Depreciation and amortization	2,451,304	1,800,870	650,434	1,834,008	(33,138)
Non-operating expenses	2,361,291	1,461,975	899,316	1,011,805	450,170
Total expenses	<u>15,757,068</u>	<u>14,244,258</u>	<u>1,512,810</u>	<u>13,545,136</u>	<u>699,122</u>
Net income before capital contributions	<u>(1,639,789)</u>	<u>(1,206,815)</u>	<u>(432,974)</u>	<u>(1,514,702)</u>	<u>307,887</u>
Capital contributions	197,747	133,656	64,091	193,692	(60,036)
Change in net position	<u>(1,442,042)</u>	<u>(1,073,159)</u>	<u>(368,883)</u>	<u>(1,321,010)</u>	<u>247,851</u>
Net position, beginning of year	<u>29,466,267</u>	<u>30,539,426</u>	<u>(1,073,159)</u>	<u>31,860,436</u>	<u>(1,321,010)</u>
Net position, end of year	<u>\$ 28,024,225</u>	<u>29,466,267</u>	<u>(1,442,042)</u>	<u>30,539,426</u>	<u>(1,073,159)</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the years. In the case of the District, net position decreased \$1,442,042 and \$1,073,159 for the years ended June 30, 2013 and 2012, respectively.

A closer examination of the sources of changes in net position reveals that:

The District's 2013 operating revenues increased 9.63% or \$1,226,427 primarily from an increase in seasonal demand for water. The District's 2012 operating revenues increased 8.08% or \$952,607 primarily from an increase in seasonal demand for water.

In 2013, the District's total expenses increased 10.62% or \$1,512,810 due primarily to an increase in depreciation expense of \$650,434, and an increase in non-operating expenses of 899,316 due to various items. In 2012, the District's total expenses increased 5.16% or \$699,122 due primarily to an increase in general and administrative expenses of \$363,461 and the recognition of the CalPERS side-fund liability of \$476,532.

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Total Revenues

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>2011</u>	<u>Change</u>
Operating revenues:					
Water consumption sales	\$ 10,573,024	9,345,966	1,227,058	8,401,945	944,021
Monthly service charge	3,331,987	3,327,414	4,573	3,323,831	3,583
Other charges for services	60,527	65,731	(5,204)	60,728	5,003
Total operating revenues	<u>13,965,538</u>	<u>12,739,111</u>	<u>1,226,427</u>	<u>11,786,504</u>	<u>952,607</u>
Non-operating revenue:					
Rental revenue	35,557	34,923	634	34,365	558
Picay hydroelectric power	38,813	44,898	(6,085)	45,124	(226)
Investment earnings	39,760	35,847	3,913	65,445	(29,598)
Other non-operating revenues	37,611	182,664	(145,053)	98,996	83,668
Total non-operating revenues	<u>151,741</u>	<u>298,332</u>	<u>(146,591)</u>	<u>243,930</u>	<u>54,402</u>
Total revenues	<u>\$ 14,117,279</u>	<u>13,037,443</u>	<u>1,079,836</u>	<u>12,030,434</u>	<u>1,007,009</u>

In 2013, the District's total revenues increased 8.28% or \$1,079,836. In 2012, the District's total revenues increased 8.37% or \$1,007,009.

Total Expenses

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>2011</u>	<u>Change</u>
Operating expenses:					
Source of supply – water purchases	\$ 5,505,423	5,571,824	(66,401)	5,744,110	(172,286)
Source of supply – operational costs	127,013	101,121	25,892	113,182	(12,061)
Pumping	314,073	256,654	57,419	308,660	(52,006)
Water treatment – Cater treatment	676,706	911,080	(234,374)	809,802	101,278
Water treatment – operational costs	870,649	702,732	167,917	690,253	12,479
Transmission and distribution	1,199,342	1,226,127	(26,785)	1,168,942	57,185
Customer service and meter reading	325,403	329,674	(4,271)	345,634	(15,960)
General and administrative	1,925,864	1,882,201	43,663	1,518,740	363,461
Total operating expenses	<u>10,944,473</u>	<u>10,981,413</u>	<u>(36,940)</u>	<u>10,699,323</u>	<u>282,090</u>
Depreciation and amortization exp.	<u>2,451,304</u>	<u>1,800,870</u>	<u>650,434</u>	<u>1,834,008</u>	<u>(33,138)</u>
Non-operating expenses:					
Interest expense	975,560	995,721	(20,161)	1,015,679	(19,958)
Cater treatment plant ozone debt	151,199	-	151,199	-	-
South coast conduit booster station	310,432	-	310,432	-	-
Loss on disposition of capital projects	447,993	-	447,993	-	-
CalPERS side-fund	-	476,532	(476,532)	-	476,532
Amortization of deferred charges	529,030	42,646	486,384	49,049	(6,403)
Amortization of deferred resources	(52,923)	(52,924)	1	(52,923)	(1)
Total non-operating expenses	<u>2,361,291</u>	<u>1,461,975</u>	<u>899,316</u>	<u>1,011,805</u>	<u>450,170</u>
Total expenses	<u>\$ 15,757,068</u>	<u>14,244,258</u>	<u>1,512,810</u>	<u>13,545,136</u>	<u>699,122</u>

In 2013, the District's total expenses increased 10.62% or \$1,512,810. In 2012, the District's total expenses increased 5.16% or \$699,122.

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Capital Asset Administration

At the end of year 2013, the District's investment in capital assets amounted to \$34,750,171 (net of accumulated depreciation and amortization). This investment in capital assets includes land, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles, and construction-in-process. There were numerous capital asset additions in the year 2013 (See Note 4).

Changes in capital assets amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 4,120,545	311,461	(4,180,245)	251,761
Depreciable assets	62,092,556	671,769	(8,325,148)	54,439,177
Accumulated depreciation	(23,491,894)	(2,451,304)	6,002,431	(19,940,767)
Total capital assets ,net	<u>\$ 42,721,207</u>	<u>(1,468,074)</u>	<u>(6,502,962)</u>	<u>34,750,171</u>

Changes in capital assets amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2012</u>
Capital assets:				
Non-depreciable assets	\$ 12,142,589	3,600,247	(11,622,291)	4,120,545
Depreciable assets	50,514,865	11,599,450	(21,759)	62,092,556
Accumulated depreciation	(21,712,783)	(1,800,870)	21,759	(23,491,894)
Total capital assets ,net	<u>\$ 40,944,671</u>	<u>13,398,827</u>	<u>(11,622,291)</u>	<u>42,721,207</u>

Debt Administration

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2013</u>
Long-term debt:				
Bonds payable	\$ 13,395,000	-	(35,000)	13,360,000
Loans payable	14,284,679	(5,066,427)	(1,283,862)	7,934,390
Total long-term debt	<u>\$ 27,679,679</u>	<u>(5,066,427)</u>	<u>(1,318,862)</u>	<u>21,294,390</u>

Changes in long-term debt amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2012</u>
Long-term debt:				
Bonds payable	\$ 13,395,000	-	-	13,395,000
Loans payable	12,541,437	2,743,710	(1,000,468)	14,284,679
Total long-term debt	<u>\$ 25,936,437</u>	<u>2,743,710</u>	<u>(1,000,468)</u>	<u>27,679,679</u>

See Note 7 for further information

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Business Manager at 583 San Ysidro Road, Santa Barbara, California, 93108 – (805) 969-2271.

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Basic Financial Statements

Montecito Water District
Statements of Net Assets
June 30, 2013 and 2012

<i>Assets</i>	2013	2012
Current assets:		
Cash and cash equivalents (Note 2)	\$ 5,866,948	6,326,297
Restricted – cash and cash equivalents (Note 2)	3,712,235	3,544,273
Restricted – investments (Note 2)	571,840	954,847
Accrued interest receivable	4,890	7,473
Accounts receivable – water sales and services, net	1,459,094	1,375,672
Accounts receivable – other	605	5,722
Materials and supplies inventory	155,307	175,730
Prepaid water charges	5,309,003	4,665,011
Prepaid expenses and other deposits	48,296	44,773
Total current assets	17,128,218	17,099,798
Non-current assets:		
Deferred charges, net (Note 3)	-	529,030
Capital assets – not being depreciated (Note 4)	251,761	4,120,545
Capital assets, net – being depreciated (Note 4)	34,498,410	38,600,662
Total non-current assets	34,750,171	43,250,237
Total assets	\$ 51,878,389	60,350,035
<i>Liabilities, Deferred Inflows of Resources and Net Position</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 437,253	670,364
Accrued wages and related payables	16,307	6,569
Deferred revenue and other deposits	97,456	94,447
Accrued interest payable	345,231	350,381
Long-term liabilities – due within one year:		
Compensated absences (Note 5)	110,454	106,540
Bonds payable (Note 7)	-	35,000
Loans payable (Note 7)	195,506	641,833
Pension-related debt (note 8)	-	47,228
Total current liabilities	1,202,207	1,952,362
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 5)	331,362	319,622
Other post-employment benefits payable (Note 6)	375,000	280,000
Certificates-of-participation (Note 7)	13,360,000	13,360,000
Loans payable (Note 7)	7,738,884	13,642,846
Pension-related debt (note 8)	-	429,304
Total non-current liabilities	21,805,246	28,031,772
Total liabilities	23,007,453	29,984,134
Deferred inflows of resources:		
Premium on certificates-of-participation, net (note 9)	846,711	899,634
Net position: (note 10)		
Net investment in capital assets	12,609,070	14,141,894
Restricted	3,938,844	4,148,739
Unrestricted	11,476,311	11,175,634
Total net position	28,024,225	29,466,267
Total liabilities, deferred inflows of resources and net position	\$ 51,878,389	60,350,035

See accompanying notes to the basic financial statements

Montecito Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Water consumption sales	\$ 10,573,024	9,345,966
Monthly service charge	3,331,987	3,327,414
Other charges for services	60,527	65,731
Total operating revenues	13,965,538	12,739,111
Operating expenses:		
Source of supply – water purchases	5,505,423	5,571,824
Source of supply – operational costs	127,013	101,121
Pumping	314,073	256,654
Water treatment – Cater treatment plant	676,706	911,080
Water treatment – operational costs	870,649	702,732
Transmission and distribution	1,199,342	1,226,127
Customer service and meter reading	325,403	329,674
General and administrative	1,925,864	1,882,201
Total operating expenses	10,944,473	10,981,413
Operating income before depreciation	3,021,065	1,757,698
Depreciation and amortization	(2,451,304)	(1,800,870)
Operating income(loss)	569,761	(43,172)
Non-operating revenue(expense)		
Rental revenue	35,557	34,923
Picay hydroelectric power	38,813	44,898
Investment earnings	39,760	35,847
Interest expense	(975,560)	(995,721)
Cater treatment plant ozone debt service commitment	(151,199)	-
South coast conduit booster station joint-project costs	(310,432)	-
Loss on disposition of capital projects	(447,993)	-
CalPERS side-fund (note 8)	-	(476,532)
Amortization of deferred charges	(529,030)	(42,646)
Amortization of deferred resources – inflows(outflows), net (note 9)	52,923	52,924
Other non-operating revenues	37,611	182,664
Total non-operating, net	(2,209,550)	(1,163,643)
Net loss before capital contributions	(1,639,789)	(1,206,815)
Capital contributions:		
Capital contributions	156,277	108,387
Connection fees	41,470	25,269
Total capital contributions	197,747	133,656
Change in net position	(1,442,042)	(1,073,159)
Net position, beginning of year	29,466,267	30,539,426
Net position, end of year	\$ 28,024,225	29,466,267

See accompanying notes to the basic financial statements

Montecito Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 13,999,214	13,274,304
Cash paid to employees for salaries and wages	(2,064,142)	(2,108,666)
Cash paid to vendors and suppliers for materials and services	(10,078,764)	(8,139,479)
Net cash provided by operating activities	1,856,308	3,026,159
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(471,220)	(833,696)
Capital contributions	197,747	133,656
Principal paid	(1,318,862)	(1,000,468)
Interest paid	(980,710)	(1,108,281)
Net cash used in capital and related financing activities	(2,573,045)	(2,808,789)
Cash flows from investing activities:		
(Purchase)sale of investments, net	383,007	212,719
Interest earnings	42,343	37,931
Net cash provided(used) by investing activities	425,350	250,650
Net increase(decrease) in cash and cash equivalents	(291,387)	468,020
Cash and cash equivalents, beginning of year	9,870,570	9,402,550
Cash and cash equivalents, end of year	\$ 9,579,183	9,870,570
 Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 5,866,948	6,326,297
Restricted assets – cash and cash equivalents	3,712,235	3,544,273
Total cash and cash equivalents	\$ 9,579,183	9,870,570

Continued on next page

See accompanying notes to the basic financial statements

Montecito Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income(loss) to net cash provided by operating activities:		
Operating loss	\$ 569,761	(43,172)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Deprecation	2,451,304	1,800,870
Rental revenue	35,557	34,923
Picay hydroelectric power	38,813	44,898
Cater treatment plant ozone debt service commitment	(151,199)	-
South coast conduit booster station joint-project costs	(310,432)	-
Other non-operating income, net	37,611	182,664
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and services, net	(83,422)	(212,036)
Accounts receivable – other	5,117	484,744
Materials and supplies inventory	20,423	12,220
Prepaid water charges	(643,992)	503,337
Prepaid expenses and other deposits	(3,523)	(13,032)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(233,111)	199,548
Accrued wages and related payables	9,738	(100,044)
Deferred revenue and other deposits	3,009	(8,407)
Compensated absences	15,654	62,003
Other post-employment benefits payable	95,000	77,643
Total adjustments	1,286,547	3,069,331
Net cash provided by operating activities	\$ 1,856,308	3,026,159

See accompanying notes to the basic financial statements

Montecito Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Montecito Water District was incorporated on November 10, 1921 as the Montecito County Water District under the provisions of Chapter 387, Statutes of 1913 of the State of California. The 1913 Act was superseded by the present County Water District Act found in Division 12 of the State of California Water Code. Montecito County Water District changed its name to "Montecito Water District" pursuant to Section 31006 of the Water Code. The District was formed for the purposes of furnishing potable water within the District. The District is located in the southern coastal portion of Santa Barbara County and includes the unincorporated communities of Montecito and Summerland. It has a population of approximately 13,100 and currently provides water to approximately 4,500 customers.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues, such as water sales and service fees, result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

C. Financial Reporting

The District's basic financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for financial statements for periods beginning after December 15, 2011. The District implemented this new pronouncement in the current year. The effect of the implementation of this statement to the District is limited to renaming of *Net Assets* to *Net Position*.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing management to deposit funds in financial institutions.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable

The District extends credit to customers in the normal course of operations. An allowance for doubtful accounts has been established in the accompanying financial statements.

5. Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market.

6. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

7. Deferred Charges

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service. In fiscal year 2013, the District implemented GASB No. 65, which changed the accounting for deferred charges to a period cost instead of a amortizable cost, thus expensing the remaining balance of deferred charges in the current year.

8. Restricted Assets

Certain assets of the District are restricted for use by ordinance or debt covenant and, accordingly are shown as restricted assets on the accompanying statement of net position. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position, continued

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Water supply & sources	5 - 50 years
Treatment plants	25 - 50 years
Distribution system	25 - 70 years
Reservoirs	25 - 100 years
Buildings & improvements	5 - 50 years
Office	5 - 25 years
Equipment	5 - 20 years

10. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated.

11. Net Position

The financial statements utilize a net position presentation. Net position are categorized as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

12. Water Sales

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through year-end has been accrued.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

E. Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, the District implemented the following Governmental Accounting Standards Board pronouncements:

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. There were no Concession Arrangements entered into by the District.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*.

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the ***FASB & AICPA pronouncements***. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that statement for enterprise funds and business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as ***Net Position***, rather than ***Net Assets***.

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(2) Cash and Investments

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

	2013	2012
Cash and cash equivalents	\$ 5,866,948	6,326,297
Restricted – cash and cash equivalents	3,712,235	3,544,273
Restricted – investments	571,840	954,847
Total cash and investments	\$ 10,151,023	10,825,417

Cash and investments as of June 30, consist of the following:

	2013	2012
Cash on hand	\$ 350	350
Deposits with financial institutions	641,634	498,936
Investments	9,509,039	10,326,131
Total cash and investments	\$ 10,151,023	10,825,417

Investments Authorized by the California Government Code and the District's Investment Policy

The following table identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio *	Maximum Investment in One Issuer
State and Local Agency Bonds	5 years	100%	None
U.S. Treasury Notes	5 years **	100%	None
Federal Agency Obligations	5 years **	100%	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Non-negotiable Certificates of Deposit	1 year	30%	None
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Repurchase agreements	30 days	100%	None
Money Market Mutual Funds	N/A	20%	None
California Local Agency Investment Fund (LAIF)	N/A	100%	10%

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

** Except when authorized by the District's legislative body in accordance with Government Code Section 53601

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(2) Cash and Investments, continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The 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 or investments, 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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the 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. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

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

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(2) Cash and Investments, continued

Interest Rate Risk, continued

Investments at June 30, 2012, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>
Local Agency Investment Fund	\$ 5,224,964	5,224,964	-	-
CCWA Investment Pool	2,055,532	2,055,532	-	-
Held by bond trustee:				
Money market funds	1,656,703	1,656,703	-	-
U.S. Treasury Notes	571,840	571,840	-	-
Total	\$ 9,509,039	9,509,039	-	-

Investments at June 30, 2011, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>
Local Agency Investment Fund	\$ 5,827,011	5,827,011	-	-
CCWA Investment Pool	1,998,402	1,998,402	-	-
Held by bond trustee:				
Money market funds	1,545,871	1,545,871	-	-
U.S. Treasury Notes	954,847	560,829	394,018	-
Total	\$ 10,326,131	9,932,113	394,018	-

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings at June 30, 2012, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum</u>	<u>Exempt</u>	<u>Ratings</u>
		<u>Legal</u>	<u>From</u>	<u>AAA</u>
		<u>Rating</u>	<u>Disclosure</u>	
Local Agency Investment Fund	\$ 5,224,964	N/A	5,224,964	-
CCWA Investment Pool	2,055,532	N/A	2,055,532	-
Held by bond trustee:				
Money market funds	1,656,703	N/A	1,656,703	-
U.S. Treasury Notes	571,840	AAA	-	571,840
Total	\$ 9,509,039		8,937,199	571,840

Credit ratings at June 30, 2011, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum</u>	<u>Exempt</u>	<u>Ratings</u>
		<u>Legal</u>	<u>From</u>	<u>AAA</u>
		<u>Rating</u>	<u>Disclosure</u>	
Local Agency Investment Fund	\$ 5,827,011	N/A	5,827,011	-
CCWA Investment Pool	1,998,402	N/A	1,998,402	-
Held by bond trustee:				
Money market funds	1,545,871	N/A	1,545,871	-
U.S. Treasury Notes	954,847	AAA	-	954,847
Total	\$ 10,326,131		9,371,284	954,847

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(3) Deferred Charges

The balance consists of the following issuance costs, net:

		2013	2012
2010A COPs issuance costs	\$	-	491,292
DWR (BVTP) loan issuance		-	37,738
Total	\$	-	529,030

(4) Capital Assets

Changes in capital assets for the year were as follows:

	Balance 2012	Additions/	Deletions/ Transfers	Balance 2013
Non-depreciable assets:				
Land	\$ 101,352	-	-	101,352
Construction-in-process	4,019,193	311,461	(4,180,245)	150,409
Total non-depreciable assets	4,120,545	311,461	(4,180,245)	251,761
Depreciable assets:				
Transmission and distribution system	26,012,196	358,780	-	26,370,976
Juncal dam	2,083,147	40,430	-	2,123,577
Wells and water sources	3,787,610	230,054	-	4,017,664
Water rights	142,234	-	-	142,234
Bella Vista treatment plant	5,455,057	-	-	5,455,057
Cater treatment plant	8,285,420	-	(8,285,420)	-
Other treatment plants and facilities	395,099	-	-	395,099
Reservoirs and storage tanks	12,384,720	-	-	12,384,720
Meters and meter boxes	1,226,011	-	-	1,226,011
Structures and improvements	424,340	-	-	424,340
Machinery and equipment	1,896,722	42,505	(39,728)	1,899,499
Total depreciable assets	62,092,556	671,769	(8,325,148)	54,439,177
Accumulated depreciation:				
Transmission and distribution system	(6,905,899)	(521,753)	-	(7,427,652)
Juncal dam	(1,368,110)	(24,323)	-	(1,392,433)
Wells and water sources	(2,625,422)	(120,246)	-	(2,745,668)
Water rights	(142,234)	-	-	(142,234)
Bella Vista treatment plant	(3,540,365)	(231,606)	-	(3,771,971)
Cater treatment plant	(4,753,218)	(1,209,485)	5,962,703	-
Other treatment plants and facilities	(359,472)	(15,119)	-	(374,591)
Reservoirs and storage tanks	(1,260,915)	(142,519)	-	(1,403,434)
Meters and meter boxes	(663,542)	(65,094)	-	(728,636)
Structures and improvements	(283,418)	(11,391)	-	(294,809)
Machinery and equipment	(1,589,299)	(109,768)	39,728	(1,659,339)
Total accumulated depreciation	(23,491,894)	(2,451,304)	6,002,431	(19,940,767)
Total depreciable assets, net	38,600,662	(1,779,535)	(2,322,717)	34,498,410
Total capital assets, net	\$ 42,721,207	(1,468,074)	(6,502,962)	34,750,171

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(4) Capital Assets, continued

Changes in capital assets for the year were as follows:

	<u>Balance 2011</u>	<u>Additions/</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land	\$ 101,352	-	-	101,352
Construction-in-process	12,041,237	3,600,247	(11,622,291)	4,019,193
Total non-depreciable assets	<u>12,142,589</u>	<u>3,600,247</u>	<u>(11,622,291)</u>	<u>4,120,545</u>
Depreciable assets:				
Transmission and distribution system	25,419,314	592,882	-	26,012,196
Juncal dam	2,083,147	-	-	2,083,147
Wells and water sources	3,543,413	244,197	-	3,787,610
Water rights	142,234	-	-	142,234
Bella Vista treatment plant	5,283,607	171,450	-	5,455,057
Cater treatment plant	8,279,510	5,910	-	8,285,420
Other treatment plants and facilities	395,099	-	-	395,099
Reservoirs and storage tanks	1,923,872	10,460,848	-	12,384,720
Meters and meter boxes	1,208,888	17,123	-	1,226,011
Structures and improvements	360,479	63,861	-	424,340
Machinery and equipment	1,875,302	43,179	(21,759)	1,896,722
Total depreciable assets	<u>50,514,865</u>	<u>11,599,450</u>	<u>(21,759)</u>	<u>62,092,556</u>
Accumulated depreciation:				
Transmission and distribution system	(6,399,259)	(506,640)	-	(6,905,899)
Juncal dam	(1,344,044)	(24,066)	-	(1,368,110)
Wells and water sources	(2,516,092)	(109,330)	-	(2,625,422)
Water rights	(142,234)	-	-	(142,234)
Bella Vista treatment plant	(3,313,261)	(227,104)	-	(3,540,365)
Cater treatment plant	(4,279,858)	(473,360)	-	(4,753,218)
Other treatment plants and facilities	(343,599)	(15,873)	-	(359,472)
Reservoirs and storage tanks	(1,030,382)	(230,533)	-	(1,260,915)
Meters and meter boxes	(601,919)	(61,623)	-	(663,542)
Structures and improvements	(271,236)	(12,182)	-	(283,418)
Machinery and equipment	(1,470,899)	(140,159)	21,759	(1,589,299)
Total accumulated depreciation	<u>(21,712,783)</u>	<u>(1,800,870)</u>	<u>21,759</u>	<u>(23,491,894)</u>
Total depreciable assets, net	<u>28,802,082</u>	<u>9,798,580</u>	<u>-</u>	<u>38,600,662</u>
Total capital assets, net	<u>\$ 40,944,671</u>	<u>13,398,827</u>	<u>(11,622,291)</u>	<u>42,721,207</u>

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(4) Capital Assets, continued

Construction-In-Process

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at June 30 are as follows:

The balance at June 30, consists of the following projects:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Pressure Regulators	\$ 180,722	-	-
Ortega Reservoir Project	10,156,157	-	-
Doulton TP Expansion	120,464	-	-
GIS Distribution System	473,465	326,764	-
Alder Flume Rehab/Replacement	77,452	-	-
Jameson Lake Auxlry Ridge	73,674	73,674	-
Meter Leask Testing	17,123	107,280	-
Barker Pass Pump Elec Upgrade	227,810	-	-
Ortega Leak Repairs	257,327	-	-
Birnam Wood Deep Well	106,716	-	-
Ashley Main Replacement	8,706	237,600	-
Cater Ozone Project	78,960	2,837,638	-
South Coast Booster Pump	-	259,342	-
Various MinorProjects	262,661	176,895	150,409
	<u>\$ 12,041,237</u>	<u>4,019,193</u>	<u>150,409</u>

(5) Compensated Absences

The changes to compensated absences balances at June 30, were as follows:

<u>Balance</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2013</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 426,162	216,270	(200,616)	441,816	110,454	331,362
<u>Balance</u> <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2012</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 364,159	252,197	(190,194)	426,162	106,540	319,622

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(6) Other Post Employment Benefits Payable

During the year ended June 30, 2009, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

The District administers its post-employment benefits plan, a single-employer defined benefit plan (Plan). The following requirements must be satisfied in order to be eligible for post employment medical, dental and vision benefits: (1) Attainment of age 55, and 20 years for full-time service, and (2) Retirement from the District (the District must be the last employer prior to retirement).

Membership in the OPEB plan consisted of the following members as of June 30:

	2013	2012	2011
Active employees	24	25	24
Retirees receiving benefits	6	6	6
	30	31	30

Plan Description – Benefits

The District offers post employment medical, dental and vision benefits to retired employees who satisfy the eligibility rules. Retirees may enroll in any plan available through CalPERS medical, dental and vision programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual Cost

For the year ended June 30, 2013, the District’s ARC cost is \$118,418. The District’s net OPEB payable obligation amounted to \$375,000 for the year ended June 30, 2013. The District contributed \$23,418 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2013.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(6) Other Post Employment Benefits Payable, continued

Annual Cost, continued

The balance at June 30, consists of the following:	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 110,971	110,971	84,285
Interest on net OPEB obligation	14,000	10,118	7,236
Inerset earnings on irrevocable trust balance	-	-	-
Adjustment to annual required contribution	<u>(6,553)</u>	<u>(4,755)</u>	<u>(5,789)</u>
Total annual OPEB expense	<u>118,418</u>	<u>116,334</u>	<u>85,732</u>
Contributions made:			
Contributions made to irrevocable trust	-	-	-
Retiree benefit payments paid outside of a trust	<u>(23,418)</u>	<u>(38,691)</u>	<u>(28,104)</u>
Total contributions made	<u>(23,418)</u>	<u>(38,691)</u>	<u>(28,104)</u>
Total change in net OPEB payable obligation	95,000	77,643	57,628
OPEB payable - beginning of year	<u>280,000</u>	<u>202,357</u>	<u>144,729</u>
OPEB payable - end of year	<u>\$ 375,000</u>	<u>280,000</u>	<u>202,357</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2013 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2013	\$ 118,418	23,418	19.8%	\$ 375,000
2012	116,334	38,691	33.3%	280,000
2011	85,732	28,104	32.8%	202,357

The most recent valuation (dated February 1, 2012) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$1,238,998. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2012 was estimated at \$2,100,000. The ratio of the unfunded actuarial accrued liability to covered payroll is 59.00%.

See Page 35 for the Schedule of Funding Status.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(6) Other Post Employment Benefits Payable, continued

Actuarial Methods and Assumptions, continued

The following is a summary of the actuarial assumptions and methods:

Valuation date	2/1/2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	30 Year smoothed marked
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increase	3.00%
Inflation - discount rate	3.00%
Individual salary growth	District annual COLA

(7) Long-term Debt

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions/ Adjustments</u>	<u>Principal Payments</u>	<u>Balance 2013</u>
Long-term debt:				
2010A COPs	\$ 13,360,000	-	-	13,360,000
COMB 2004 Revenue Bonds	35,000	-	(35,000)	-
DWR Bella Vista Loan	736,154	-	(736,154)	-
DWR Cater Loan	2,486,662	(2,322,717)	(163,945)	-
DWR Ortega Loan	8,318,153	-	(383,763)	7,934,390
DWR Cater Ozone Loan	<u>2,743,710</u>	<u>(2,743,710)</u>	<u>-</u>	<u>-</u>
Total long-term debt	\$ 27,679,679	<u>(5,066,427)</u>	<u>(1,318,862)</u>	21,294,390
Less current portion	<u>(676,833)</u>			<u>(195,506)</u>
Non-current portion	<u>\$ 27,002,846</u>			<u>21,098,884</u>

Changes in long-term debt amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions/ Adjustments</u>	<u>Principal Payments</u>	<u>Balance 2012</u>
Long-term debt:				
2010A COPs	\$ 13,360,000	-	-	13,360,000
COMB 2004 Revenue Bonds	35,000	-	-	35,000
DWR Bella Vista Loan	1,018,749	-	(282,595)	736,154
DWR Cater Loan	2,646,564	-	(159,902)	2,486,662
DWR Ortega Loan	8,876,124	-	(557,971)	8,318,153
DWR Cater Ozone Loan	<u>-</u>	<u>2,743,710</u>	<u>-</u>	<u>2,743,710</u>
Total long-term debt	\$ 25,936,437	<u>2,743,710</u>	<u>(1,000,468)</u>	27,679,679
Less current portion	<u>(766,400)</u>			<u>(676,833)</u>
Non-current portion	<u>\$ 25,170,037</u>			<u>27,002,846</u>

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(7) Long-term Debt, continued

2010A Refunding Revenue Certificates of Participation

In 1998, \$13,690,000 of Series 1998A revenue certificates of participation were issued. Payments of interest only were due through fiscal year 2013. Annual principal payments of \$340,000 to \$1,290,000 plus interest were due for the year ending June 30, 2013 and ending June 30, 2027 with a true interest cost of 5.37% over the life of the bonds. On April 8, 2010, the District refinanced the 1998 COPs with the 2010A COPs.

In 2010, \$13,360,000 of Series 2010A Refunding Revenue Certificates of Participation were issued for the purpose of refinancing the Series 1998A Revenue Certificates of Participation. Scheduled annual interest payments are \$690,463 for the years ending June 30, 2010 through June 30, 2022. Annual principal payments of \$1,385,000 to \$1,990,000 plus interest are due beginning in fiscal year 2023 and ending in fiscal year 2030 with a true interest cost of 5.25% over the life of the bonds. Annual debt service payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	690,462	690,462
2015	-	690,463	690,463
2016	-	690,462	690,462
2017	-	690,463	690,463
2018	-	690,462	690,462
2019-2023	1,385,000	3,417,688	4,802,688
2024-2028	8,095,000	2,116,981	10,211,981
2029-2030	3,880,000	206,325	4,086,325
Total	\$ 13,360,000	9,193,306	22,553,306
Less current:	-		
Long-term	\$ 13,360,000		

2004 Cachuma Operations and Maintenance Board Revenue Refunding Bonds

On August 18, 2004, \$260,000 Cachuma Operations and Maintenance Board (COMB) Revenue Refunding Bonds were issued. These bonds are due in annual installments beginning on January 1, 2006 and ending on July 1, 2010 with a rate of interest of 4%. The remaining installment of the bonds was \$35,000 due on July 1, 2012.

Department of Water Resources – Bella Vista Treatment Plant Contract

In December 1993, the District entered into a loan agreement with the Department of Water Resources (DWR) for a loan of \$3,990,000, which was increased to \$4,818,450 in August 1994, including a 5% administrative fee. The proceeds from this loan were used to refinance the District's construction loan and pay other costs related to the Bella Vista Treatment Plant construction. California Bank & Trust is the fiscal agent responsible for acting as trustee for the loan repayment with semi-annual payments of \$152,634 including principal and interest at the rate of 2.4175% per annum. Loan payments commenced when the loan became fully funded, and the first payment was made April 1, 1995. As of June 30, 2013, the District had repaid the loan in full.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(7) Long-term Debt, continued

Department of Water Resources – Cater Treatment Plant Contract

The District currently obtains approximately 50% of its water supplies from the Cachuma Project. These surface water supplies are treated at the City of Santa Barbara’s Cater Water Filtration Plant. The District entered into a joint powers agreement with the City of Santa Barbara, effective November 1, 2003, in which the District agreed to participate in a California Drinking Water State Revolving Fund contract financing totaling \$19.2 million to fund improvements required at the Cater Treatment plant. The District’s share is estimated to be 19.7% or \$3.8 million to be financed over 20 years. Interest is payable semiannually at a rate of 2.5132% per annum. The District’s annual payments for its share of the debt service are \$225,416 per year. In December 2004, the Cater Treatment Plant project was complete and principal payments on the loan began on January 1, 2006. As of June 30, 2013, the District removed the Cater Water Filtration Plant asset and liability from the statement of net position and will account for this transaction as a debt service commitment in future periods.

Department of Water Resources – Ortega Reservoir Improvement Project Contract

In December of 2003, the District entered into a funding agreement, along with Carpinteria Valley Water District, with the Department of Water Resources (DWR) for a loan of \$10,800,000, which was increased to \$19,900,000 in July of 2006. The District’s share of this loan is 50% of the total amount, which is a total of \$9,950,000. The proceeds from this loan were being used to refinance the construction of a roof on the Ortega Reservoir which will enable the District to meet safe drinking water standards established pursuant to Chapter 4, commencing with Section 116270, of Part 12, of Division 104 of the Health and Safety Code and California Code of Regulations. California Bank & Trust is the fiscal agent responsible for acting as trustee for the loan repayment with semi-annual payments of \$295,210 including principal and interest at an annual rate of 2.5132%. The District will be required to fund its share of a reserve fund equal to two semiannual payments. The funds are to be accumulated within a ten year period and be held by a trustee. Annual debt service payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 195,506	201,834	397,340
2015	398,414	192,006	590,420
2016	408,489	181,931	590,420
2017	418,819	171,601	590,420
2018	429,411	161,009	590,420
2019-2023	2,315,553	636,547	2,952,100
2024-2028	2,623,544	328,556	2,952,100
2029-2030	1,144,653	36,187	1,180,840
Total	\$ 7,934,389	1,909,671	9,844,060
Less current:	(195,506)		
Long-term	\$ 7,738,883		

Department of Water Resources – Cater Ozone Loan

The District currently obtains approximately 50% of its water supplies from the Cachuma Project. These surface water supplies are treated at the City of Santa Barbara’s Cater Water Filtration Plant. The District entered into a joint powers agreement with the City of Santa Barbara, effective November 1, 2003, in which the District agreed to participate in a California Drinking Water State Revolving Fund contract to fund improvements required at the Cater Treatment Plant. As of June 30, 2013, the District has incurred \$2,743,710 in construction costs for the District’s share of the Cater Ozone project that will be financed through the City of Santa Barbara and the Department of Water Resources as a loan. As of June 30, 2013, the District removed the Cater Ozone Project asset and liability from the statement of net position and will account for this transaction as a debt service commitment in future periods.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(8) Pension-Related Debt – CalPERS Side-Fund

As of June 30, 2003, CalPERS implemented risk-pooling for the District’s agent multiple-employer public employee defined benefit pension plan. As a result, the District’s defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate. CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies who had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District’s annual required contributions to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District is required to make annual payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District’s CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the Side Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27 and recorded as liability on the District’s financial statements.

Annual payments on the CalPERS Side-Fund represent principal and interest payments on the pension-related debt. Debt principal and interest expense is blended into the CalPERS pension benefit rate by individual class of District employee and repaid to CalPERS each payroll period throughout the fiscal year. As of June 30, 2013, the District has repaid this obligation in full.

(9) Deferred Inflows of Resources

The changes to deferred inflows of resources balances at June 30, were as follows:

<u>Description</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2013</u>
Premium on COPs	\$ 899,634	-	(52,923)	846,711

<u>Description</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2012</u>
Premium on COPs	\$ 952,558	-	(52,924)	899,634

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(10) Net Position

Calculation of net position as of June 30, were as follows:

	<u>2013</u>	<u>2012</u>
Net investment in capital assets:		
Capital assets, not being depreciated	\$ 251,761	4,120,545
Depreciable capital assets, net	34,498,410	38,600,662
Current:		
Bonds payable	-	(35,000)
Loans payable	(195,506)	(641,833)
Non-current:		
Bonds payable	(13,360,000)	(13,360,000)
Loans payable	(7,738,884)	(13,642,846)
Deferred inflows of resources	(846,711)	(899,634)
Total net investment in capital assets	<u>12,609,070</u>	<u>14,141,894</u>
Restricted net position:		
Restricted - cash and cash equivalents	3,712,235	3,544,273
Restricted - investments	571,840	954,847
Accrued interest payable	(345,231)	(350,381)
	<u>3,938,844</u>	<u>4,148,739</u>
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory	155,307	175,730
Prepaid water charges	5,309,003	4,665,011
Prepaid expenses and other deposits	48,296	44,773
Deferred charges	-	529,030
Total non-spendable net position	<u>5,512,606</u>	<u>5,414,544</u>
Spendable net position are designated as follows:		
Operating reserve	<u>5,963,705</u>	<u>5,761,090</u>
Total spendable net position	<u>5,963,705</u>	<u>5,761,090</u>
Total unrestricted net position	<u>11,476,311</u>	<u>11,175,634</u>
Total net position	<u>\$ 28,024,225</u>	<u>29,466,267</u>

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(11) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust are \$2,810,843 and \$2,444,149 as of June 30, 2013 and 2012, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

(12) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal years 2013, 2012 and 2011 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2013, 2012 and 2011, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information

<u>Fiscal Year</u>	<u>Annual Pension cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2010-2011	\$ 237,454	100%	-	12.896%
2011-2012	257,821	100%	-	13.814%
2012-2013	263,194	100%	- *	10.238%

* CalPERS rate was 14.321% for the 2012-2013 fiscal year until February 2013 when the side-fund was repaid and the rate was reduced to 10.238%

See Page 35 for the Schedule of Funding Status.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(12) Defined Benefit Pension Plan, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization period	20 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(13) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 2013, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability: The District has a zero deductible for general and auto liability. The District purchased additional excess coverage layers: \$60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- In addition to the above, the District also has the following insurance coverage:
- Employee dishonesty coverage and public officials' liability up to \$2,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud coverage's.
- Property loss/Boiler & Machinery is paid based on the replacement cost or actual cash value for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of \$100 million subject to a \$1,000 deductible per occurrence.
- Workers' compensation insurance provides coverage with a self-insured retention limit of \$2 million for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2013, 2012 and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2013, 2012 and 2011.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(14) State Water Contract

On June 4, 1991, the voters of the District approved participation in the California State Water Project (WP). As a result the District joined in the formation of the Central Coast Water Authority (CCWA) in September 1991. The purpose of the CCWA is to provide for the financing, construction, operation and maintenance of certain local (non-state owned) facilities required to deliver water from the SWP to certain water purveyors and users in Santa Barbara County.

Each Santa Barbara County State Water Project participant, including the District, has entered into a Water Supply Agreement in order to provide for the development, financing, construction, operation and maintenance of the CCWA Project. The purpose of the Water Supply Agreements is to assist in carrying out the purposes of CCWA with respect to the CCWA Project by: (1) requiring CCWA to sell, and the Santa Barbara County State Water Project participants to buy, a specified amount of water from CCWA ("take or pay"); and (2) assigning the Santa Barbara County State Water Project participant's entitlement rights in the SWP to CCWA. Although the District does have an ongoing financial responsibility pursuant to the Water Supply Agreement between the District and CWA, the District does not have an equity interest as defined by FASB Code Sec. J50.105.

Each Santa Barbara State Water Project participant is required to pay to CCWA an amount equal to its share of total cost of "fixed project costs" and certain other costs in the proportion established in the Water Supply Agreement. This includes the Santa Barbara Project participant's share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operating and administrative costs.

Each Santa Barbara County Project participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. Each participant has agreed in its Water Supply Agreement to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year net revenues equal to 125% of the sum of (1) the payments required pursuant to the Water Supply Agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

CCWA is composed of eight members, all of which are public agencies. CCWA was organized and exists under a joint exercise of powers agreement among the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are apportioned between the entities based upon each entity's pro-rata share of the water provided by the project. The District's share of the project based upon number of acre-feet of water is 7.78% and entitles the District to 3,000 acre-feet of water per year from the SWP plus 300 acre-feet of drought capacity. Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

On October 1, 1992, CCWA sold \$177.1 million in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat State water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, a transmission system to deliver such water to the participating water purveyors and users within Santa Barbara County, and certain local improvements to the water systems of some of the participating purveyors. The District's share of bonds issued for this project is \$27.1 million.

In November 1996, CCWA sold \$198.0 million of revenue bonds at a true interest cost of 5.55% to defease CCWA's \$177.1 million 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173.0 million and Series B of \$25.0 million. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction and Reserve Funds upon completion of the construction of CCWA facilities. On June 25, 1998, the project was deemed complete and the Series B bonds were redeemed in October 1998. The District's share of the Series A bonds issued is \$28.7 million.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(14) State Water Contract

On September 28, 2006 the Central Coast Water Authority (CCWA) issued Series 2006A refunding revenue bonds in the amount of \$123,190,000. This refunded the outstanding \$142,985,000 Series 1996A revenue bonds. The 2006A revenue bonds were issued at a true interest cost of 4.24% and were issued to reduce the Authority's total debt service payments over the next 15 years by \$4.4 million, and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$3.4 million. The District's share of the Series 2006A refunding revenue bonds issued is \$20.3 million.

<u>Fiscal Year</u>	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Debt Service</u>	<u>Total</u>
2014	\$ 2,873,861	\$ 88,245	\$ 2,034,336	\$ 4,996,442
2015	2,950,867	87,174	2,033,299	5,071,340
2016	3,021,426	86,542	2,030,585	5,138,553
2017	3,125,762	85,444	2,028,564	5,239,770
2018	3,362,589		2,026,584	5,389,173
2019-2023	15,791,541		8,060,573	23,852,114
2024-2028	15,459,010			15,459,010
2029-2033	14,240,100			14,240,100
2034-2036	8,465,236			8,465,236
	<u>\$ 69,290,392</u>	<u>347,405</u>	<u>18,213,941</u>	<u>87,851,738</u>

The above numbers are estimated based upon the following assumptions. The fixed costs after 2013 are estimated to increase 3% annually and are projected to the year 2036. No variable costs are assumed after 2013 because delivery requests are not made beyond that year. The debt service payments are based upon estimated final debt service schedules and are subject to change.

The projected required costs of State Water Project for the District do not reflect the effects of prepayments and credits held at CCWA. The Districts and credits lower the future of payments to CCWA for the State Water Project.

Estimates of the District's share of the project fixed costs of the State Water Project (SWP) are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates and inflation. During the next five years and thereafter payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 4,996,442
2015	5,071,340
2016	5,138,553
2017	5,239,770
2018	5,389,173
Thereafter	<u>62,016,460</u>
Total	<u>\$ 87,851,738</u>

Additional information and complete financial statements for the CCWA are available for public inspection at 255 Industrial Way, Buellton, CA, between the hours of 8 a.m. and 5 p.m., Monday through Friday.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(15) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2013—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

Governmental Accounting Standards Board Statement No. 68, continued

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees*. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

Montecito Water District
Notes to the Basic Financial Statements, continued
For the Years Ended June 30, 2013 and 2012

(16) Commitments and Contingencies, continued

Cachuma Project

The United States Department of the Interior, Bureau of Reclamation (“USBR”) entered into an agreement on September 12, 1949 with the Santa Barbara County Water Agency (the “County”) and constructed the Cachuma Project on the Santa Ynez River. The District entered into an agreement with the County to purchase water from those facilities. The agreement fixes charges for water furnished to repay the capital costs, and to pay the costs to operate and maintain works and facilities at Lake Cachuma and Bradbury Dam. Both these contracts were renewed in 1995.

Cater Water Filtration Plant

The District currently obtains approximately 50% of its water supplies from the Cachuma Project. These surface water supplies are treated at the City of Santa Barbara’s Cater Water Filtration Plant. The District entered into a joint powers agreement with the City of Santa Barbara, effective November 1, 2003, in which the District agreed to participate in a California Drinking Water State Revolving Fund contract financing totaling \$19.2 million to fund improvements required at the Cater Treatment plant. The District’s annual payments for its share of the debt service are \$225,416 per year.

Cater Ozone Project

The District currently obtains approximately 50% of its water supplies from the Cachuma Project. These surface water supplies are treated at the City of Santa Barbara’s Cater Water Filtration Plant. The District entered into a joint powers agreement with the City of Santa Barbara, effective November 1, 2003, in which the District agreed to participate in a California Drinking Water State Revolving Fund contract to fund improvements required at the Cater Treatment Plant. The District’s annual payments for its share of the debt service are \$151,199 per year.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes that there are no legal matters that will materially affect its financial condition.

(17) Subsequent Events

Events occurring after June 30, 2013 have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2013, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

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Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
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Charles Z. Fedak & Company

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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Montecito Water District
Montecito, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montecito Water District (District) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation
October 31, 2013
Cypress, California