



Montecito Water District

Annual Financial Report

For the Fiscal Year Ended June 30, 2016

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, 2016

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Term Expires</u>
Richard Shaikewitz	President	Elected	12/18
Jan E. Abel	Vice-President	Elected	12/16
Sam Frye	Director	Elected	12/18
Douglas Morgan	Director	Elected	12/18
Charles A. Newman	Director	Appointed	12/16

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

MONTECITO WATER DISTRICT

FINANCIAL STATEMENTS

June 30, 2016

MONTECITO WATER DISTRICT
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FINANCIAL SECTION



Moss, Levy & Hartzheim LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Montecito Water District
Montecito, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Montecito Water District (District) as of and for the fiscal year ended June 30, 2016, and the related notes to the 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Montecito Water District, as of June 30, 2016, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements effective July 1, 2015, the Montecito Water District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the Schedule of Funding Progress for Post Employment Benefits Other than Pensions on page 36, the Schedule of Proportionate Share of Net Pension Liability on page 37, and the Schedule of Pension Contributions on page 38, 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.

Report on Summarized Comparative Information

Another auditor previously audited the Montecito Water District's 2015 financial statements, and they expressed an unmodified audit opinion on those audited financial statements in their report dated February 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2015, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report February 16, 2017, on our consideration of the Montecito Water 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.

Moss, Remy & Hartzheim LLP

Santa Maria, California
February 16, 2017

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

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, 2016 and 2015. 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 2016, the District's net position increased 4.04% or \$1,001,723, from \$24,775,165 to \$25,776,888, primarily due to an increase of \$1,994,031 before special items as a result of Water Shortage Emergency Surcharge revenue of \$4,834,900 for 2016, compared to revenue of \$723,911 for 2015. In 2015, the District's net position decreased 13.19% or \$3,765,810, from \$28,540,975 to \$24,775,165, as result of that year's operations.

In 2016, the District's operating revenues increased 33.82% or \$5,071,544, primarily due to an increase of \$4,110,989 in Water Shortage Emergency Surcharge revenue as a result of an increase in the per unit rate of \$1.87 to \$3.45 in September 2015. In 2015, the District's operating revenues decreased 9.46% or \$1,565,684, primarily due to a decrease of \$4,508,259 in water consumption sales, due to State-wide drought restrictions, which was partially offset by increases of \$2,614,865 in combined Ordinance 93 – drought penalty charges and Water Shortage Emergency Surcharges in addition to \$326,586 in monthly service charges.

In 2016, the District's operating expenses increased 3.27% or \$507,235, primarily due to an increase of \$1,332,835 in source of supply costs and a decrease of \$588,954 in water treatment expense. In 2015, the District's operating expenses increased 2.68% or \$372,599, primarily due to an increases of \$237,594 in source of supply costs and \$150,450 in transmission and distribution expenses.

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 deferred outflows of resources) and the obligations to creditors (liabilities and deferred inflows of resources). 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 revenues 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.

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, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

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, deferred outflows of resources, liabilities, and deferred inflows of resources – 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 13 through 35.

Statements of Net Position

Condensed Statements of Net Position

	2016	2015	2016-2015 Change	2014	2015-2014 Change
Assets:					
Current assets	\$ 22,193,269	\$ 18,285,809	\$ 3,907,460	\$ 18,538,257	\$ (252,448)
Capital assets, net	32,594,685	33,768,012	(1,173,327)	33,964,485	(196,473)
Total assets	54,787,954	52,053,821	2,734,133	52,502,742	(448,921)
Deferred outflows of resources	296,553	262,957	33,596	-	262,957
Liabilities:					
Current liabilities	1,229,429	1,117,010	112,419	1,639,904	(522,894)
Non-current liabilities	27,407,307	25,522,653	1,884,654	22,321,863	3,200,790
Total liabilities	28,636,736	26,639,663	1,997,073	23,961,767	2,677,896
Deferred inflows of resources	670,883	901,950	(231,067)	-	901,950
Net position:					
Net investment in capital assets	11,822,865	12,529,647	(706,782)	12,071,813	457,834
Restricted	3,971,642	3,251,355	720,287	3,500,207	(248,852)
Unrestricted	9,982,381	8,994,163	988,218	12,968,955	(3,974,792)
Total net position	\$ 25,776,888	\$ 24,775,165	\$ 1,001,723	\$ 28,540,975	\$ (3,765,810)

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, the net position is \$25,776,888 and \$24,775,165 as of June 30, 2016 and 2015, respectively.

By far the largest portion of the District's total assets, (46% and 51% as of June 30, 2016 and 2015, 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. See note 5 for further information.

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Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

Statements of Net Position, continued

At the end of fiscal years 2016 and 2015, the District showed a positive balance in its unrestricted net position of \$9,982,381 and \$8,994,163, respectively, which may be utilized in future years for operations and capital projects.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2016	2015	2016-2015 Change	2014	2015-2014 Change
Revenues:					
Operating revenues	\$20,063,580	\$ 14,992,036	\$ 5,071,544	\$ 16,557,720	\$ (1,565,684)
Non-operating revenues	192,136	1,195,282	(1,003,146)	155,938	1,039,344
Total revenues	20,255,716	16,187,318	4,068,398	16,713,658	(526,340)
Expenses:					
Operating expenses	14,786,806	14,264,988	521,818	13,892,389	372,599
Depreciation and amortization	1,187,824	1,202,407	(14,583)	1,230,954	(28,547)
Non-operating expenses	2,430,843	1,250,826	1,180,017	1,240,289	10,537
Total expenses	18,405,473	16,718,221	1,687,252	16,363,632	354,589
Net income before capital contributions	1,850,243	(530,903)	2,381,146	35,026	(880,929)
Capital contributions	143,788	77,326	66,462	166,724	(89,398)
Change in net position	1,994,031	(453,577)	2,447,608	516,750	(970,327)
Special Item - Legal Settlement Expense	(1,775,000)	-	(1,775,000)	-	-
Net position, beginning of year	24,775,165	28,540,975	(3,765,810)	28,024,225	516,750
Prior period adjustment	782,692	(3,312,233)	4,094,925	-	(3,312,233)
Net position, end of year - restated	25,557,857	25,228,742	329,115	28,024,225	(2,795,483)
Net position, end of year	<u>\$25,776,888</u>	<u>\$ 24,775,165</u>	<u>\$ 1,001,723</u>	<u>\$28,540,975</u>	<u>\$ (3,765,810)</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 increased \$1,001,723 and decreased \$3,765,810 for the fiscal years ended June 30, 2016 and 2015, respectively.

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

In 2016, the District's total revenues increased by 25.13%, or \$4,068,398, primarily due to an increase in operating revenues of \$5,071,544, as the result of a full year of Water Shortage Emergency Surcharge revenue due to a rate increase in September 2015 from \$1.87 to \$3.45 per unit. Water consumption sales increased by 13.3%, or \$900,162 over the prior year.

In 2015, the District's total revenues decreased by 3.15%, or \$526,340, primarily due to a decrease in operating revenues partially offset by an increase in non-operating revenues of \$1,039,344, the result of a legal settlement. See Note 12 for further information. Operating revenues decreased by \$1,565,684, primarily due to a decrease of \$4,508,259 in water consumption sales, due to State-wide drought restriction, which was offset by increases of \$2,614,865 in combined Ordinance 93 drought penalty charges and Water Surcharge Emergency Surcharges in addition to \$326,586 in monthly service charges.

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

In 2016, the District's total expenses increased by 10.09%, or \$1,687,252, due to an increase in non-operating expenses of \$1,180,017, an increase of \$1,332,835 in source of supply costs, a decrease in water treatment expenses of \$588,954 and a decrease of \$82,773 in general and administrative expense. The District accrued \$1,775,000 for anticipated costs relating to a class action lawsuit and related legal fees. See Note 12 and Note 13 for further information.

Total Revenues			2016-2015		
	2016	2015	Change	2014	2015-2014 Change
Operating revenues:					
Water consumption sales	\$ 7,652,442	\$ 6,752,280	\$ 900,162	\$ 11,260,539	\$(4,508,259)
Monthly service charge	3,976,816	4,051,793	(74,977)	3,725,207	326,586
Ordinance 93- drought penalty charge	3,513,469	3,402,310	111,159	1,511,356	1,890,954
Water shortage emergency surcharges	4,834,900	723,911	4,110,989	-	723,911
Other charges for services	85,953	61,742	24,211	60,618	1,124
Total operating revenue	20,063,580	14,992,036	5,071,544	16,557,720	(1,565,684)
Non-operating revenues:					
Rental revenue	41,524	38,473	3,051	40,416	(1,943)
Picay hydroelectric power	5,055	18,269	(13,214)	29,348	(11,079)
Investment earnings	58,910	24,152	34,758	36,430	(12,278)
Legal settlement	4,630	1,058,877	(1,054,247)	-	1,058,877
Other non-operating revenues	82,017	55,511	26,506	49,744	5,767
Total non-operating revenues	192,136	1,195,282	(1,003,146)	155,938	1,039,344
Total revenues	\$20,255,716	\$16,187,318	\$4,068,398	\$16,713,658	\$ (526,340)
Total Expenses					
		2016-2015		2015-2014	
		2016	2015	Change	Change
Operating expenses:					
Source of supply - water purchases	\$ 7,319,722	\$ 6,931,677	\$ 388,045	\$ 6,537,080	\$ 394,597
Source of supply - drought water purchases	2,070,778	1,159,420	911,358	1,295,799	(136,379)
Source of supply - operational costs	157,974	124,542	33,432	145,166	(20,624)
Pumping	333,909	295,690	38,219	355,378	(59,688)
Water treatment - Cater treatment	276,523	476,412	(199,889)	821,856	(345,444)
Water treatment - operational costs	744,337	1,133,402	(389,065)	780,729	352,673
Transmission and distribution	1,268,839	1,432,593	(163,754)	1,415,061	17,532
Customer service and meter reading	383,887	397,642	(13,755)	378,160	19,482
General and administrative	2,230,837	2,313,610	(82,773)	2,163,160	150,450
Total operating expenses	14,786,806	14,264,988	521,818	13,892,389	372,599
Depreciation - capital recovery	1,187,824	1,202,407	(14,583)	1,230,954	(28,547)
Non-operating expenses:					
Interest expense	1,212,491	877,462	335,029	887,413	(9,951)
Cater treatment plant ozone debt	231,647	231,647	-	225,416	6,231
Cater treatment plant - ozone project obligation	276,035	125,402	150,633	101,342	24,060
Joint-project cost commitments	8,675	69,240	(60,565)	79,041	(9,801)
Loss on disposition of capital projects	754,918	-	754,918	-	-
Amortization of debt premium	(52,923)	(52,925)	2	(52,923)	(2)
Total non-operating expenses	2,430,843	1,250,826	1,180,017	1,240,289	10,537
Total expenses	\$18,405,473	\$16,718,221	\$1,687,252	\$16,363,632	\$ 354,589

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

Capital Asset Administration

At the end of fiscal year 2016 and 2015, the District's investment in capital assets amounted to \$32,594,685 and \$33,768,012, respectively, (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. Major capital assets additions during the year included upgrades to the Bella Vista treatment plant, the transmission and distribution system, machinery and equipment, reservoirs and storage tanks, and structures and improvements. See Note 5 for further information.

Changes in capital assets amounts for 2016 were as follows:

	Balance 2015	Additions	Transfers/ Deletions	Balance 2016
Capital assets:				
Non-depreciable	\$ 832,045	\$ 739,769	\$ (1,377,591)	\$ 194,223
Depreciable assets	55,251,438	29,646	360,348	55,641,432
Accumulated depreciation	(21,315,471)	(1,187,824)	262,325	(23,240,970)
Total capital assets, net	<u>\$ 34,768,012</u>	<u>\$ (418,409)</u>	<u>\$ (754,918)</u>	<u>\$ 32,594,685</u>

Changes in capital assets amounts for 2015 were as follows:

	Balance 2014	Additions	Transfers/ Deletions	Balance 2015
Capital assets:				
Non-depreciable	\$ 406,761	\$ 936,751	\$ (511,467)	\$ 832,045
Depreciable assets	54,670,788	580,650		55,251,438
Accumulated depreciation	(21,113,064)	(1,202,407)		(22,315,471)
Total capital assets, net	<u>\$ 33,964,485</u>	<u>\$ 314,994</u>	<u>\$ (511,467)</u>	<u>\$ 33,768,012</u>

Debt Administration

Changes in long-term debt amounts excluding compensated absences, OPEB, and net pension liabilities for 2015 were as follows:

	Balance 2015	Additions	Deletions	Balance 2016
Long-term debt:				
Bond payable	\$ 14,100,863	\$ -	\$ (52,923)	\$ 14,047,940
Loan payable	7,137,502		(413,622)	6,723,880
Total long-term debt	<u>\$ 21,238,365</u>	<u>\$ -</u>	<u>\$ (466,545)</u>	<u>\$ 20,771,820</u>

Changes in long-term debt amounts excluding compensated absences, OPEB, and net pension liabilities for 2014 were as follows:

	Balance 2014	Additions	Deletions	Balance 2015
Long-term debt:				
Bond payable	\$ 14,153,788	\$ -	\$ (52,925)	\$ 14,100,863
Loan payable	7,738,884		(601,382)	7,137,502
Total long-term debt	<u>\$ 21,892,672</u>	<u>\$ -</u>	<u>\$ (654,307)</u>	<u>\$ 21,238,365</u>

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

Conditions Affecting Current Financial Position

Management is unaware of any conditions at June 30, 2016, that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

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 Tom Sheil, Business Manager of Montecito Water District, 583 San Ysidro Road, Santa Barbara, California, 93108 -- (805) 969-2271.

MONTECITO WATER DISTRICT
STATEMENT OF NET POSITION - ENTERPRISE FUND
June 30, 2016
With Comparative Totals for June 30, 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current:		
Cash and investments	\$ 8,594,206	\$ 5,210,759
Restricted - cash and investments	3,971,642	3,251,355
Receivables:		
Accounts receivable - water sales and services, net	2,011,352	1,574,831
Accounts receivable - other	78,407	2,905
Accrued interest	18,844	5,476
Materials and supplies inventory	233,315	215,672
Prepaid water charges	7,235,960	7,971,563
Prepaid expenses and other deposits	49,543	53,248
Total Current Assets	<u>22,193,269</u>	<u>18,285,809</u>
Noncurrent:		
Capital assets - not being depreciated	194,223	832,045
Capital assets - being depreciated, net	32,400,462	32,935,967
Total Noncurrent Assets	<u>32,594,685</u>	<u>33,768,012</u>
Total Assets	<u>54,787,954</u>	<u>52,053,821</u>
Deferred Outflows of Resources		
Deferred pensions	296,553	262,957
Total Deferred Outflows of Resources	<u>296,553</u>	<u>262,957</u>
Liabilities		
Current:		
Accounts payable and accrued expenses	470,857	680,575
Accrued wages and related payables	37,007	30,860
Unearned revenue and other deposits	19,381	84,008
Accrued interest payable	345,231	
Long-term liabilities - due within one year:		
Accrued compensated absences	93,312	116,047
Bonds payable	52,924	
Loan payable	210,717	205,520
Total Current Liabilities	<u>1,229,429</u>	<u>1,117,010</u>
Noncurrent:		
Accrued compensated absences	279,937	348,139
Accrued water exchange transfer	1,334,475	873,986
Bonds payable	13,995,016	14,100,863
Loan payable	6,513,163	6,931,982
Legal settlement payable	1,775,000	
Other post-employment benefits payable	683,762	583,677
Net pension liability	2,825,954	2,684,006
Total Noncurrent Liabilities	<u>27,407,307</u>	<u>25,522,653</u>
Total Liabilities	<u>28,636,736</u>	<u>26,639,663</u>
Deferred Inflows of Resources		
Deferred pensions	670,883	901,950
Total Deferred Inflows of Resources	<u>670,883</u>	<u>901,950</u>
Net Position		
Net investment in capital assets	11,822,865	12,529,647
Restricted - water agreements and debt reserve	3,971,642	3,251,355
Unrestricted	9,982,381	8,994,163
Total Net Position	<u>\$ 25,776,888</u>	<u>\$ 24,775,165</u>

The notes to basic financial statements are an integral part of this statement.

MONTECITO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Water consumption sales	\$ 7,652,442	\$ 6,752,280
Monthly service charge	3,976,816	4,051,793
Ordinance No. 93/94 - drought penalty charge	3,513,469	3,402,310
Water shortage emergency surcharge	4,834,900	723,911
Other charges for services	85,953	61,742
	<u>20,063,580</u>	<u>14,992,036</u>
Operating Expenses:		
Source of supply - water purchases	7,319,722	6,931,677
Source of supply - drought water purchases	2,070,778	1,159,420
Source of supply - operational costs	157,974	124,542
Pumping	333,909	295,690
Water treatment - cater treatment plant	276,523	476,412
Water treatment - operational costs	744,337	1,133,402
Transmission and distribution	1,268,839	1,432,593
Customer service and meter reading	383,887	397,642
General and administrative	2,230,837	2,313,610
Depreciation	1,187,824	1,202,407
Total operating expenses	<u>15,974,630</u>	<u>15,467,395</u>
Operating income (loss)	<u>4,088,950</u>	<u>(475,359)</u>
Nonoperating Revenues (Expenses):		
Rental revenue	41,524	38,473
Picay hydroelectric power	5,055	18,269
Investment earnings	58,910	24,152
Interest expense	(1,212,491)	(877,462)
Cater treatment plant obligation	(231,647)	(231,647)
Cater treatment plant - ozone project obligation	(276,035)	(125,402)
Joint-project cost commitments	(8,675)	(69,240)
Amortization of debt premium	52,923	52,925
Legal settlement	4,630	1,058,877
Loss on disposal of capital assets	(754,918)	
Other non-operating revenues	82,017	55,511
Total nonoperating revenues (expenses)	<u>(2,238,707)</u>	<u>(55,544)</u>
Income (loss) before capital contributions	<u>1,850,243</u>	<u>(530,903)</u>
Capital contributions		
Capital contributions	118,550	52,162
Connection fees	25,238	25,164
Total capital contributions	<u>143,788</u>	<u>77,326</u>
Change in net position prior to Special Items	1,994,031	(453,577)
Special Items		
Legal settlement expense	<u>(1,775,000)</u>	
Change in net position	<u>219,031</u>	<u>(453,577)</u>
Net position, beginning of fiscal year	24,775,165	28,540,975
Prior period adjustment	782,692	(3,312,233)
Net position, beginning of fiscal year - restated	<u>25,557,857</u>	<u>25,228,742</u>
Net position, end of fiscal year	<u>\$ 25,776,888</u>	<u>\$ 24,775,165</u>

The notes to basic financial statements are an integral part of this statement.

MONTECITO WATER DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 19,551,557	\$ 15,192,397
Payments to suppliers	(10,458,937)	(13,348,973)
Payments to employees	(3,090,019)	(2,195,955)
Net cash provided (used) by operating activities	<u>6,002,601</u>	<u>(352,531)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(769,415)	(1,005,934)
Proceeds from capital contributions	143,788	77,326
Principal paid on long-term debt	(413,622)	(601,382)
Interest paid on long-term debt	(867,260)	(1,319,940)
Net cash provided (used) by capital financing and related activities	<u>(1,906,509)</u>	<u>(2,849,930)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rental revenue	41,524	38,473
Picay hydroelectric power	5,055	18,269
Cater treatment plant obligation	(231,647)	(231,647)
Cater treatment plant - ozone project obligation	(276,035)	(125,402)
Joint-project cost commitments	(8,675)	(69,240)
Legal settlement	4,630	1,058,877
Other non-operating income, net	82,017	55,511
Net cash provided (used) by noncapital financing activities	<u>(383,131)</u>	<u>744,841</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	45,542	23,425
Net cash provided (used) by investing activities	<u>45,542</u>	<u>23,425</u>
Net increase (decrease) in cash and cash equivalents	3,758,503	(2,434,195)
Cash and cash equivalents, July 1	8,462,114	10,896,309
Prior period adjustment	345,231	
Cash and cash equivalents, July 1, restated	<u>8,807,345</u>	<u>10,896,309</u>
Cash and cash equivalents, June 30	<u>\$ 12,565,848</u>	<u>\$ 8,462,114</u>
Reconciliation to Statement of Net Position:		
Cash and investments - cash equivalents	\$ 8,594,206	\$ 5,210,759
Restricted cash and investments - cash equivalents	3,971,642	3,251,355
	<u>\$ 12,565,848</u>	<u>\$ 8,462,114</u>

The notes to basic financial statements are an integral part of this statement.

MONTECITO WATER DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>2016</u>	<u>2015</u>
Reconciliation to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 4,088,950	\$ (475,359)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	1,187,824	1,202,407
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable	(512,023)	88,108
Materials and supplies inventory	(17,643)	(19,993)
Prepaid water charges	1,173,064	(2,260,163)
Prepaid expenses and other deposits	3,705	11,028
Deferred outflows	(33,596)	92,127
Accounts payables	(209,718)	311,021
Accrued wages and related payables	6,147	26,903
Unearned revenue and other deposits	(64,627)	14,277
Accrued water exchange transfer	460,489	632,750
Compensated absences	(90,937)	6,047
Net OPEB obligation	100,085	99,677
Net pension liability	141,948	(983,311)
Deferred inflows	<u>(231,067)</u>	<u>901,950</u>
Net cash provided (used) by operating activities	<u>\$ 6,002,601</u>	<u>\$ (352,531)</u>

The notes to basic financial statements are an integral part of this statement.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise of assets, liabilities, fund equity, revenues, and expenses. This system permits separate accounting for each established fund for purposes of complying with applicable legal provisions, Board of Director's ordinances and resolutions and other requirements. Also, the accounts have been maintained in accordance with the California State Controller's uniform system of accounts.

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 (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

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.

The District applies all applicable GASB pronouncements in accounting and reporting for proprietary operations. It does not apply any FASB Statements and Interpretations issued after November 30, 1989.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Assets, Deferred Outflows, Liabilities, Deferred Inflows 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. 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.

8. 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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Capital Assets (Continued)

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

9. 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.

10. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

- Valuation Date: June 30, 2014
- Measurement Date: June 30, 2015
- Measurement Period: July 1, 2014 to June 30, 2015

11. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred outflows of resources the District has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred inflows of resources the District has reported.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- Net Investment in Capital Assets Component of Net Position— 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position.
- Restricted Component of Net Position — This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- Unrestricted Component of Net Position — This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

13. Water Sales

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

14. Deposit Connection Fees

Connection fees are collected by the District to cover the cost of service connections within the District.

15. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

16. Budgetary Policies

The District adopts a one year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

C. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 72

For the fiscal year ended June 30, 2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application." This Statement is effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Implementation of the GASB Statement No. 72 and the impact on the District's financial statements are explained in Note 3 – Cash and Investments.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 74	"Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans"	The provisions of this statement are effective for fiscal years beginning after June 15, 2016.
Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 77	"Tax Abatement Disclosures"	The provisions of this statement are effective for fiscal years beginning after December 15, 2015.
Statement No. 78	"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"	The provisions of this statement are effective for fiscal years beginning after December 15, 2015.
Statement No. 79	"Certain External Investment Pools and Pool Participants"	The provisions of this statement are effective for fiscal years beginning after December 15, 2015.
Statement No. 80	"Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14"	The provisions of this statement are effective for fiscal years beginning after June 15, 2016.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

E. Comparative Data/Totals Only

Comparative total data for the prior fiscal year has been presented in certain accompanying financial statements in order to provide an understanding of the changes in the District's financial position, operations, and cash flows. Also, certain prior fiscal amounts have been reclassified to conform to the current fiscal year financial statements presentation.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

	2016	2015
Cash on hand	\$ 350	\$ 350
Deposits with financial intitutions	1,077,697	982,268
Investments	11,487,801	7,479,496
	<u>\$ 12,565,848</u>	<u>\$ 8,462,114</u>

Cash and investments listed above, are presented on the accompanying statement of net position, as follows:

	2016	2015
Cash and investments	\$ 8,594,206	\$ 5,210,759
Restricted cash and investments	3,971,642	3,251,355
Total cash and investments	<u>\$ 12,565,848</u>	<u>\$ 8,462,114</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

- Level 1 Investments are United States Treasury Notes with a market value of \$1,431,676.

Investments Authorized by the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

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 Obligations	5 years **	100%	None
U.S. Agency Obligations	5 years **	100%	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper — Pooled Funds	270 days	40%	10%
Commercial Paper — Non-pooled Funds	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	100%	None
Repurchase agreements	1 year	100%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds and Money Market Mutual	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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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 is maturing or coming close to maturity evenly over time as necessary to provide the 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:

Investment Type	Carrying Amount	2016 Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
State investment pool (LAIF)	\$ 7,516,159	\$ 7,516,159	\$ -	\$ -	\$ -
CCWA Investment Pool	1,585,798	1,585,798			
Held by bond trustee					
Money market funds	954,168	954,168			
United States Treasury Notes	1,431,676	1,431,676			
	<u>\$ 11,487,801</u>	<u>\$ 11,487,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

Investment Type	Carrying Amount	2015			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
State investment pool (LAIF)	\$ 4,797,897	\$ 4,797,897	\$ -	\$ -	\$ -
CCWA Investment Pool	1,237,033	1,237,033			
Held by bond trustee					
Money market funds	1,444,566	1,444,566			
	<u>\$ 7,479,496</u>	<u>\$ 7,479,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below, is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	2016			
			Rating as of Fiscal Year End			
			AAA	A+	Baa	Not Rated
State investment pool (LAIF)	\$ 7,516,159	N/A	\$ -	\$ -	\$ -	\$ 7,516,159
CCWA Investment Pool	1,585,798					1,585,798
Held by bond trustee						
Money market funds	954,168					954,168
United States Treasury Notes	1,431,676					1,431,676
	<u>\$ 11,487,801</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,487,801</u>

Investment Type	Carrying Amount	Minimum Legal Rating	2015			
			Rating as of Fiscal Year End			
			AAA	A+	Baa	Not Rated
State investment pool (LAIF)	\$ 4,797,897	N/A	\$ -	\$ -	\$ -	\$ 4,797,897
CCWA Investment Pool	1,237,033					1,237,033
Held by bond trustee						
Money market funds	1,444,566					1,444,566
	<u>\$ 7,479,496</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,479,496</u>

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure 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 fair 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Collateral for Deposits

The collateral for certificates of deposit is generally held in safekeeping by the Federal Home Loan Bank in San Francisco as the third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintain detailed records of the security pool which are coordinated and updated weekly.

The Treasurer, at his or her discretion, may waive the 110% collateral requirement for deposits. Deposit accounts are insured up to \$250,000.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

Collateral for Deposits (Continued)

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

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at the 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.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each entity may invest up to \$50,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California.

LAIF's and the District's exposure to risk (credit, market or legal) is not currently available. Section 16429.3 states that "money placed with the State Treasurer for deposit in the LAIF shall not be subject to impoundment or seizure by any State official or State Agency.

NOTE 4 – 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, 2015, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability: The District has a \$500 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 and 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 \$150 million subject to a \$1,000 deductible per occurrence for most equipment. Equipment such as turbine units, internal combustion engines, electric generators and motors, pumps and transformers are subject to a \$25,000 to \$50,000 deductible.
- 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, 2016, 2015 and 2014. 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, 2016, 2015 and 2014.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 and June 30, 2015 was as follows:

	Balance July 1, 2015	Additions	Deletions	Transfers/Reclass	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 101,352	\$ -	\$ -	\$ -	\$ 101,352
Construction in progress	730,693	739,769	(742,093)	(635,498)	92,871
Total capital assets not being depreciated	<u>\$ 832,045</u>	<u>\$ 739,769</u>	<u>\$ (742,093)</u>	<u>\$ (635,498)</u>	<u>\$ 194,223</u>
Capital assets being depreciated:					
Transmission and distribution system	\$ 26,621,715	\$ -	\$ (58,475)	\$ 231,987	\$ 26,795,227
Juncal dam	2,123,577			38,916	2,162,493
Wells and water sources	4,024,279			6,035	4,030,314
Water rights	142,234				142,234
Bella Vista treatment plant	5,801,977		(61,433)	11,112	5,751,656
Other treatment plants and facilities	395,099		(101,464)	50,659	344,294
Reservoirs and storage tanks	12,435,379			132,145	12,567,524
Meters and meter boxes	1,226,011			47,601	1,273,612
Structures and improvements	464,273		(28,192)		436,081
Machinery and equipment	2,016,894	29,646	(25,586)	117,043	2,137,997
Total depreciable assets	<u>55,251,438</u>	<u>29,646</u>	<u>(275,150)</u>	<u>635,498</u>	<u>55,641,432</u>
Less accumulated depreciation:					
Transmission and distribution system	(8,417,812)	(486,468)	57,451		(8,846,829)
Juncal dam	(1,442,610)	(23,343)			(1,465,953)
Wells and water sources	(2,995,651)	(115,668)			(3,111,319)
Water rights	(142,234)				(142,234)
Bella Vista treatment plant	(4,240,793)	(267,535)	55,132		(4,453,196)
Other treatment plants and facilities	(389,184)	(15,672)	96,646		(308,210)
Reservoirs and storage tanks	(1,688,374)	(142,269)			(1,830,643)
Meters and meter boxes	(858,823)	(65,044)			(923,867)
Structures and improvements	(314,969)	(7,641)	27,510		(295,100)
Machinery and equipment	(1,825,021)	(64,184)	25,586		(1,863,619)
Total accumulated depreciation	<u>(22,315,471)</u>	<u>(1,187,824)</u>	<u>262,325</u>		<u>(23,240,970)</u>
Total capital assets being depreciated, net	<u>\$ 32,935,967</u>	<u>\$ (1,158,178)</u>	<u>\$ (12,825)</u>	<u>\$ 635,498</u>	<u>\$ 32,400,462</u>
Net capital assets	<u>\$ 33,768,012</u>	<u>\$ (418,409)</u>	<u>\$ (754,918)</u>	<u>\$ -</u>	<u>\$ 32,594,685</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS (Continued)

	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Capital assets not being depreciated:					
Land	\$ 101,352	\$ -	\$ -	\$ -	\$ 101,352
Construction in progress	305,409	936,751	(511,467)		730,693
Total capital assets not being depreciated	<u>\$ 406,761</u>	<u>\$ 936,751</u>	<u>\$ (511,467)</u>	<u>\$ -</u>	<u>\$ 832,045</u>
Capital assets being depreciated:					
Transmission and distribution system	\$ 26,530,166	\$ 91,549	\$ -	\$ -	\$ 26,621,715
Juncal dam	2,123,577				2,123,577
Wells and water sources	4,024,279				4,024,279
Water rights	142,234				142,234
Bella Vista treatment plant	5,483,741	318,236			5,801,977
Other treatment plants and facilities	395,099				395,099
Reservoirs and storage tanks	12,384,720	50,659			12,435,379
Meters and meter boxes	1,226,011				1,226,011
Structures and improvements	424,340	39,933			464,273
Machinery and equipment	1,936,621	80,273			2,016,894
Total depreciable assets	<u>54,670,788</u>	<u>580,650</u>			<u>55,251,438</u>
Less accumulated depreciation					
Transmission and distribution system	(7,922,857)	(494,955)			(8,417,812)
Juncal dam	(1,417,519)	(25,091)			(1,442,610)
Wells and water sources	(2,870,475)	(125,176)			(2,995,651)
Water rights	(142,234)				(142,234)
Bella Vista treatment plant	(4,005,163)	(235,630)			(4,240,793)
Other treatment plants and facilities	(386,648)	(2,536)			(389,184)
Reservoirs and storage tanks	(1,545,904)	(142,470)			(1,688,374)
Meters and meter boxes	(793,729)	(65,094)			(858,823)
Structures and improvements	(305,478)	(9,491)			(314,969)
Machinery and equipment	(1,723,057)	(101,964)			(1,825,021)
Total accumulated depreciation	<u>(21,113,064)</u>	<u>(1,202,407)</u>			<u>(22,315,471)</u>
Total capital assets being depreciated, net	<u>\$ 33,557,724</u>	<u>\$ (621,757)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,935,967</u>
Net capital assets	<u>\$ 33,964,485</u>	<u>\$ 314,994</u>	<u>\$ (511,467)</u>	<u>\$ -</u>	<u>\$ 33,768,012</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 – LONG-TERM LIABILITIES

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2016 and June 30, 2015:

	Balance July 1, 2015	Additions	Deletions / Retirements	Balance June 30, 2016	Due Within One Year
Compensated absences	\$ 464,186	\$ 190,972	\$ (281,909)	\$ 373,249	\$ 93,312
Bonds payable:					
2010A Revenue COP	13,360,000			13,360,000	
2010A Revenue COP-premium	740,863		(52,923)	687,940	52,924
Total bonds payable	14,100,863		(52,923)	14,047,940	52,924
Loans payable:					
DWR - Ortega Loan	7,137,502		(413,622)	6,723,880	210,717
OPEB payable	583,677	120,389	(20,304)	683,762	
Net pension liability	2,684,006	1,383,800	(1,241,852)	2,825,954	
Total long-term liabilities	\$ 24,970,234	\$ 1,695,161	\$ (2,010,610)	\$ 24,654,785	\$ 356,953

	Balance July 1, 2014	Additions	Deletions / Retirements	Prior-period Adjustment	Balance June 30, 2015	Due Within One Year
Compensated absences	\$ 458,139	\$ 170,321	\$ (164,274)	\$ -	\$ 464,186	\$ 116,047
Bonds payable:						
2010A Revenue COP	13,360,000				13,360,000	
2010A Revenue COP-premium	793,788		(52,925)		740,863	
Total bonds payable	14,153,788		(52,925)		14,100,863	
Loans payable:						
DWR - Ortega Loan	7,738,884		(601,382)		7,137,502	205,520
OPEB payable	484,000	115,904	(16,227)		583,677	
Net pension liability		1,474,673	(2,457,984)	3,667,317	2,684,006	
Total long-term liabilities	\$ 22,834,811	\$ 1,760,898	\$ (3,292,792)	\$ 3,667,317	\$ 24,970,234	\$ 321,567

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 2014. Annual principal payments of \$340,000 to \$1,290,000 plus interest were due for the years ending June 30, 2014 through 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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 – LONG-TERM LIABILITIES (Continued)

2010A Refunding Revenue Certificates of Participation (Continued)

Annual debt service payments are as follows:

Year	Principal	Interest	Total
2017	\$ -	\$ 690,462	\$ 690,462
2018		690,463	690,463
2019		690,462	690,462
2020		690,463	690,463
2021		690,462	690,462
2022-2026	5,990,000	2,870,294	8,860,294
2027-2030	7,370,000	799,313	8,169,313
Total	13,360,000	\$ 7,121,919	\$ 20,481,919
Less current			
Premium on debt	687,940		
Total non-current	\$ 14,047,940		

Department of Water Resources — Ortega Reservoir Improvement Project Contract

In December 2003, the District entered into a funding agreement, along with Carpentaria 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 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:

Year	Principal	Interest	Total
2017	\$ 210,717	\$ 84,492	\$ 295,209
2018	429,412	161,008	590,420
2019	440,271	150,148	590,419
2020	451,406	139,014	590,420
2021	462,822	127,597	590,419
2022-2026	2,495,714	456,383	2,952,100
2027-2030	2,233,538	128,139	2,361,677
Total	6,723,880	\$ 1,246,781	\$ 7,970,661
Less current	(210,717)		
Total non-current	\$ 6,513,163		

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

The District provides other post employment benefits (OPEB) through the California Employers' Retiree Benefit Fund (CERBT), an agent multiple-employer defined benefit medical, dental, and vision healthcare plan administered by the California Public Employees' Retirement System (CalPERS). Benefits are provided to employees who retire at age 55 or older with twenty years of full-time CalPERS service and retire from the District. Coverage is also provided to eligible retirees, spouses and surviving spouses. These benefits are provided per contract between the District and the employee associations. Separate financial statements of the CERBT may be obtained by writing to CalPERS at Lincoln Plaza North 400 Q Street, Sacramento, California 95814 or by visiting the CalPERS website at www.calpers.ca.gov.

B. 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.

For the year ended June 30, 2016, the District's ARC cost is \$120,389. The District's net OPEB payable obligation amounted to \$683,762 for the year ended June 30, 2016. The District contributed \$20,304 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2016.

	<u>2016</u>	<u>2015</u>
Annual required contribution (ARC)	\$ 118,059	\$ 118,059
Interest on net OPEB obligation	26,265	21,780
Adjustment to ARC	<u>(23,935)</u>	<u>(23,935)</u>
Annual OPEB cost	120,389	115,904
Contributions made	<u>(20,304)</u>	<u>(16,227)</u>
(Decrease) increase in net OPEB obligation	100,085	99,677
Net OPEB Obligation (asset) - Beginning of fiscal year	<u>583,677</u>	<u>484,000</u>
Net OPEB Obligation (asset) - end of fiscal year	<u>\$ 683,762</u>	<u>\$ 583,677</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB (obligation) asset for 2015-2016 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2016	\$ 120,389	\$ 20,304	16.9%	\$ 683,762
2015	115,904	16,227	14.0%	583,677
2014	121,918	12,918	10.6%	484,000

C. Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS (Continued)

C. Funded Status and Funding Progress (Continued)

The schedule of funding progress below presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Only two years are presented as there is no complete multiyear trend information to present.

D. 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	2/1/2015
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Year as of the valuation date
Asset valuation method	30 Year smoothed marked
Actuarial assumptions:	
Investment rate of return	4.50%
Projected salary increase	2.75%
Inflation - discount rate	2.75%
Health care - trend rate	4.00%

NOTE 8 – PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 – PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided(Continued)

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire Date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	7%
Required employer contribution rates	14.002%	6.555%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$282,023 for the fiscal year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$2,825,954 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2016, the District's proportion share of net pension liability for miscellaneous plans as of June 30, 2016, and 2015 was as follows:

	<u>Miscellaneous</u>
Proportion-June 30, 2014	0.10860%
Proportion-June 30, 2015	0.10301%
Change-increase(decrease)	(0.00559%)

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 – PENSION PLAN (Continued)

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

For the year ended June 30, 2016, the District recognized pension expense of \$159,308. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 282,023	\$ -
Changes in assumptions		137,463
Differences between expected and actual experience	14,530	
Net difference between projected and actual earnings on retirement plan investments		68,912
Difference in proportions		349,600
Differences in actual contributions and proportionate share of contributions		114,908
	<u>\$ 296,553</u>	<u>\$ 670,883</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

\$282,023 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Fiscal Year Ending June 30,	Amount
2017	\$ (222,423)
2018	(225,004)
2019	(191,701)
2020	(17,225)
	<u>\$ (656,353)</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 – PENSION PLAN (Continued)

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

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

Changes of Assumptions

GASB No. 68, paragraph 68 states that the long term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expenses. The discount rate was changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2015 to correct the adjustment which previously reduced the discount rate for administrative expenses.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 – PENSION PLAN (Continued)

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.5% was used for this period.

(b) An expected inflation of 3.0% was used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65 percent) or 1- percentage point higher (8.65 percent) than the current rate:

	1% Decrease 6.65%	Discount Rate 7.65%	1% Increase 8.65%
District's proportionate share of the net pension plan liability	\$ 4,739,322	\$ 2,825,954	\$ 1,246,246

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 – PENSION PLAN (Continued)

C. Payable to Pension Plan

At June 30, 2016, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2016.

NOTE 9 – 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 totaled \$3,405,912 and \$3,228,471 as of June 30, 2016 and 2015, 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.

NOTE 10 – ORDINANCES #934/94 – DROUGHT PENALTY AND WATER SHORTAGE EMERGENCY SURCHARGE

For the fiscal year ended June 30, 2016, the Montecito Water District (MWD), along with many other water agencies statewide, continued to face a serious water supply shortage crisis with Santa Barbara County now in the third year of drought severity classified as "D4—exceptional drought".

In February 2014, the District declared a water shortage emergency by adopting Ordinance 93 establishing a mandatory water allocation/rationing program for all customer classifications and a new water service prohibition. Ordinance 93 was adopted to reduce excessive customer water usage due to: (1) four consecutive years of rainfall less than 50% of the seasonal average, and (2) to protect and extend the remaining water supply for public health and safety purposes. Ordinance 93 also includes a financial penalty as a customer conservation provision for customer monthly water use in excess of the customer monthly water supply allocation. The first occurrence of water consumed in excess of allocation during the water year (October — September) is subject to tiered rates plus a penalty premium of \$30 per HCF for that month. Subsequent water use, in excess of the monthly allocation, results in a penalty premium increase up to \$45 per HCF for that month. In March 2015, the Board passed Ordinance No. 94 which repealed Ordinance No. 93 and increased the allocation of water during the water shortage emergency, as well as, provide for penalty rates for consumption in excess of allocation.

In March 2015, the Board adopted Resolution No. 2124 adopting a Water Shortage Emergency Surcharge. The surcharge was necessary to offset the decrease in annual water sales and to cover substantial costs to manage the drought, including the purchase of supplemental water, as well as, the costs for the development of desalinated water, groundwater and other long term water supply solutions. The surcharge is based on an evaluation of water sales and can be adjusted through Board action.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 – ORDINANCES #934/94 – DROUGHT PENALTY AND WATER SHORTAGE EMERGENCY SURCHARGE (Continued)

These revenues have been utilized as follows:

	2016	2015
Ordinance No. 93/94 — drought penalty charge	\$ 3,513,469	\$ 2,678,399
Water Shortage Emergency (WSE) surcharge	4,834,900	723,911
Source of supply — drought water purchases	<u>(2,070,778)</u>	<u>(3,197,862)</u>
Net drought related revenue	6,277,591	204,448
Reserve for future liability — return water	<u>(1,334,475)</u>	<u>(873,986)</u>
Remaining underfunded reserve balance	<u>N/A</u>	<u>\$ (669,538)</u>

NOTE 11 – 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, depending upon the State's water allocation. Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 – STATE WATER CONTRACT (Continued)

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.

On September 28, 2006, 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.

On June 28, 2016, CCWA issued Series 2016A refunding revenue bonds in the amount of \$45,470,000. This refunded the outstanding \$59,645,000 Series 2006A revenue bonds. The 2016A revenue bonds were issued at a true interest cost of 1.355% and were issued to reduce the Authority's total debt service payments over the next 5 years by \$5.6 million. The District's share of the Series 2016A refunding revenue bonds issued is \$8.0M.

Fiscal Year	Fixed Costs	Variable Costs	Debt Service	Total
2017	\$ 3,029,494	\$ 796,883	\$ 2,022,276	\$ 5,848,653
2018	2,952,727	910,972	2,030,290	5,893,989
2019	2,901,162	1,150,400	2,021,235	6,072,797
2020	2,898,900	1,191,162	2,019,625	6,109,687
2021	3,003,182	1,233,693	2,017,176	6,254,051
Thereafter	44,824,313		2,014,572	46,838,885
	<u>\$ 59,609,778</u>	<u>\$ 5,283,110</u>	<u>\$ 12,125,174</u>	<u>\$ 77,018,062</u>

The numbers provided from the table above, are estimated based upon the following assumptions. Starting with the fiscal year 2019/2020, the CCWA fixed costs are estimated to increase 3% annually and are projected to the year 2036. No variable costs are assumed after 2019/2020 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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 – STATE WATER CONTRACT (Continued)

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:

Fiscal Year	Total
2017	\$ 5,848,653
2018	5,893,989
2019	6,072,797
2020	6,109,687
2021	6,254,051
Thereafter	46,838,885
	<u>\$ 77,018,062</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.

NOTE 12 – COMMITMENTS AND CONTINGENCIES 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 \$172,997 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 other than the Class Action below.

Class Action

The District is party to a class action claim that includes all customer classes under the District's Ordinance 90 except for the District's agricultural class. The Class Action is based on an administrative class claim for refund filed with the District on November 5, 2012. The Class Action seeks declaratory and injunctive relief, and alleges that the District violated Proposition 218 in adopting Ordinance 90 and imposing the water rates it provides. On December 10, 2013, the Court certified the class, and later bifurcated the case into liability and remedies phases. On September 22, 2015, the liability phase concluded and the Court found the District's rates did not comply with Proposition 218, in part.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 – COMMITMENTS AND CONTINGENCIES CACHUMA PROJECT (continued)

Class Action (continued)

The parties attended a mediation on December 22, 2015 and reached a tentative settlement, which the Court preliminary approved on July 7, 2016. The final approval hearing is scheduled for August 8, 2017. Assuming Court grants final approval, which the District anticipates: 1) the District will set aside up to \$1,862,250 to provide refunds to eligible class members who submit timely claims; 2) the refunds will be provided to existing customers via credits against future invoices over a seven-month period and to former customers via check; 3) if less than \$1,862,250 in refunds are claimed, the remaining balance will revert back to the District with no restrictions; and 4) the District will pay up to \$475,000, subject to Court approval, in attorneys' fees and will also bear the costs of class administration and notice. The District's attorney estimates that approximately 25% of the maximum set aside amount will be claimed.

NOTE 13 – SPECIAL ITEMS

The District estimates that that final impact of the class action detailed in Note 12 will be settlement payments of approximately \$1,300,000, in addition to the \$475,000 in attorney's fees, for a total impact of \$1,775,000.

NOTE 14 – PRIOR-PERIOD ADJUSTMENT

There were two prior period adjustments to the Statement of Revenues, Expenses, and Changes in Net Position for a \$782,692 total increase in net position. Cash was understated by \$345,231. Prepaid water charges were understated by \$437,461 at June 30, 2015.

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REQUIRED SUPPLEMENTARY INFORMATION

MONTECITO WATER DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS
 OTHER THAN PENSIONS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The following table provides required supplementary information regarding the District's post employment healthcare benefits.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
2/28/2009	\$ -	\$ 1,228,344	\$ 1,228,344	0.00%	\$ 1,800,000	68.24%
2/1/2012	\$ -	\$ 1,238,998	\$ 1,238,998	0.00%	\$ 2,100,000	59.00%
2/1/2015	\$ -	\$ 1,247,877	\$ 1,247,877	0.00%	\$ 2,200,000	56.72%

MONTECITO WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2016

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.01135%	0.01091%
Proportionate share of the net pension liability	\$ 2,825,954	\$ 2,684,006
Covered- employee payroll	\$ 2,098,340	\$ 1,984,673
Proportionate share of the net pension liability as percentage of covered-employee payroll	134.68%	135.24%
Plan's total pension liability	\$ 31,771,217,402	\$ 30,829,966,631
Plan's fiduciary net position	\$ 24,907,305,871	\$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

Notes to Schedule:

Changes in assumptions

In 2016, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent for an adjustment to exclude administrative expense.

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

*- Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

MONTECITO WATER DISTRICT
 SCHEDULE OF CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2016

The following table provides required supplementary information regarding the District's Pension Plan.

	2016	2015
Contractually required contribution (actuarially determined)	\$ 282,023	\$ 226,841
Contribution in relation to the actuarially determined contributions	(282,023)	(226,841)
Contribution deficiency (excess)	\$ -	\$ -
Covered- employee payroll	\$ 1,767,276	\$ 2,098,340
Contributions as a percentage of covered-employee payroll	15.96%	10.81%

Notes to Schedule

Valuation Date:	6/30/2014
Methods and assumptions used to determine contribution rates:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

*- Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

