# Montecito Water District

# Annual Financial Report

# For the Fiscal Years Ended June 30, 2015 and 2014

# 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, 2015**

| Name | Title | Elected/ Appointed | Term Expires |
|---|---|---|---|
| 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**
**Tom Mosby, General Manager**
**583 San Ysidro Road**
**Montecito, California 93108**
**(805) 969-2271 – www.montecitowater.com**

# Montecito Water District

# Annual Financial Report

# For the Fiscal Years Ended June 30, 2015 and 2014

**Montecito Water District**
**Annual Financial Report**
**For the Fiscal Years Ended June 30, 2015 and 2014**

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# Financial Section

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# Independent Auditor's Report

Board of Directors
Montecito Water District
Montecito, California

## Report on the Financial Statements

We have audited the accompanying financial statements of the Montecito Water District (District) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2015 and 2014, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 1 to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. 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 and the required supplementary information on pages 41 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 44 and 45.

Fedak & Brown LLP

**Fedak & Brown, LLP**
Cypress, California
February 16, 2016

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, 2015 and 2014. 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 2015, the District's net position decreased 13.19% or $3,765,810 from $28,540,975 to $24,775,165, primarily due to decreases of $453,577 from operations and $3,312,233 related to the adoption of GASB 68. See note 9 for further information. In 2014, the District's net position increased 1.84% or $516,750 from $28,024,225 to $28,540,975, as result of that year's operations.
- 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 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 2014, the District's operating revenues increased 18.56% or $2,592,182 primarily from an adopted water rate increase of 16.30%, which increased the District's water sales revenue by $1,080,735 along with the implementation of Ordinance No. 93 – drought penalty charge of $1,511,356.
- In 2015, the District's operating expenses increased 2.68% or $372,599 primarily due to increases of $237,594 in source of supply costs and $150,450 in general and administrative expense, which was primarily due to public outreach related to conservation. In 2014, the District's operating expenses increased 26.93% or $2,947,916 primarily due to an increase of $2,345,609 in source of supply costs and $215,719 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 revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## 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 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 40.

## Statements of Net Position

**Condensed Statements of Net Position**

| | 2015 | 2014 | Change | 2013 | Change |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Current assets | $ 18,285,809 | 18,538,257 | (252,448) | 17,128,218 | 1,410,039 |
| Capital assets, net | 33,768,012 | 33,964,485 | (196,473) | 34,750,171 | (785,686) |
| **Total assets** | 52,053,821 | 52,502,742 | (448,921) | 51,878,389 | 624,353 |
| **Deferred outflows of resources** | 262,957 | - | 262,957 | - | - |
| **Liabilities:** | | | | | |
| Current liabilities | 1,990,996 | 1,639,904 | 351,092 | 1,202,207 | 437,697 |
| Non-current liabilities | 24,648,667 | 22,321,863 | 2,326,804 | 22,651,957 | (330,094) |
| **Total liabilities** | 26,639,663 | 23,961,767 | 2,677,896 | 23,854,164 | 107,603 |
| **Deferred inflows of resources** | 901,950 | - | 901,950 | - | - |
| **Net position:** | | | | | |
| Net investment in capital assets | 12,529,647 | 12,071,813 | 457,834 | 12,609,070 | (537,257) |
| Restricted | 3,251,355 | 3,500,207 | (248,852) | 3,938,844 | (438,637) |
| Unrestricted | 8,994,163 | 12,968,955 | (3,974,792) | 11,476,311 | 1,492,644 |
| **Total net position** | $ 24,775,165 | 28,540,975 | (3,765,810) | 28,024,225 | 516,750 |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $24,602,007 and $28,540,975 as of June 30, 2015 and 2014, respectively.

By far the largest portion of the District's net position, (51% and 42% as of June 30, 2015 and 2014, 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 8 for further information.

## Statements of Net Position, continued

At the end of fiscal years 2015 and 2014, the District showed a positive balance in its unrestricted net position of $8,994,163 and $12,968,955, respectively, which may be utilized in future years for operations and capital projects. See note 8 for the amount of spendable net position that may be utilized in future years.

## Statements of Revenues, Expenses and Changes in Net Position

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

| | | 2015 | 2014 | Change | 2013 | Change |
|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | |
| Operating revenues | $ | 14,992,036 | 16,557,720 | (1,565,684) | 13,965,538 | 2,592,182 |
| Non-operating revenues | | 1,195,282 | 155,938 | 1,039,344 | 151,741 | 4,197 |
| **Total revenues** | | 16,187,318 | 16,713,658 | (526,340) | 14,117,279 | 2,596,379 |
| **Expenses:** | | | | | | |
| Operating expenses | | 14,264,988 | 13,892,389 | 372,599 | 10,944,473 | 2,947,916 |
| Depreciation and amortization | | 1,202,407 | 1,230,954 | (28,547) | 2,451,304 | (1,220,350) |
| Non-operating expenses | | 1,250,826 | 1,240,289 | 10,537 | 2,361,291 | (1,121,002) |
| **Total expenses** | | 16,718,221 | 16,363,632 | 354,589 | 15,757,068 | 606,564 |
| **Net income before capital contributions** | | (530,903) | 350,026 | (880,929) | (1,639,789) | 1,989,815 |
| Capital contributions | | 77,326 | 166,724 | (89,398) | 197,747 | (31,023) |
| **Change in net position** | | (453,577) | 516,750 | (970,327) | (1,442,042) | 1,958,792 |
| **Net position, beginning of year** | | 28,540,975 | 28,024,225 | 516,750 | 29,466,267 | (1,442,042) |
| **Prior period adjustment** | | (3,312,233) | - | (3,312,233) | - | - |
| **Net position, beginning of year – as restated** | | 25,228,742 | 28,024,225 | (2,795,483) | 29,466,267 | (1,442,042) |
| **Net position, end of year** | $ | 24,775,165 | 28,540,975 | (3,765,810) | 28,024,225 | 516,750 |

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the years. In the case of the District, net position decreased $3,938,968 and increased $516,750 for the fiscal years ended June 30, 2015 and 2014, respectively.

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

In 2015, the District's total revenues decreased by 3.15%, or $526,340, primarily due to an increase in non-operating revenues of $1,039,344, as 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 restrictions, which was 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 2014, the District's total revenues increased by 18.39%, or $2,596,379, primarily due to an increase in operating revenues of $2.592.182, as the result of an adopted water rate increase of 16.30%, which increased the District's water sales revenue by $1,080,735 along with the implementation of Ordinance No. 93 – drought penalty charge of $1,511,356.

In 2015, the District's total expenses increased by 2.17%, or $354,589, primarily due to an increase in operating expenses of $372,599, primarily due to increases of $237,594 in source of supply costs and $150,450 in general and administrative expense, which was primarily due to public outreach related to conservation.

## Statements of Revenues, Expenses and Changes in Net Position, continued

In 2014, the District's operating expenses increased 3.85% or $606,564, primarily due to an increase in operating expenses of $2,947,916, as the result of increases of $2,345,609 in source of supply costs and $215,719 in transmission and distribution expenses. The increase in operating expenses was offset by decreases of $1,220,350 in depreciation and amortization related to the removal of non-District owned assets and $1,121,002 in non-operating expenses which was primarily due to the removal of non-District owned assets of $447,993 and the full amortization capitalized bond costs of $529,030, related to the implementation of GASB 63 and 65.

## Total Revenues

| | 2015 | 2014 | Change | 2013 | Change |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Water consumption sales | $ 6,752,280 | 11,260,539 | (4,508,259) | 10,573,024 | 687,515 |
| Monthly service charge | 4,051,793 | 3,725,207 | 326,586 | 3,331,987 | 393,220 |
| Ordinance 93 – drought penalty charge | 3,402,310 | 1,511,356 | 1,890,954 | - | 1,511,356 |
| Water shortage emergency surcharge | 723,911 | - | 723,911 | - | - |
| Other charges for services | 61,742 | 60,618 | 1,124 | 60,527 | 91 |
| **Total operating revenues** | 14,992,036 | 16,557,720 | (1,565,684) | 13,965,538 | 2,592,182 |
| **Non-operating revenue:** | | | | | |
| Rental revenue | 38,473 | 40,416 | (1,943) | 35,557 | 4,859 |
| Picay hydroelectric power | 18,269 | 29,348 | (11,079) | 38,813 | (9,465) |
| Investment earnings | 24,152 | 36,430 | (12,278) | 39,760 | (3,330) |
| Legal settlement | 1,058,877 | - | 1,058,877 | - | - |
| Other non-operating revenues | 55,511 | 49,744 | 5,767 | 37,611 | 12,133 |
| **Total non-operating revenues** | 1,195,282 | 155,938 | 1,039,344 | 151,741 | 4,197 |
| **Total revenues** | $ 16,187,318 | 16,713,658 | (526,340) | 14,117,279 | 2,596,379 |

In 2015, the District's total revenues decreased 3.15% or $526,340. In 2014, the District's total revenues increased 18.39% or $2,596,379.

## Total Expenses

| | 2015 | 2014 | Change | 2013 | Change |
|---|---|---|---|---|---|
| **Operating expenses:** | | | | | |
| Source of supply – water purchases | $ 6,931,677 | 6,537,080 | 394,597 | 5,505,423 | 1,031,657 |
| Source of supply – drought water purchases | 1,159,420 | 1,295,799 | (136,379) | - | 1,295,799 |
| Source of supply – operational costs | 124,542 | 145,166 | (20,624) | 127,013 | 18,153 |
| Pumping | 295,690 | 355,378 | (59,688) | 314,073 | 41,305 |
| Water treatment – Cater treatment | 476,412 | 821,856 | (345,444) | 870,649 | (48,793) |
| Water treatment – operational costs | 1,133,402 | 780,729 | 352,673 | 676,706 | 104,023 |
| Transmission and distribution | 1,432,593 | 1,415,061 | 17,532 | 1,199,342 | 215,719 |
| Customer service and meter reading | 397,642 | 378,160 | 19,482 | 325,403 | 52,757 |
| General and administrative | 2,313,610 | 2,163,160 | 150,450 | 1,925,864 | 237,296 |
| **Total operating expenses** | 14,264,988 | 13,892,389 | 372,599 | 10,944,473 | 2,947,916 |
| **Depreciation – capital recovery** | 1,202,407 | 1,230,954 | (28,547) | 2,451,304 | (1,220,350) |
| **Non-operating expenses:** | | | | | |
| Interest expense | 877,462 | 887,413 | (9,951) | 975,560 | (88,147) |
| Cater treatment plant ozone debt | 231,647 | 225,416 | 6,231 | - | 225,416 |
| Cater treatment plant – ozone project obligation | 125,402 | 101,342 | 24,060 | 151,199 | (49,857) |
| Joint-project cost commitments | 69,240 | 79,041 | (9,801) | 310,432 | (231,391) |
| Loss on disposition of capital projects | - | - | - | 447,993 | (447,993) |
| Amortization of deferred charges | - | - | - | 529,030 | (529,030) |
| Amortization of debt premium | (52,925) | (52,923) | (2) | (52,923) | - |
| **Total non-operating expenses** | 1,250,826 | 1,240,289 | 10,537 | 2,361,291 | (1,121,002) |
| **Total expenses** | $ 16,718,221 | 16,363,632 | 354,589 | 15,757,068 | 606,564 |

In 2015, the District's total expenses increased 2.17% or $354,589. In 2014, the District's total expenses increased 3.85% or $606,564.

## Capital Asset Administration

At the end of fiscal year 2015 and 2014, the District's investment in capital assets amounted to $33,768,012 and $33,964,485, 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.

Changes in capital assets amounts for 2015 were as follows:

| | | Balance 2014 | Additions | Transfers/ Deletions | Balance 2015 |
|---|---|---|---|---|---|
| Capital assets: | | | | | |
| Non-depreciable assets | $ | 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 | $ | 33,964,485 | 314,994 | (511,467) | 33,768,012 |

Changes in capital assets amounts for 2014 were as follows:

| | | Balance 2013 | Additions | Transfers/ Deletions | Balance 2014 |
|---|---|---|---|---|---|
| Capital assets: | | | | | |
| Non-depreciable assets | $ | 251,761 | 319,798 | (164,798) | 406,761 |
| Depreciable assets | | 54,439,177 | 290,268 | (58,657) | 54,670,788 |
| Accumulated depreciation | | (19,940,767) | (1,230,954) | 58,657 | (21,113,064) |
| Total capital assets ,net | $ | 34,750,171 | (620,888) | (164,798) | 33,964,485 |

(See note 3 for further discussion)

## Debt Administration

Changes in long-term debt amounts for 2015 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 | $ | 21,892,672 | - | (654,307) | 21,238,365 |

Changes in long-term debt amounts for 2014 were as follows:

| | | Balance 2013 | Additions | Deletions | Balance 2014 |
|---|---|---|---|---|---|
| Long-term debt: | | | | | |
| Bond payable | $ | 14,206,711 | - | (52,923) | 14,153,788 |
| Loan payable | | 7,934,390 | - | (195,506) | 7,738,884 |
| Total long-term debt | $ | 22,141,101 | - | (248,429) | 21,892,672 |

(See note 5 for further discussion)

## Conditions Affecting Current Financial Position

Management is unaware of any conditions at June 30, 2015, 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 Edward Lyons, Business Manager of Montecito Water District, 583 San Ysidro Road, Santa Barbara, California, 93108 – (805) 969-2271.

# Basic Financial Statements

# Montecito Water District
## Statements of Net Position
## June 30, 2015 and 2014

| | | 2015 | 2014 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents (note 2) | $ | 5,210,759 | 6,953,624 |
| Restricted – cash and cash equivalents (note 2) | | 3,251,355 | 3,942,685 |
| Accrued interest receivable | | 5,476 | 4,749 |
| Accounts receivable – water sales and services, net | | 1,574,831 | 1,663,202 |
| Accounts receivable – other | | 2,905 | 2,642 |
| Materials and supplies inventory | | 215,672 | 195,679 |
| Prepaid water charges | | 7,971,563 | 5,711,400 |
| Prepaid expenses and other deposits | | 53,248 | 64,276 |
| **Total current assets** | | 18,285,809 | 18,538,257 |
| **Non-current assets:** | | | |
| Capital assets – not being depreciated (note 3) | | 832,045 | 406,761 |
| Capital assets, net – being depreciated (note 3) | | 32,935,967 | 33,557,724 |
| **Total non-current assets** | | 33,768,012 | 33,964,485 |
| **Total assets** | | 52,053,821 | 52,502,742 |
| **Deferred outflows of resources:** | | | |
| Deferred pension outflows (note 7) | | 262,957 | - |
| **Total deferred outflows of resources:** | | 262,957 | - |
| **Current liabilities:** | | | |
| Accounts payable and accrued expenses | $ | 680,575 | 369,554 |
| Accrued wages and related payables | | 30,860 | 3,957 |
| Unearned revenue and other deposits | | 84,008 | 69,731 |
| Accrued water exchange transfer | | 873,986 | 241,236 |
| Accrued interest payable | | - | 442,478 |
| Long-term liabilities – due within one year: | | | |
| Compensated absences (note 4) | | 116,047 | 114,535 |
| Loan payable (note 6) | | 205,520 | 398,413 |
| **Total current liabilities** | | 1,990,996 | 1,639,904 |
| **Non-current liabilities:** | | | |
| Long-term liabilities – due in more than one year: | | | |
| Compensated absences (note 4) | | 348,139 | 343,604 |
| Bonds payable (note 5) | | 14,100,863 | 14,153,788 |
| Loan payable (note 5) | | 6,931,982 | 7,340,471 |
| Other post-employment benefits payable (note 6) | | 583,677 | 484,000 |
| Net pension liability (note 7) | | 2,684,006 | - |
| **Total non-current liabilities** | | 24,648,667 | 22,321,863 |
| **Total liabilities** | | 26,639,663 | 23,961,767 |
| **Deferred inflows of resources:** | | | |
| Deferred pension inflows (note 7) | | 901,950 | - |
| **Total deferred inflows of resources:** | | 901,950 | - |
| **Net position: (note 8, 9)** | | | |
| Net investment in capital assets | | 12,529,647 | 12,071,813 |
| Restricted | | 3,251,355 | 3,500,207 |
| Unrestricted | | 8,994,163 | 12,968,955 |
| **Total net position** | $ | 24,775,165 | 28,540,975 |

See accompanying notes to the basic financial statements

## Montecito Water District
### Statements of Revenues, Expenses and Changes in Net Assets
### For the Fiscal Years Ended June 30, 2015 and 2014

| | | 2015 | 2014 |
|---|---|---|---|
| **Operating revenues:** | | | |
| Water consumption sales | $ | 6,752,280 | 11,260,539 |
| Monthly service charge | | 4,051,793 | 3,725,207 |
| Ordinance No. 93/94 – drought penalty charge (note 11) | | 3,402,310 | 1,511,356 |
| Water shortage emergency surcharge (note 11) | | 723,911 | - |
| Other charges for services | | 61,742 | 60,618 |
| **Total operating revenues** | | 14,992,036 | 16,557,720 |
| **Operating expenses:** | | | |
| Source of supply – water purchases | | 6,931,677 | 6,537,080 |
| Source of supply – drought water purchases (note 11) | | 1,159,420 | 1,295,799 |
| Source of supply – operational costs | | 124,542 | 145,166 |
| Pumping | | 295,690 | 355,378 |
| Water treatment – Cater treatment plant | | 476,412 | 821,856 |
| Water treatment – operational costs | | 1,133,402 | 780,729 |
| Transmission and distribution | | 1,432,593 | 1,415,061 |
| Customer service and meter reading | | 397,642 | 378,160 |
| General and administrative | | 2,313,610 | 2,163,160 |
| **Total operating expenses** | | 14,264,988 | 13,892,389 |
| Operating income before depreciation | | 727,048 | 2,665,331 |
| Depreciation – capital recovery | | (1,202,407) | (1,230,954) |
| **Operating income (loss)** | | (475,359) | 1,434,377 |
| **Non-operating revenue(expense)** | | | |
| Rental revenue | | 38,473 | 40,416 |
| Picay hydroelectric power | | 18,269 | 29,348 |
| Investment earnings | | 24,152 | 36,430 |
| Interest expense | | (877,462) | (887,413) |
| Cater treatment plant obligation (note 14) | | (231,647) | (225,416) |
| Cater treatment plant – ozone project obligation (note 14) | | (125,402) | (101,342) |
| Joint-project cost commitments | | (69,240) | (79,041) |
| Amortization of debt premium | | 52,925 | 52,923 |
| Legal settlement (note 12) | | 1,058,877 | - |
| Other non-operating revenues | | 55,511 | 49,744 |
| Total non-operating expense, net | | (55,544) | (1,084,351) |
| **Net income(loss) before capital contributions** | | (530,903) | 350,026 |
| **Capital contributions:** | | | |
| Capital contributions | | 52,162 | 142,260 |
| Connection fees | | 25,164 | 24,464 |
| Total capital contributions | | 77,326 | 166,724 |
| **Change in net position** | | (453,577) | 516,750 |
| **Net position, beginning of year** | | 28,540,975 | 28,024,225 |
| **Prior period adjustment (note 9)** | | (3,312,233) | - |
| **Net position, beginning of year – as restated** | | 25,228,742 | 28,024,225 |
| **Net position, end of year** | $ | 24,775,165 | 28,540,975 |

See accompanying notes to the basic financial statements

# Montecito Water District
## Statements of Cash Flows
## For the Fiscal Years Ended June 30, 2015 and 2014

| | | 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash receipts from customers for water sales and services | $ | 15,192,397 | 16,471,083 |
| Cash paid to employees for salaries and wages | | (2,195,955) | (2,136,388) |
| Cash paid to vendors and suppliers for materials and services | | (12,604,132) | (12,361,764) |
| Net cash provided by operating activities | | 392,310 | 1,972,931 |
| **Cash flows from capital and related financing activities:** | | | |
| Acquisition and construction of capital assets | | (1,005,934) | (445,268) |
| Proceeds from capital contributions | | 77,326 | 166,724 |
| Principal paid on long-term debt | | (601,382) | (195,506) |
| Interest paid on long-term debt | | (1,319,940) | (790,166) |
| Net cash used in capital and related financing activities | | (2,849,930) | (1,264,216) |
| **Cash flows from investing activities:** | | | |
| Sale of investments, net | | - | 571,840 |
| Interest earnings | | 23,425 | 36,571 |
| Net cash provided by investing activities | | 23,425 | 608,411 |
| **Net increase(decrease) in cash and cash equivalents** | | (2,434,195) | 1,317,126 |
| **Cash and cash equivalents, beginning of year** | | 10,896,309 | 9,579,183 |
| **Cash and cash equivalents, end of year** | $ | 8,462,114 | 10,896,309 |
| **Reconciliation of cash and cash equivalents to statement of financial position:** | | | |
| Cash and cash equivalents | $ | 5,210,759 | 6,953,624 |
| Restricted assets – cash and cash equivalents | | 3,251,355 | 3,942,685 |
| Total cash and cash equivalents | $ | 8,462,114 | 10,896,309 |

***Continued on next page***

See accompanying notes to the basic financial statements

# Montecito Water District
## Statements of Cash Flows, continued
## For the Fiscal Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Reconciliation of operating income(loss) to net cash provided by operating activities:** | | |
| **Operating income (loss)** | $ (475,359) | 1,434,377 |
| **Adjustments to reconcile operating income to net cash provided by operating activities:** | | |
| Deprecation – capital recovery | 1,202,407 | 1,230,954 |
| Rental revenue | 38,473 | 40,416 |
| Picay hydroelectric power | 18,269 | 29,348 |
| Cater treatment plant obligation | (231,647) | (225,416) |
| Cater treatment plant – ozone project obligation | (125,402) | (101,342) |
| Joint-project cost commitments | (69,240) | (79,041) |
| Legal settlement | 1,058,877 | - |
| Other non-operating income, net | 55,511 | 49,744 |
| **Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:** | | |
| (Increase)decrease in assets: | | |
| Accounts receivable – water sales and services, net | 88,371 | (204,108) |
| Accounts receivable – other | (263) | (2,037) |
| Materials and supplies inventory | (19,993) | (40,372) |
| Prepaid water charges | (2,260,163) | (402,397) |
| Prepaid expenses and other deposits | 11,028 | (15,980) |
| Decrease in deferred outflows of resources: | 92,127 | - |
| Increase(decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 311,021 | (67,699) |
| Accrued wages and related payables | 26,903 | (12,350) |
| Unearned revenue and other deposits | 14,277 | (27,725) |
| Accrued water exchange transfer | 632,750 | 241,236 |
| Compensated absences | 6,047 | 16,323 |
| Other post-employment benefits payable | 99,677 | 109,000 |
| Net pension liability | (983,311) | - |
| Increase in deferred inflows of resources: | 901,950 | - |
| Total adjustments | 867,669 | 538,554 |
| Net cash provided by operating activities | $ 392,310 | 1,972,931 |

See accompanying notes to the basic financial statements

## (1) Reporting Entity and Summary of Significant Accounting Policies

### A. Organization and Operations of the Reporting Entity

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

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

### B. Basis of Accounting and Measurement Focus

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

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

### C. Financial Reporting

The District’s basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), 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.

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

### C. Financial Reporting, continued

The District has adopted the following GASB pronouncements in the current year:

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

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

***Governmental Accounting Standards Board Statement No. 71*** *– Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68.* The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

### Prior Year Financial Data Presentation

The District has determined to present the annual financial statements with prior year data for comparative purposes, but not restate with regard to GASB 68 and 71, as all information available to restate prior year amounts was not readily available.

### D. 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.

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

### D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

#### 3. Investments and Investment Policy

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

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

#### 4. Accounts Receivable

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

#### 5. Inventory

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

#### 6. Prepaid Expenses

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

#### 7. Deferred Charges

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service. In fiscal year 2014, the District implemented GASB No. 65, which changed the accounting for deferred charges to a period cost instead of a amortizable cost, thus expensing the remaining balance of deferred charges in the current year.

#### 8. Restricted Assets

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

#### 9. Capital Assets

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

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

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

### D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

#### 10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

#### 11. 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.

#### 12. 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 timeframes are used:

- Valuation Date: June 30, 2013
- Measurement Date: June 30, 2014
- Measurement Period: July 1, 2013 to June 30, 2014

#### 13. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

#### 14. 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.

#### 15. Water Sales

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

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

### D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

#### 16. Deposit Connection Fees

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

#### 17. 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.

#### 18. 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.

#### 19. Reclassification

The District has reclassified certain prior year information to conform with current year presentations.

## (2) Cash and Investments

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

| | | 2015 | 2014 |
|---|---|---|---|
| Cash and cash equivalents | $ | 5,210,759 | 6,953,624 |
| Restricted – cash and cash equivalents | | 3,251,355 | 3,942,685 |
| Total cash and investments | $ | 8,462,114 | 10,896,309 |

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

| | | 2015 | 2014 |
|---|---|---|---|
| Cash on hand | $ | 350 | 350 |
| Deposits with financial institutions | | 982,268 | 1,131,410 |
| Investments | | 7,479,496 | 9,764,549 |
| Total cash and investments | $ | 8,462,114 | 10,896,309 |

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

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

## (2) Cash and Investments, continued

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Of Portfolio * | Maximum Investment in One Issuer |
|---|---|---|---|
| State and Local Agency Bonds | 5 years | 100% | None |
| U.S. Treasury 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 Funds | N/A | 20% | None |
| California Local Agency Investment Fund (LAIF) | N/A | 100% | 10% |

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.
** Except when authorized by the District's legislative body in accordance with Government Code Section 53601

***Custodial Credit Risk***

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

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

***Investment in State Investment Pool***

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

## (2) Cash and Investments, continued

### *Interest Rate Risk*

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

Investments at June 30, 2015, consisted of the following:

| Investment Type | | Amount | Remaining Maturity 12 months or less |
|---|---|---|---|
| Local Agency Investment Fund | $ | 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 |
| Total | $ | 7,479,496 | 7,479,496 |

Investments at June 30, 2014, consisted of the following:

| Investment Type | | Amount | Remaining Maturity 12 months or less |
|---|---|---|---|
| Local Agency Investment Fund | $ | 6,296,246 | 6,296,246 |
| CCWA Investment Pool | | 1,676,051 | 1,676,051 |
| Held by bond trustee: | | | |
| Money market funds | | 1,792,252 | 1,792,252 |
| Total | $ | 9,764,549 | 9,764,549 |

### *Credit Risk*

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

Credit ratings at June 30, 2015, consisted of the following:

| Investment Type | | Amount | Minimum Legal Rating | Exempt From Disclosure |
|---|---|---|---|---|
| Local Agency Investment Fund | $ | 4,797,897 | N/A | 4,797,897 |
| CCWA Investment Pool | | 1,237,033 | N/A | 1,237,033 |
| Held by bond trustee: | | | | |
| Money market funds | | 1,444,566 | N/A | 1,444,566 |
| Total | $ | 7,479,496 | | 7,479,496 |

## (2) Cash and Investments, continued

### *Credit Risk, continued*

Credit ratings at June 30, 2014, consisted of the following:

| Investment Type | | Amount | Minimum Legal Rating | Exempt From Disclosure |
|---|---|---|---|---|
| Local Agency Investment Fund | $ | 6,296,246 | N/A | 6,296,246 |
| CCWA Investment Pool | | 1,676,051 | N/A | 1,676,051 |
| Held by bond trustee: | | | | |
| Money market funds | | 1,792,252 | N/A | 1,792,252 |
| Total | $ | 9,764,549 | | 9,764,549 |

## (3) Capital Assets

Changes in capital assets for the year were as follows:

| | | Balance 2014 | Additions/ | Deletions/ Transfers | Balance 2015 |
|---|---|---|---|---|---|
| Non-depreciable assets: | | | | | |
| Land | $ | 101,352 | - | - | 101,352 |
| Construction-in-process | | 305,409 | 936,751 | (511,467) | 730,693 |
| Total non-depreciable assets | | 406,761 | 936,751 | (511,467) | 832,045 |
| Depreciable assets: | | | | | |
| 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 | | 54,670,788 | 580,650 | - | 55,251,438 |
| 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 | | (21,113,064) | (1,202,407) | - | (22,315,471) |
| Total depreciable assets, net | | 33,557,724 | (621,757) | - | 32,935,967 |
| **Total capital assets, net** | $ | 33,964,485 | 314,994 | (511,467) | 33,768,012 |

## (3) Capital Assets, continued

***Construction-In-Process***

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

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| Emergency Desalination Water Study - Plant | $ - | - | 446,395 |
| Reservoir Evaluations | - | - | 172,817 |
| Geographic Information System Consulting | - | - | 62,544 |
| Various Minor Projects | 150,409 | 305,409 | 48,937 |
| | $ 150,409 | 305,409 | 730,693 |

Changes in capital assets for the year were as follows:

| | Balance 2013 | Additions/ | Deletions/ Transfers | Balance 2014 |
|---|---|---|---|---|
| Non-depreciable assets: | | | | |
| Land | $ 101,352 | - | - | 101,352 |
| Construction-in-process | 150,409 | 319,798 | (164,798) | 305,409 |
| Total non-depreciable assets | 251,761 | 319,798 | (164,798) | 406,761 |
| Depreciable assets: | | | | |
| Transmission and distribution system | 26,370,976 | 159,190 | - | 26,530,166 |
| Juncal dam | 2,123,577 | - | - | 2,123,577 |
| Wells and water sources | 4,017,664 | 6,615 | - | 4,024,279 |
| Water rights | 142,234 | - | - | 142,234 |
| Bella Vista treatment plant | 5,455,057 | 28,684 | - | 5,483,741 |
| Other treatment plants and facilities | 395,099 | - | - | 395,099 |
| Reservoirs and storage tanks | 12,384,720 | - | - | 12,384,720 |
| Meters and meter boxes | 1,226,011 | - | - | 1,226,011 |
| Structures and improvements | 424,340 | - | - | 424,340 |
| Machinery and equipment | 1,899,499 | 95,779 | (58,657) | 1,936,621 |
| Total depreciable assets | 54,439,177 | 290,268 | (58,657) | 54,670,788 |
| Accumulated depreciation: | | | | |
| Transmission and distribution system | (7,427,652) | (495,205) | - | (7,922,857) |
| Juncal dam | (1,392,433) | (25,086) | - | (1,417,519) |
| Wells and water sources | (2,745,668) | (124,807) | - | (2,870,475) |
| Water rights | (142,234) | - | - | (142,234) |
| Bella Vista treatment plant | (3,771,971) | (233,192) | - | (4,005,163) |
| Other treatment plants and facilities | (374,591) | (12,057) | - | (386,648) |
| Reservoirs and storage tanks | (1,403,434) | (142,470) | - | (1,545,904) |
| Meters and meter boxes | (728,636) | (65,093) | - | (793,729) |
| Structures and improvements | (294,809) | (10,669) | - | (305,478) |
| Machinery and equipment | (1,659,339) | (122,375) | 58,657 | (1,723,057) |
| Total accumulated depreciation | (19,940,767) | (1,230,954) | 58,657 | (21,113,064) |
| Total depreciable assets, net | 34,498,410 | (940,686) | - | 33,557,724 |
| **Total capital assets, net** | $ 34,750,171 | (620,888) | (164,798) | 33,964,485 |

## (4) Compensated Absences

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

| Balance 2014 | Additions | Deletions | Balance 2015 | Current Portion | Long-term Portion |
|---|---|---|---|---|---|
| $ 458,139 | 170,321 | (164,274) | 464,186 | 116,047 | 348,139 |

| Balance 2013 | Additions | Deletions | Balance 2014 | Current Portion | Long-term Portion |
|---|---|---|---|---|---|
| $ 441,816 | 182,895 | (166,572) | 458,139 | 114,535 | 343,604 |

## (5) Long-term Debt

Changes in long-term debt amounts for 2015 were as follows:

| | Balance 2014 | Additions | Principal Payments | Balance 2015 |
|---|---|---|---|---|
| Long-term debt: | | | | |
| 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 |
| Total long-term debt | $ 21,892,672 | - | (654,307) | 21,238,365 |
| Less current portion | (398,413) | | | (205,520) |
| Non-current portion | $ 21,494,259 | | | 21,032,845 |

Changes in long-term debt amounts for 2014 were as follows:

| | Balance 2013 | Additions | Principal Payments | Balance 2014 |
|---|---|---|---|---|
| Long-term debt: | | | | |
| Bonds payable: | | | | |
| 2010A Revenue COP | $ 13,360,000 | - | - | 13,360,000 |
| 2010A Revenue COP – premium | 846,711 | - | (52,923) | 793,788 |
| Total bonds payable | 14,206,711 | - | (52,923) | 14,153,788 |
| Loans payable: | | | | |
| DWR – Ortega Loan | 7,934,390 | - | (195,506) | 7,738,884 |
| Total long-term debt | $ 22,141,101 | - | (248,429) | 21,892,672 |
| Less current portion | (195,506) | | | (398,413) |
| Non-current portion | $ 21,945,595 | | | 21,494,259 |

## (5) Long-term Debt, continued

***2010A Refunding Revenue Certificates of Participation***

In 1998, $13,690,000 of Series 1998A revenue certificates of participation were issued. Payments of interest only were due through fiscal year 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.

Annual debt service payments are as follows:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ - | 690,462 | 690,462 |
| 2017 | - | 690,463 | 690,463 |
| 2018 | - | 690,462 | 690,462 |
| 2019 | - | 690,463 | 690,463 |
| 2020 | - | 690,462 | 690,462 |
| 2021-2025 | 4,375,000 | 3,131,438 | 7,506,438 |
| 2026-2030 | 8,985,000 | 1,228,631 | 10,213,631 |
| Total | $ 13,360,000 | 7,812,381 | 21,172,381 |
| Less current | - | | |
| Premium on debt | 740,863 | | |
| Total non-current | $ 14,100,863 | | |

***Department of Water Resources – Ortega Reservoir Improvement Project Contract***

In December of 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 of 2006. The District's share of this loan is 50% of the total amount, which is a total of $9,950,000. The proceeds from this loan were being used to refinance the construction of a roof on the Ortega Reservoir which will enable the District to meet safe drinking water standards established pursuant to Chapter 4, commencing with Section 116270, of Part 12, of Division 104 of the Health and Safety Code and California Code of Regulations. California Bank & Trust is the fiscal agent responsible for acting as trustee for the loan repayment with semi-annual payments of $295,210 including principal and interest at an annual rate of 2.5132%. The District will be required to fund its share of a reserve fund equal to two semiannual payments. The funds are to be accumulated within a ten year period and be held by a trustee.

## (5) Long-term Debt, continued

***Department of Water Resources – Ortega Reservoir Improvement Project Contract, continued***

Annual debt service payments are as follows:

| Year | | Principal | Interest | Total |
|---|---|---|---|---|
| 2016 | $ | 408,489 | 181,931 | 590,420 |
| 2017 | | 418,819 | 171,601 | 590,420 |
| 2018 | | 429,411 | 161,009 | 590,420 |
| 2019 | | 440,271 | 150,149 | 590,420 |
| 2020 | | 451,405 | 139,015 | 590,420 |
| 2021-2025 | | 2,434,156 | 517,944 | 2,952,100 |
| 2026-2030 | | 2,757,920 | 194,180 | 2,952,100 |
| Total | $ | 7,340,471 | 1,515,829 | 8,856,300 |
| Less current | | (408,489) | | |
| Total non-current | $ | 6,931,982 | | |

## (6) Other Post-Employment Benefits Payable

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

***Plan Description – Eligibility***

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

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Active employees | 26 | 22 | 24 |
| Retirees receiving benefits | 6 | 6 | 6 |
| | 32 | 28 | 30 |

***Plan Description – Benefits***

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

## (6) Other Post-Employment Benefits Payable, continued

### *Funding Policy*

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

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

### *Annual Cost*

For the year ended June 30, 2015, the District's ARC cost is $115,904. The District's net OPEB payable obligation amounted to $583,677 for the year ended June 30, 2015. The District contributed $16,227 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2015.

| The balance at June 30, consists of the following: | | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Annual OPEB expense: | | | | |
| Annual required contribution (ARC) | $ | 118,059 | 110,971 | 110,971 |
| Interest on net OPEB obligation | | 21,780 | 18,750 | 14,000 |
| Adjustment to annual required contribution | | (23,935) | (7,803) | (6,553) |
| Total annual OPEB expense | | 115,904 | 121,918 | 118,418 |
| Contributions made: | | | | |
| Contributions made to irrevocable trust | | - | - | - |
| Retiree benefit payments paid outside of a trust | | (16,227) | (12,918) | (23,418) |
| Total contributions made | | (16,227) | (12,918) | (23,418) |
| Total change in net OPEB payable obligation | | 99,677 | 109,000 | 95,000 |
| OPEB payable - beginning of year | | 484,000 | 375,000 | 280,000 |
| OPEB payable - end of year | $ | 583,677 | 484,000 | 375,000 |

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2015 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 |
|---|---|---|---|---|---|---|
| 2015 | $ | 115,904 | 16,227 | 14.0% | $ | 583,677 |
| 2014 | | 121,918 | 12,918 | 10.6% | | 484,000 |
| 2013 | | 118,418 | 23,418 | 19.8% | | 375,000 |

The most recent valuation (dated February 1, 2015 includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $1,247,877. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2015 was estimated at $2,200,000. The ratio of the unfunded actuarial accrued liability to covered payroll is 56.72%.

See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on page 43.

## (6) Other Post-Employment Benefits Payable, continued

### *Actuarial Methods and Assumptions*

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

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

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

## (7) Defined Benefit Pension Plan

### *Plan Description*

All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

### *Benefits Provided*

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

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

## (7) Defined Benefit Pension Plan, continued

The Plans' provision and benefits in effect at June 30, 2015 are summarized as follows:

| | Miscellaneous Plan | |
|---|---|---|
| | **1st Level** | **2nd Level** |
| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2.0% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5% | 1.0% to 2.5% |
| Required employee contribution rates | 7.00% | 6.25% |
| Required employer contribution rates | 18.522% | 6.25% |

As of June 30, 2015, an actuarial report was not prepared by CalPERS for the District's PEPRA tier. CalPERS made this determination as a result of the District not having PEPRA eligible employees between the period January 1, 2013 and June 30, 2013, the valuation date of the actuarial report provided.

***Funding Policy***

***First Level – Miscellaneous 2.0% at 55 Risk Pool Retirement Plan (Classic)***

The employee contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan is 7.00% of their annual covered wages. The employer and employee combined rate for both tiers for the fiscal year ended June 30, 2014 was 17.781%. On July 17, 2012, the Board of Directors passed Resolution 2095 implementing CalPERS Section 20691 to commence with Employer Paid Member Contribution (EPMC).

***First Tier for Classic members hired on or before June 30, 2012***

On July 17, 2012, the District adopted a policy of a cost share formula whereby employees will share in the CalPERS employer contribution rate percentage increase being incurred annually by the District. On the same date, Resolution 2096 was adopted which adjusts the EPMC for the first tier. At June 30, 2014, employees contributed 1.05% and the District contributed 5.95% of the total 7.00% of the annual covered wages to the employees retirement account.

***Second Tier for Classic members hired on or after July 1, 2012***

On July 17, 2012, the District adopted Resolution 2097, which requires the employee to contribute the full 7.00% employee contribution amount of their annual covered wages to the account.

***Second Level – Miscellaneous 2.0% at 62 Risk Pool Retirement Plan (PEPRA)***

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2014 (PEPRA) into law. As a result of PEPRA, plan members enrolled on or after January 1, 2013, the contribution rate in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. District employees contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer and member contribution rate is 6.25% for a combined rate of 12.50%.

## (7) Defined Benefit Pension Plan, continued

***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 July 1 following notice of the change in 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.

As of the fiscal year ended June 30, the contributions recognized as part of pension expense for the Plan was as follows:

| | | Miscellaneous Plan 2015 |
|---|---|---|
| Contributions – employer | $ | 226,841 |
| Contributions – employee (paid by employer) | | 91,149 |
| Total employer paid contributions | $ | 317,990 |

***Net Pension Liability***

As of the fiscal year ended June 30, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan was as follows:

| | | Proportionate Share of Pension Liability 2015 |
|---|---|---|
| Miscellaneous Plan | $ | 2,684,006 |

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the pension liability for the Plan as of the June 30, 2013 and June 30, 2014, was as follows:

| | Miscellaneous Plan |
|---|---|
| Proportion – June 30, 2013 | 0.04549% |
| Proportion – June 30, 2014 | 0.04313% |
| Change – Increase (Decrease) | -0.00236% |

As a result of the implementation of the GASB 68 pronouncement at June 30, 2015, the District recognized pension expense of $237,607 at June 30, 2015.

## (7) Defined Benefit Pension Plan, continued

### *Deferred Pension Outflows (Inflows) of Resources*

As of the fiscal year ended June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|---|
| Pension contributions subsequent to measurement date | $ | 226,841 | - |
| Net differences between projected and actual earnings on plan investments of the net pension liability | | - | (901,950) |
| Adjustment due to differences in proportions of net pension liability | | 36,116 | - |
| Total | $ | 262,957 | (901,950) |

As of June 30 2015, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of $226,841 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

As a result of the implementation of the GASB 68 at June 30, 2015, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

| Fiscal Year Ending June 30: | | Deferred Outflows/(Inflows) of Resources |
|---|---|---|
| 2016 | $ | (212,589) |
| 2017 | | (212,589) |
| 2018 | | (215,170) |
| 2019 | | (225,486) |
| 2020 | | - |
| Thereafter | | - |

### *Actuarial Assumptions*

The total pension liability in the June 30, 2013 actuarial valuation report was determined using the following actuarial assumptions:

| | |
|---|---|
| Actuarial cost method | Entry Age Normal in accordance with the requirements of GASB Statement No. 68 |
| Actuarial assumptions: | |
| Discount rate | 7.50% |
| Inflation | 2.75% |
| Salary increases | Varies by Entry Age and Service |
| Investment Rate of Return | 7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation |
| Mortality Rate Table* | Derived using CalPERS' Membership Data for all Funds |
| Post Retirement Benefit | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

* 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. Further details of the Experience Study can be found on the CalPERS website.

## (7) Defined Benefit Pension Plan, continued

***Discount Rate***

The Discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, 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, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

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 CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculates 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 was calculated for each fund. The expected rate of return was set by calculating the single equivalent 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.

## (7) Defined Benefit Pension Plan, continued

### *Discount Rate, continued*

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.

| Asset Class | New Strategic Allocation | Real Return Years 1–10* | Real Return Year 11+** |
|---|---|---|---|
| Global Equity | 47.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0 | 0.99 | 2.43 |
| Inflation Sensitive | 6.0 | 0.45 | 3.36 |
| Private Equity | 12.0 | 6.83 | 6.95 |
| Real Estate | 11.0 | 4.50 | 5.13 |
| Infrastructure and Forestland | 3.0 | 4.50 | 5.09 |
| Liquidity | 2.0 | (0.55) | (1.05) |
| Total | 100.0% | | |

* An expected inflation of 2.5% used for this period
** An expected inflation of 3.0% used for this period

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

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

| | Discount Rate – 1% (6.50%) | Current Discount Rate (7.50%) | Discount Rate + 1% (8.50%) |
|---|---|---|---|
| District's Net Pension Liability | $ 4,782,069 | 2,684,006 | 942,814 |

### *Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 41 through 42 for the Required Supplementary Schedules.

## (8) Net Position

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

| | | 2015 | 2014 |
|---|---|---|---|
| **Net investment in capital assets:** | | | |
| Capital assets, not being depreciated | $ | 832,045 | 406,761 |
| Depreciable capital assets, net | | 32,935,967 | 33,557,724 |
| Current: | | | |
| Loans payable | | (205,520) | (398,413) |
| Non-current: | | | |
| Bonds payable | | (14,100,863) | (14,153,788) |
| Loans payable | | (6,931,982) | (7,340,471) |
| **Total net investment in capital assets** | | 12,529,647 | 12,071,813 |
| **Restricted net position:** | | | |
| Restricted - cash and cash equivalents | | 3,251,355 | 3,942,685 |
| Accrued interest payable | | - | (442,478) |
| **Total restricted net position** | | 3,251,355 | 3,500,207 |
| **Unrestricted net position:** | | | |
| Non-spendable net position: | | | |
| Materials and supplies inventory | | 215,672 | 195,679 |
| Prepaid water charges | | 7,971,563 | 5,711,400 |
| Prepaid expenses and other deposits | | 53,248 | 64,276 |
| Total non-spendable net position | | 8,240,483 | 5,971,355 |
| Spendable net position is designated as follows: | | | |
| Operating reserve | | 753,680 | 6,997,600 |
| **Total unrestricted net position** | | 8,994,163 | 12,968,955 |
| **Total net position** | $ | 24,775,165 | 28,540,975 |

## (9) Adjustment to Net Position

### *Net Pension Liability – GASB 68 Implementation*

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the District recognized the pension liability and recorded a prior period adjustment, a (decrease) to net position, of $3,667,317 at July 1, 2014. The District recorded a prior period adjustment, an increase to net position, to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension of $355,084 at July 1, 2014.

The adjustment to net position is as follows:

| | | |
|---|---|---|
| Net position at June 30, 2014, as previously stated | $ | 28,540,975 |
| Effect of adjustment to record net pension liability | | (3,667,317) |
| Effect of adjustment to record deferred pension outflows | | 355,084 |
| Total adjustment to net position | | (3,312,233) |
| Net position at July 1, 2014, as previously stated | $ | 25,228,742 |

## (10) 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 $3,228,471 and $3,011,101 as of June 30, 2015 and 2014, 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.

## (11) Ordinance Nos. 93/94 – Drought Penalty & Water Shortage Emergency Surcharge

For the fiscal year ended June 30, 2015, 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 second 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.

These revenues have been utilized as follows:

| | 2015 | 2014 |
|---|---|---|
| Ordinance No. 93/94 – drought penalty charge | $ 2,678,399 | 1,511,356 |
| Water Shortage Emergency (WSE) surcharge | 723,911 | - |
| Source of supply – drought water purchases | (3,197,862) | (1,500,876) |
| Net drought related revenue | 204,448 | 10,480 |
| Reserve for future liability – return water | (797,261) | (76,725) |
| Remaining underfunded reserve balance | $ (592,813) | (66,245) |

## (12) Legal Settlement

***Ortega Reservoir***

The District pursued a legal remedy when it determined that construction defects at the Ortega Reservoir will eventually require significant repairs. The costs associated with the repairs will be shared by the District and Carpinteria Valley Water District. At June 30, 2015, the District had settled its lawsuit. Total proceeds received, net of legal expenses, amounted to $1,058,877. At June 30, 2015, all legal settlement proceeds were received-in-full.

## (13) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 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 & 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, 2015, 2014 and 2013. 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, 2015, 2014 and 2013.

## (14) State Water Contract

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

## (14) State Water Contract, continued

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.

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.

## (14) State Water Contract, continued

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

| Fiscal Year | Fixed Costs | Variable Costs | Debt Service | Total |
|---|---|---|---|---|
| 2016 | $ 3,305,053 | 1,374,685 | 2,024,376 | 6,704,114 |
| 2017 | 3,197,423 | 1,016,308 | 2,024,275 | 6,238,006 |
| 2018 | 3,179,941 | 1,077,172 | 2,030,290 | 6,287,403 |
| 2019 | 3,088,972 | 1,104,513 | 2,021,235 | 6,214,720 |
| 2020 | 3,087,526 | 1,132,674 | 2,019,625 | 6,239,825 |
| Thereafter | 46,794,003 | - | 4,044,985 | 50,838,988 |
| | $ 62,652,918 | 5,705,352 | 14,164,786 | 82,523,056 |

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 2018/2019 because delivery requests are not made beyond that year. The debt service payments are based upon estimated final debt service schedules and are subject to change.

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

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

| Fiscal Year | Amount |
|---|---|
| 2016 | $ 6,704,114 |
| 2017 | 6,238,006 |
| 2018 | 6,287,403 |
| 2019 | 6,214,720 |
| 2020 | 6,239,825 |
| Thereafter | 50,838,988 |
| Total | $ 82,523,056 |

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.

## (15) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2015, that have effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 72***

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. 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. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 73***

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68 for pension plans as pensions that are within their respective scopes.

The requirements of this statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after December 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 74***

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

## (15) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

***Governmental Accounting Standards Board Statement No. 74, continued***

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 75***

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 76***

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP.

This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015, and should be applied retroactively.

***Governmental Accounting Standards Board Statement No. 77***

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

## (16) 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.

***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. The total settlement and the ultimate impact of the case on the District's financial position is unknown as of February 16, 2016. The Court has ordered the parties to mediate the remaining disputes by January 31, 2016.

## (17) Subsequent Events

Events occurring after June 30, 2015 have been evaluated for possible adjustment to the financial statements or disclosure as of February 16, 2016, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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# Required Supplementary Information

## Montecito Water District
### Schedule of the District's Proportionate Share of the Net Pension Liability
### As of June 30, 2015
### Last Ten Years*

| Description | | Measurement Date 6/30/2014 (a) |
|---|---|---|
| District's Proportion of the Net Pension Liability | | 0.04313% |
| District's Proportionate Share of the Net Pension Liability | $ | 2,684,006 |
| District's Covered-Employee Payroll (b) | $ | 1,984,673 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | | 135.24% |
| Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | | 81.15% |

**Notes:**

(a) Historical information is required only for measurement periods for which GASB 68 is applicable.

(b) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll related ratios.

***** Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

# Montecito Water District
## Schedule of Pension Plan Contributions
## As of June 30, 2015
## Last Ten Years*

| Schedule of Pension Plan Contributions (a): | | Fiscal Year 2013-2014 |
|---|---|---|
| Actuarially Determined Contribution (b) | $ | 212,198 |
| Contributions in Relation to the Actuarially Determined Contribution (b) | | (212,198) |
| Contribution Deficiency (Excess) | $ | - |
| Covered Payroll (c), (d) | $ | 1,984,673 |
| Contribution's as a percentage of Covered-employee Payroll (c) | | 10.69% |

**Notes:**

(a) Historical information is required only for measurement periods for which GASB 68 is applicable.

(b) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employer’s may choose to make additional contributions towards their side fund or unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

(c) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

(d) Payroll from prior year ($651,021) was assumed to increase by the 3.00 percent payroll growth assumption.

* Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

# Montecito Water District
## Schedule of Funding Status – Other Post-Employment Benefits Payable Obligation
## For the Fiscal Years Ended June 30, 2015 and 2014

***Required Supplemental Information - Schedule of Funding Progress***

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

| | | Active Employees | | Retired Employees | | |
|---|---|---|---|---|---|---|
| Calculation | | Pre 65-years | Post 65-years | Pre 65-years | Post 65-years | Total |
| Actuarial Accrued Liability – 2015 | $ | 277,791 | 712,377 | 37,490 | 220,219 | 1,247,877 |

Funding progress is presented for the years that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2018 based on the year ending June 30, 2017.

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# Report on Internal Controls and Compliance

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

Board of Directors
Montecito Water District
Montecito, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montecito Water District (District) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated February 16, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

**Purpose of this Report**

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

Fedak & Brown LLP

**Fedak & Brown, LLP**
February 16, 2016
Cypress, California