MONTECITO WATER DISTRICT

FINANCIAL STATEMENTS
June 30, 2019

FINANCIAL SECTION

Moss, Levy & Hartzheim LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Montecito Water District
Montecito, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Montecito Water District (the District) as of and for the fiscal year ended June 30, 2019, and the related notes to the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Montecito Water District, as of June 30, 2019, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

2400 Professional Parkway, Suite 205 Santa Maria, CA 93455 Tel 805.925.2579 Fax 805.925.2147 mlhcpas.com

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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 9, the Schedule of Proportionate Share of Net Pension Liability on page 37, the Schedule of Pension Contributions on page 38, the Schedule of Changes in the Total OPEB Liability and Related Ratios on page 39, and the Schedule of OPEB Contributions on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We previously audited the Montecito Water District's 2018 financial statements and expressed an unmodified audit opinion on those audited financial statements in the report dated February 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2018, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report March 10, 2020, on our consideration of the Montecito Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

Santa Maria, California
March 10, 2020

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, 2019 and 2018. 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 2019, the District's Net Position increased by 7.78% or $2,339,741 from $30,091,721 to $32,431,462, primarily due to Federal Emergency Management Administration (FEMA) reimbursements and insurance proceeds both associated with the January 9, 2018 disaster in the amounts of $2,029,953 and $104,895 respectively. Excluding the revenue recognized from the FEMA reimbursements and insurance proceeds, the true increase in Net Position from operations is $583,720, or 1.94% which is primarily associated with an increase in Capital Cost recovery Fees of $169,185 and Investment Earnings of $143,354. In 2018, the District's Net Position increased by 2.87% or $838,816 from $29,252,905 to $30,091,721 primarily associated with a decrease in operating expenses relating to supplemental water purchases and a restatement adjustment of the beginning Net Position of $851,148 relating to compliance with GASB 75.

In 2019, the District's operating revenues decreased by 3.23% or $598,053 primarily resulting from an above normal wet winter followed by a cool and foggy spring and early summer. Water sales, which includes water sales and the Water Shortage Emergency (WSE) surcharge decreased by $976,661, but were offset by an increase of $375,195 in monthly service charges (approximately equal to the amount waived in 2018). In 2018, the District's operating revenues decreased by 0.23% or $42,255 due to a combination of many factors including waiving the January 2018 service charge following the January 9, 2018 disaster in the amount of $377,415, the 2017 repeal of Ordinance 93/94 penalty revenue in the amount of $1,945,429, and the increase in water sales of $2,289,958 (combined water sales and WSE surcharge).

In 2019, the District's operating expenses increased 6.0% or $954,357, primarily due to an increase in Joint Powers Authority (JPA) expenses of $499,315, an increase in Local Water Supply Negotiation expenses of $600,193, an increase in General and Administration expenses of $377,451, and a decrease in Transmission and Distribution expenses of $407,396. In 2018, the District's operating expenses increased by 9.7% or $1,285,209, primarily due to an increase in Joint Power Authority (JPA) expenses of $989,592 and GASB 68 Net Pension Liability adjustment of $394,032.

Required Financial Statements

This annual report consists of a series of financial statements including the *Statement of Net Position*; *Statement of Revenues, Expenses and Changes in Net Position*; and *Statement of Cash Flows*. These financial statements 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 *Statement of Cash Flows* 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. Think of the District's net position, which is 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 fully understanding the data provided in the Basic Financial Statements. These notes can be found on pages 14 through 36.

Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, the net position is $32,431,462 and $30,091,721 as of June 30, 2019 and 2018, respectively.

The largest portion of the District's net position, 49% and 42% as of June 30, 2019 and 2018, respectively, reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that remains outstanding. The District uses these capital assets to provide services to customers within the District's service area. Consequently, these assets are *not* available for future spending. See note 5 for further information.

Condensed Statements of Net Position

	2019	2018	2019-2018 Change	2017	2018-2017 Change
Assets:					
Current assets	$ 29,102,225	$ 24,338,864	$ 4,763,361	$ 25,342,382	$ (1,003,518)
Capital assets, net	35,254,609	32,546,261	2,708,348	32,367,622	178,639
Total assets	64,356,834	56,885,125	7,471,709	57,710,004	(824,879)
Deferred outflows of resources	1,332,502	1,395,169	(62,667)	1,116,776	278,393
Liabilities:					
Current liabilities	4,264,913	1,651,379	2,613,534	1,715,879	(64,500)
Non-current liabilities	28,403,721	26,019,791	2,383,930	27,334,612	(1,314,821)
Total liabilities	32,668,634	27,671,170	4,997,464	29,050,491	(1,379,321)
Deferred inflows of resources	589,240	517,403	71,837	523,384	(5,981)
Net Position:					
Net investment in capital assets	15,946,255	12,739,179	3,207,076	12,072,809	666,370
Restricted	6,494,911	3,963,542	2,531,369	3,651,547	311,995
Unrestricted	9,990,296	13,389,000	(3,398,704)	13,528,549	(139,549)
Total net position	$ 32,431,462	$ 30,091,721	$ 2,339,741	$ 29,252,905	$ 838,816

At the end of fiscal years 2019 and 2018, the District showed a positive balance in its unrestricted net position of $9,990,296 and $13,389,000, respectively, which may be utilized in future years for operations and capital improvement projects.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2019	2018	Change	2017	Change
Revenues:					
Operating revenues	$ 17,943,599	$ 18,541,652	$ (598,053)	$ 18,583,907	$ (42,255)
Non-operating revenues	540,665	252,779	287,886	169,871	82,908
Total Revenues	18,484,264	18,794,431	(310,167)	18,753,778	40,653
Expenses:					
Operating expenses	15,553,982	14,537,109	1,016,873	13,251,900	1,285,209
Depreciation and amortization	1,183,710	1,246,226	(62,516)	1,227,523	18,703
Non-operating expenses	1,411,401	1,400,496	10,905	1,443,269	(42,773)
Total Expenses	18,149,093	17,183,831	965,262	15,922,692	1,261,139
Net income before capital contributions	335,171	1,610,600	(1,275,429)	2,831,086	(1,220,486)
Capital contributions	248,549	79,364	169,185	92,353	(12,989)
Change in net position	583,720	1,689,964	(1,106,244)	2,923,439	(1,233,475)
Special item - FEMA Reimbursments	2,029,953	2,188,934	(158,981)	-	2,188,934
Special item - Insurance Proceeds	104,895	-	104,895	-	-
Special item -Disaster Repairs	(378,827)	(2,188,934)	1,810,107	-	(2,188,934)
Special item - legal settlement expense	-	-	-	552,578	(552,578)
Net position, beginning of year	30,091,721	29,252,905	838,816	25,776,888	3,476,017
Restatement	-	(851,148)	851,148	-	(851,148)
Net position, beginning of year - as restated	30,091,721	28,401,757	1,689,964	25,776,888	2,624,869
Net position, end of year	$ 32,431,462	$ 30,091,721	$ 2,339,741	$ 29,252,905	$ 838,816

The *Statement of Revenues, Expenses and Changes of Net Position* shows how the District's net position changed during the years. The District's net position increased by $2,339,741 and $838,816 for the fiscal years ended June 30, 2019 and 2018, respectively.

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

In 2019, the District's total revenue decreased by 1.7% or $310,167, primarily resulting from an above normal wet winter followed by a cool and foggy spring and early summer. Water sales, which includes water sales and the WSE surcharge decreased by $976,661, and were offset by an increase of $375,195 in monthly service charges (approximately equal to the amount waived in 2018). Non-Operating revenues further offset the reduction in water sales by $143,354 in Investment Earnings and $151,844 in Other Non-Operating revenue.

In 2018, the District's total revenues increased by less than 1%, or $40,653 primarily a result of a decrease in operating revenues following the 2017 repeal of Ordinance 93/94 penalty revenue amounting to $1,945,429, the forgiveness of the January meter service charge following the January 9, 2018 disaster amounting to $377,415, offset by an increase in water sales of $2,289,958 (combined water sales and the WSE) due to continued drought conditions. Non-operating revenues increased by $75,585 due to an increase in Investment Earnings.

In 2019, the District's total expenses increased by 5.6% or $965,262, primarily consisting of an increase in JPA expenses of $499,315, an increase in General and Administration expenses of $977,644, and a decrease in Transmission and Distribution expenses of $407,396.

In 2018, the District's total expenses increased by 7.9% or $1,261,139, primarily consisting of an increase in JPA expenses which includes an increase in the State Water Project costs of $744,423, an increase in Cater Treatment Plant operational costs of $398,162 and a decrease in USBR charges of $291,020.

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

Total Revenues	2019	2018	Change	2017	Change
Operating revenues:					
Water consumption sales	$ 8,380,077	$ 8,925,156	$ (545,079)	$ 7,470,909	$ 1,454,247
Monthly service charge	4,264,586	3,889,391	375,195	4,266,806	(377,415)
Ordinance 93 - drought penalty charge	-	(3,105)	3,105	1,942,324	(1,945,429)
Water shortage emergency surcharge	5,227,304	5,658,886	(431,582)	4,823,175	835,711
Other charges for services	71,632	71,324	308	80,693	(9,369)
Total operating revenue	17,943,599	18,541,652	(598,053)	18,583,907	(42,255)
Non-operating revenue:					
Rental revenue	42,933	44,163	(1,230)	42,738	1,425
Picay hydroelectric power	1,912	7,994	(6,082)	3,844	4,150
Investment earnings	281,776	138,422	143,354	62,837	75,585
Legal settlement	-	-	-	-	-
Other non-operating revenues	214,044	62,200	151,844	60,452	1,748
Total non-operating revenue	540,665	252,779	287,886	169,871	82,908
Total revenues	18,484,264	18,794,431	(310,167)	18,753,778	40,653
Total Expenses					
Operating expenses:					
Source of supply - water purchases	8,787,331	8,288,016	499,315	7,298,424	989,592
Source of supply - drought water purchases	-	-	-	764,364	(764,364)
Source of supply - operational costs	108,990	137,826	(28,836)	147,220	(9,394)
Pumping	-	-	-	263,169	(263,169)
Water treatment - operation costs	1,327,586	1,303,031	24,555	855,799	447,232
Transmission and distribution	1,180,285	1,587,681	(407,396)	1,410,833	176,848
Customer service and meter reading	407,924	456,333	(48,409)	370,498	85,835
General and administrative	3,741,866	2,764,222	977,644	2,141,593	622,629
Total operating expenses	15,553,982	14,537,109	1,016,873	13,251,900	1,285,209
Depreciation - capital recovery	1,183,710	1,246,226	(62,516)	1,227,523	18,703
Non-operating expenses:					
Interest expense	869,640	846,074	23,566	856,748	(10,674)
Cater treatment plant ozone debt	231,647	231,647	-	231,647	-
Cater treatment plant - ozone project obligation	276,346	276,346	-	276,297	49
Joint-project cost commitments	102,984	129,965	(26,981)	131,500	(1,535)
Gain/Loss on disposition of capital projects	(16,292)	(30,612)	14,320	-	(30,612)
Amortization of debt premium	(52,924)	(52,924)	-	(52,923)	(1)
Total non-operating expenes	1,411,401	1,400,496	10,905	1,443,269	(42,773)
Total Expenses	$ 18,149,093	$ 17,183,831	$ 965,262	$ 15,922,692	$ 1,261,139

Capital Asset Administration

At the end of fiscal year 2019 and 2018, the District's investment in capital assets amounted to $35,254,609 and $32,546,261, 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 asset improvements and repairs were made during 2018-19 including upgrades to the Bella Vista Treatment Plant, fire pump replacement at the Ortega Pump Station, completion of the Sycamore Canyon water main replacement project, replacement of two thousand feet of 2-inch water mains, significant permanent repairs to bridges and transmission mains following the January 9, 2018 debris flow and machinery and equipment purchases. See Notes 5 and 13 for further information.

Changes in capital assets amounts for 2019 were as follows:

	Balance 2018	Additions	Transfers / Deletions	Balance 2019
Capital assets:				
Non-depreciable assets	$ 1,350,774	$ 3,941,789	$ (1,002,589)	$ 4,289,974
Depreciable assets	56,465,896	256,473	599,530	57,321,899
Accumulated depreciation	(25,270,409)	(1,183,710)	96,855	(26,357,264)
Total capital assets, net	$ 32,546,261	$ 3,014,552	$ (306,204)	$ 35,254,609

Changes in capital assets amounts for 2018 were as follows:

	Balance 2017	Additions	Transfers / Deletions	Balance 2018
Capital assets:				
Non-depreciable assets	$ 625,061	$ 1,375,983	$ (650,270)	$ 1,350,774
Depreciable assets	56,211,054	190,864	63,978	56,465,896
Accumulated depreciation	(24,468,493)	(1,246,226)	444,310	(25,270,409)
Total capital assets, net	$ 32,367,622	$ 320,621	$ (141,982)	$ 32,546,261

Debt Administration

Changes in long-term debt amounts for 2019 were as follows:

	Balance 2018	Additions	Transfers / Deletions	Balance 2019
Long-term debt:				
Bond payable	$ 13,942,092	$ -	$ (52,924)	$ 13,889,168
DWR Ortega Loan payable	5,864,990	-	(445,804)	5,419,186
AMI Loan Payable	-	3,000,000	-	3,000,000
Total long-term debt	$ 19,807,082	$ 3,000,000	$ (498,728)	$ 22,308,354

Changes in long-term debt amounts for 2018 were as follows:

	Balance 2017	Additions	Transfers / Deletions	Balance 2018
Long-term debt:				
Bond payable	$ 13,995,016	$ -	$ (52,924)	$ 13,942,092
Loan payable	6,299,797	-	(434,807)	5,864,990
Total long-term debt	$ 20,294,813	$ -	$ (487,731)	$ 19,807,082

(See note 6 for further discussion)

Conditions Affecting Current Financial Position

Management is unaware of any conditions as of June 30, 2019, 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 condition. Should readers have questions regarding the information included in this report or wish to request additional financial information, please contact the General Manager or Business Manager of Montecito Water District, 583 San Ysidro Road, Santa Barbara, California, 93108 at (805) 969-2271.

MONTECITO WATER DISTRICT
STATEMENT OF NET POSITION - ENTERPISE FUND
June 30, 2019
With Comparative Totals for June 30, 2018

	2019	2018
Assets		
Current:		
Cash and investments	$ 9,053,477	$ 8,311,374
Restricted - cash and investments	6,874,705	3,963,542
Receivables:		
Accounts receivable - water sales and services, net	1,448,223	1,831,317
Accounts receivable - federal reimbursements	2,033,446	473,588
Accounts receivable - insurance reimbursements		487,279
Accounts receivable - other	6,263	7,820
Accrued interest	18,139	19,461
Materials and supplies inventory	262,665	316,461
Prepaid water charges	9,261,632	8,815,765
Prepaid expenses and other deposits	143,675	112,257
Total Current Assets	29,102,225	24,338,864
Noncurrent:		
Capital assets - not being depreciated	4,289,974	1,350,774
Capital assets - being depreciated, net	30,964,635	31,195,487
Total Noncurrent Assets	35,254,609	32,546,261
Total Assets	64,356,834	56,885,125
Deferred Outflows of Resources		
Deferred pensions	1,254,442	1,395,169
Deferred OPEB	78,060	
Total Deferred Outflows of Resources	1,332,502	1,395,169
Liabilities		
Current:		
Accounts payable and accrued expenses	2,371,497	797,470
Accrued wages and related payables	70,598	54,252
Unearned revenue and other deposits	818,426	88,008
Accrued interest payable	379,794	345,231
Long-term liabilities - due within one year:		
Accrued compensated absences	94,562	91,984
Bonds payable	52,924	52,924
Loan payable	477,112	221,510
Total Current Liabilities	4,264,913	1,651,379
Noncurrent:		
Accrued compensated absences	283,685	275,951
Bonds payable	13,836,244	13,889,168
Loan payable	7,942,074	5,643,480
OPEB liability	1,940,133	1,741,357
Net pension liability	4,401,585	4,469,835
Total Noncurrent Liabilities	28,403,721	26,019,791
Total Liabilities	32,668,634	27,671,170
Deferred Inflows of Resources		
Deferred pensions	589,240	517,403
Total Deferred Inflows of Resources	589,240	517,403
Net Position		
Net investment in capital assets	15,946,255	12,739,179
Restricted - water agreements, debt reserve and capital lease proceeds in escrow	6,494,911	3,963,542
Unrestricted	9,990,296	13,389,000
Total Net Position	$ 32,431,462	$ 30,091,721

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

MONTECITO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2019
With Comparative Totals for the Fiscal Year Ended June 30, 2018

	2019	2018
Operating Revenues:		
Water consumption sales	$ 8,380,077	$ 8,925,156
Monthly service charge	4,264,586	3,889,391
Ordinance No. 93/94 - drought penalty charge		(3,105)
Water shortage emergency surcharge	5,227,304	5,658,886
Other charges for services	71,632	71,324
Total operating revenues	17,943,599	18,541,652
Operating Expenses:		
Source of supply - water purchases	8,787,331	8,288,016
Source of supply - operational costs	108,990	137,826
Water treatment - operational costs	1,327,586	1,303,031
Transmission and distribution	1,180,285	1,587,681
Customer service and meter reading	407,924	456,333
General and administrative	3,741,866	2,764,222
Depreciation	1,183,710	1,246,226
Total operating expenses	16,737,692	15,783,335
Operating income (loss)	1,205,907	2,758,317
Nonoperating Revenues (Expenses):		
Rental revenue	42,933	44,163
Picay hydroelectric power	1,912	7,994
Investment earnings	281,776	138,422
Interest expense	(869,640)	(846,074)
Cater treatment plant obligation	(231,647)	(231,647)
Cater treatment plant - ozone project obligation	(276,346)	(276,346)
Joint-project cost commitments	(102,984)	(129,965)
Amortization of debt premium	52,924	52,924
Gain on disposal of capital assets	16,292	30,612
Other non-operating revenues	214,044	62,200
Total nonoperating revenues (expenses)	(870,736)	(1,147,717)
Income (loss) before capital contributions	335,171	1,610,600
Capital contributions		
Capital contributions	213,390	56,904
Connection fees	35,159	22,460
Total capital contributions	248,549	79,364
Change in net position prior to Special Items	583,720	1,689,964
Special Items		
FEMA reimbursements	2,029,953	2,188,934
Insurance proceeds	104,895	
Disaster repairs	(378,827)	(2,188,934)
Change in net position	2,339,741	1,689,964
Net position, beginning of fiscal year	30,091,721	29,252,905
Restatement		(851,148)
Net position, beginning of fiscal year - restated	30,091,721	28,401,757
Net position, end of fiscal year	$ 32,431,462	$ 30,091,721

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

MONTECITO WATER DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2019
With Comparative Totals for the Fiscal Year Ended June 30, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 18,328,250	$ 18,741,664
Payments to suppliers	(10,820,478)	(14,741,261)
Payments to employees	(3,680,575)	(2,577,871)
Net cash provided (used) by operating activities	3,827,198	1,422,532
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(4,198,262)	(1,566,847)
Proceeds from sale of capital assets	322,496	172,594
Proceeds from capital contributions	248,549	79,364
Proceeds from direct borrowing	3,000,000	
FEMA grants received	590,317	
Principal paid on long-term debt	(445,804)	(434,807)
Interest paid on long-term debt	(835,077)	(846,023)
Net cash provided (used) by capital financing and related activities	(1,317,781)	(2,595,719)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rental revenue	42,933	44,163
Picay hydroelectric power	1,912	7,994
Cater treatment plant obligation	(231,647)	(231,647)
Cater treatment plant - ozone project obligation	(276,346)	(276,346)
Joint-project cost commitments	(102,984)	(129,965)
Legal settlement		(1,140,668)
Disaster repairs	(378,827)	
Insurance proceeds	1,591,666	
Other non-operating income, net	214,044	62,200
Net cash provided (used) by noncapital financing activities	860,751	(1,664,269)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	283,098	128,245
Net cash provided (used) by investing activities	283,098	128,245
Net increase (decrease) in cash and cash equivalents	3,653,266	(2,709,211)
Cash and cash equivalents, July 1	12,274,916	14,984,127
Cash and cash equivalents, June 30	$ 15,928,182	$ 12,274,916
Reconciliation to Statement of Net Position:		
Cash and investments - cash equivalents	$ 9,053,477	$ 8,311,374
Restricted cash and investments - cash equivalents	6,874,705	3,963,542
	$ 15,928,182	$ 12,274,916

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

MONTECITO WATER DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2019
With Comparative Totals for the Fiscal Year Ended June 30, 2018

	2019	2018
Reconciliation to reconcile operating income (loss) to net cash provided (used) by operating activates:		
Operating income (loss)	$ 1,205,907	$ 2,758,317
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	1,183,710	1,246,226
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable	384,651	(760,855)
Materials and supplies inventory	53,796	(68,681)
Prepaid water charges	(445,867)	(873,525)
Prepaid expenses and other deposits	(31,418)	7,545
Deferred outflows	62,667	(278,393)
Accounts payables	1,195,200	(132,833)
Accrued wages and related payables	16,346	(513)
Unearned revenue and other deposits	(10,469)	56,442
Accrued water exchange transfer		(1,334,475)
Compensated absences	10,312	27,554
Net OPEB liability	198,776	109,279
Net pension liability	(68,250)	672,425
Deferred inflows	71,837	(5,981)
Net cash provided (used) by operating activities	$ 3,827,198	$ 1,422,532

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

NOTE 1 - REPORTING ENTITY

The Montecito Water District was incorporated on November 10, 1921, as the Montecito County Water District under the provisions of Chapter 387, 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 11,400 and currently provides water to approximately 4,600 customers.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. 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.

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

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

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

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

4. Accounts Receivable

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

5. Inventory

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

6. Prepaid Expenses

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

7. Restricted Assets

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

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Capital Assets (Continued)

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

9. Compensated Absences

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

10. Pensions

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

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

- Valuation Date: June 30, 2017
- Measurement Date: June 30, 2018
- Measurement Period: July 1, 2017 to June 30, 2018

11. Deferred Outflows and Inflows of Resources

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

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has two items which qualifies for reporting in this category; refer to Notes 7 and 8 for a detailed listing of the deferred outflows of resources the District has reported.

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

12. Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. 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.

14. Water Sales

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

15. Deposit Connection Fees

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

16. 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.

17. Budgetary Policies

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

C. **Future Accounting Pronouncements**

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

Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. **Future Accounting Pronouncements (Continued)**

Statement No. 90	"Majority Equity Interests-an Amendment of GASB Statements No. 14 and No. 61"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 91	"Conduit Debt Obligations"	The provisions of this statement are effective for fiscal years beginning after December 15, 2020.

D. **Comparative Data/Totals Only**

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

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2019 are classified in the accompanying financial statements as follows:

	2019	2018
Cash on hand	$ 350	$ 350
Deposits with financial institutions	1,377,871	2,008,998
Deposits held in escrow with financial institutions	3,000,000	
Investments	11,549,961	10,265,568
	$ 15,928,182	$ 12,274,916

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

	2019	2018
Cash and investments	$ 9,053,477	$ 8,311,374
Restricted cash and investments	6,874,705	3,963,542
Total cash and investments	$ 15,928,182	$ 12,274,916

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

- Level 1 Investments are Negotiable Certificates of Deposit with a fair value of $1,221,337, Corporate Bonds with a market value of $749,240, United States Treasury Notes with a fair value of $2,475,719 and Stored Water Recovery Units with a fair value of $1,924,510. Money market investments of $3,122,907 and the external CCWA investment pool of $2,056,248 are measured at amortized costs and are not level 1, 2 or 3 investments.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments Authorized by the District's Investment Policy

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio *	Maximum Investment in One Issuer
State and Local Agency Bonds	5 years	100%	None
U.S. Treasury Obligations	5 years **	100%	None
U.S. Agency Obligations	5 years **	100%	None
Bankers' Acceptances	180 days	100%	30%
Commercial Paper — Pooled Funds	270 days	100%	10%
Commercial Paper — Non-pooled Funds	270 days	100%	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	100%	None
Mutual Funds and Money Market Mutual Funds	N/A	100%	None
California Local Agency Investment Fund (LAIF)	N/A	100%	10%

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

2019

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Certificates of deposit	$ 1,221,337	$ 1,221,337	$ -	$ -	$ -
Corporate bonds	749,240	749,240			
United States Treasury Notes	2,475,719	2,475,719			
CCWA Investment Pool	2,056,248	2,056,248			
Money market funds	1,303,820	1,303,820			
Semitropic Stored Water Recovery Units	1,924,510	1,924,510			
Held by bond trustee					
Money market funds	1,819,087	1,819,087			
	$ 11,549,961	$ 11,549,961	$ -	$ -	$ -

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

2018

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Certificates of deposit	$ 2,217,383	$ 2,217,383	$ -	$ -	$ -
Corporate bonds	2,239,455	1,490,933	748,522		
United States Treasury Notes	457,717	457,717			
CCWA Investment Pool	2,165,757	2,165,757			
Money market funds	757,471	757,471			
Semitropic Stored Water Recovery Units	630,000	630,000			
Held by bond trustee					
Money market funds	1,362,448	1,362,448			
United States Treasury Notes	435,337	435,337			
	$ 10,265,568	$ 9,517,046	$ 748,522	$ -	$ -

Disclosures Relating to Credit Risk

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

2019

			Rating as of Fiscal Year End					
Investment Type	Carrying Amount	Minimum Legal Rating	Aaa	Aa2	A1	A2	A3	Not Rated
Certificates of deposit	$ 1,221,337	N/A	$ -	$ -	$ -	$ -	$ -	$ 1,221,337
Corporate bonds	749,240		249,676				499,564	
United States Treasury Notes	2,475,719							2,475,719
CCWA Investment Pool	2,056,248							2,056,248
Money market funds	1,303,820							1,303,820
Semitropic Stored Water Recovery Units	1,924,510							1,924,510
Held by bond trustee								
Money market funds	1,819,087							1,819,087
	$ 11,549,961		$ 249,676	$ -	$ -	$ -	$ 499,564	$ 10,800,721

2018

			Rating as of Fiscal Year End					
Investment Type	Carrying Amount	Minimum Legal Rating	Aaa	Aa2	A1	A2	A3	Not Rated
Certificates of deposit	$ 2,217,383	N/A	$ -	$ -	$ -	$ -	$ -	$ 2,217,383
Corporate bonds	2,239,455		246,063	247,695	497,717	497,070	750,910	
United States Treasury Notes	457,717							457,717
CCWA Investment Pool	2,165,757							2,165,757
Money market funds	757,471							757,471
Semitropic Stored Water Recovery Units	630,000							630,000
Held by bond trustee								
Money market funds	1,362,448							1,362,448
United States Treasury Notes	435,337		435,337					
	$ 10,265,568		$ 681,400	$ 247,695	$ 497,717	$ 497,070	$ 750,910	$ 7,590,776

Custodial Credit Risk

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

NOTE 3 - CASH AND INVESTMENTS (Continued)

Collateral for Deposits

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

Deposit accounts are insured up to $250,000.

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

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 2019, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability: The District has a $1,000 deductible for general and a $500 deductible for auto liability. The District purchased additional excess coverage layers: $20 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 $3,000,000 per loss includes public employee dishonesty, forgery or alteration, theft, and computer fraud coverage.
- Property loss/Boiler and Machinery is paid based on the replacement cost or actual cash value for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of $500 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, 2019, 2018, and 2017. 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, 2019, 2018, and 2017.

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 and June 30, 2018 was as follows:

	Balance July 1, 2018	Additions	Deletions	Transfers/Reclass	Balance June 30, 2019
Capital assets not being depreciated:					
Land	$ 101,352	$ -	$ -	$ -	$ 101,352
Construction in progress	1,249,422	3,941,789	(306,204)	(696,385)	4,188,622
Total capital assets not being depreciated	$ 1,350,774	$ 3,941,789	$ (306,204)	$ (696,385)	$ 4,289,974
Capital assets being depreciated:					
Transmission and distribution system	$ 27,540,112	$ 109,745	$ -	$ 565,560	$ 28,215,417
Juncal dam	2,145,448				2,145,448
Wells and water sources	4,052,559	38,756			4,091,315
Water rights	142,234				142,234
Bella Vista treatment plant	5,824,802	4,946			5,829,748
Other treatment plants and facilities	344,294				344,294
Reservoirs and storage tanks	12,640,251			84,766	12,725,017
Meters and meter boxes	1,273,612	826			1,274,438
Structures and improvements	346,279				346,279
Machinery and equipment	2,156,305	102,200	(96,855)	46,059	2,207,709
Total depreciable assets	56,465,896	256,473	(96,855)	696,385	57,321,899
Less accumulated depreciation:					
Transmission and distribution system	(9,860,143)	(514,933)			(10,375,076)
Juncal dam	(1,494,643)	(24,178)			(1,518,821)
Wells and water sources	(3,230,448)	(48,083)			(3,278,531)
Water rights	(142,234)				(142,234)
Bella Vista treatment plant	(4,992,018)	(268,162)			(5,260,180)
Other treatment plants and facilities	(309,103)	(5,217)			(314,320)
Reservoirs and storage tanks	(2,136,535)	(151,985)			(2,288,520)
Meters and meter boxes	(1,049,365)	(57,498)			(1,106,863)
Structures and improvements	(257,661)	(4,262)			(261,923)
Machinery and equipment	(1,798,259)	(109,392)	96,855		(1,810,796)
Total accumulated depreciation	(25,270,409)	(1,183,710)	96,855		(26,357,264)
Total capital assets being depreciated, net	$ 31,195,487	$ (927,237)	$ -	$ 696,385	$ 30,964,635
Net capital assets	$ 32,546,261	$ 3,014,552	$ (306,204)	$ -	$ 35,254,609

NOTE 5 - CAPITAL ASSETS (Continued)

	Balance July 1, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Capital assets not being depreciated:					
Land	$ 101,352	$ -	$ -	$ -	$ 101,352
Construction in progress	523,709	1,375,983	(4,307)	(645,963)	1,249,422
Total capital assets not being depreciated	$ 625,061	$ 1,375,983	$ (4,307)	$ (645,963)	$ 1,350,774
Capital assets being depreciated:					
Transmission and distribution system	$ 27,073,956	$ 986	$ -	$ 465,170	$ 27,540,112
Juncal dam	2,165,113		(19,665)		2,145,448
Wells and water sources	4,030,314		(158,548)	180,793	4,052,559
Water rights	142,234				142,234
Bella Vista treatment plant	5,793,898	30,904			5,824,802
Other treatment plants and facilities	344,294				344,294
Reservoirs and storage tanks	12,640,251				12,640,251
Meters and meter boxes	1,273,612				1,273,612
Structures and improvements	436,081		(89,802)		346,279
Machinery and equipment	2,311,301	158,974	(313,970)		2,156,305
Total depreciable assets	56,211,054	190,864	(581,985)	645,963	56,465,896
Less accumulated depreciation:					
Transmission and distribution system	(9,357,423)	(502,720)			(9,860,143)
Juncal dam	(1,490,123)	(24,185)	19,665		(1,494,643)
Wells and water sources	(3,218,785)	(105,169)	93,506		(3,230,448)
Water rights	(142,234)				(142,234)
Bella Vista treatment plant	(4,722,037)	(269,981)			(4,992,018)
Other treatment plants and facilities	(303,846)	(5,257)			(309,103)
Reservoirs and storage tanks	(1,982,888)	(153,647)			(2,136,535)
Meters and meter boxes	(989,554)	(59,811)			(1,049,365)
Structures and improvements	(302,063)	(6,408)	50,810		(257,661)
Machinery and equipment	(1,959,540)	(119,048)	280,329		(1,798,259)
Total accumulated depreciation	(24,468,493)	(1,246,226)	444,310		(25,270,409)
Total capital assets being depreciated, net	$ 31,742,561	$ (1,055,362)	$ (137,675)	$ 645,963	$ 31,195,487
Net capital assets	$ 32,367,622	$ 320,621	$ (141,982)	$ -	$ 32,546,261

NOTE 6 - LONG-TERM LIABILITIES

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2019 and June 30, 2018:

	Balance July 1, 2018	Additions	Deletions / Retirements	Balance June 30, 2019	Due Within One Year
Compensated absences	$ 367,935	$ 200,346	$ (190,034)	$ 378,247	$ 94,562
Bonds payable:					
2010A Revenue COP	13,360,000			13,360,000	
2010A Revenue COP-premium	582,092		(52,924)	529,168	52,924
Total bonds payable	13,942,092		(52,924)	13,889,168	52,924
Loans payable:					
DWR - Ortega Loan - Direct Borrowing	5,864,990		(445,804)	5,419,186	227,112
AMI Loan - Direct Borrowing		3,000,000		3,000,000	250,000
OPEB liability	1,741,357	232,534	(33,758)	1,940,133	
Net pension liability	4,469,835	1,097,898	(1,166,148)	4,401,585	
Other liabilities	12,076,182	4,330,432	(1,645,710)	14,760,904	477,112
Total long-term liabilities	$ 26,386,209	$ 4,530,778	$ (1,888,668)	$ 29,028,319	$ 624,598

	Balance July 1, 2017	Additions	Deletions / Retirements	Restatement	Balance June 30, 2018	Due Within One Year
Compensated absences	$ 340,381	$ 187,665	$ (160,111)	$ -	$ 367,935	$ 91,984
Bonds payable:						
2010A Revenue COP	13,360,000				13,360,000	
2010A Revenue COP-premium	635,016		(52,924)		582,092	52,924
Total bonds payable	13,995,016		(52,924)		13,942,092	52,924
Loans payable:						
DWR - Ortega Loan - Direct Borrowing	6,299,797		(434,807)		5,864,990	221,510
OPEB liability	780,930	141,739	(32,460)	851,148	1,741,357	
Net pension liability	3,797,410	1,831,951	(1,159,526)		4,469,835	
Other liabilities	10,878,137	1,973,690	(1,626,793)	851,148	12,076,182	221,510
Total long-term liabilities	$ 25,213,534	$ 2,161,355	$ (1,839,828)	$ 851,148	$ 26,386,209	$ 366,418

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.

Year	Principal	Interest	Total
2020	$ -	$ 690,463	$ 690,463
2021		690,463	690,463
2022		690,463	690,463
2023	1,385,000	655,838	2,040,838
2024	1,460,000	584,712	2,044,712
2025-2029	8,525,000	1,686,356	10,211,356
2030	1,990,000	52,236	2,042,236
Total	13,360,000	$ 5,050,531	$ 18,410,531
Less current			
Premium on debt	529,168		
Total non-current	$ 13,889,168		

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Department of Water Resources – Ortega Reservoir Improvement Project Contract – Direct Borrowing

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

Annual debt service payments are as follows:

Year	Principal	Interest	Total
2020	$ 227,112	$ 68,098	$ 295,210
2021	462,822	127,597	590,419
2022	474,527	115,893	590,420
2023	486,527	103,892	590,419
2024	498,832	91,588	590,420
2025-2029	2,689,892	262,205	2,952,097
2030	579,474	10,945	590,419
Total	5,419,186	$ 780,218	$ 6,199,404
Less current	(227,112)		
Total non-current	$ 5,192,074		

Holman Capital Corporation – Advanced Metering Infrastructure Loan – Direct Borrowing

In March 2019, the District entered into direct borrowing loan agreement with Holman Capital Corporation for $3,000,000. The District pledged is water sales revenue as collateral to secure the loan and those revenues will be used to pay all outstanding debt principal and interest in the event of a default. The proceeds from this loan are for the purchase of 4,605 new water meters and the Advanced Metering Infrastructure to read those meters in an automated and cost effective manner which includes meter radios and their installation. The loan is to be repaid with semi-annual payments of $183,028 including principal and interest at an effective annual rate of 3.95% through March 15, 2029. The District irrevocably pledges all of its net water revenues to the installment payments.

Annual debt service payments are as follows:

Year	Principal	Interest	Total
2020	$ 250,000	$ 116,055	$ 366,055
2021	259,973	106,083	366,056
2022	270,343	95,713	366,056
2023	281,127	84,928	366,055
2024	292,341	73,714	366,055
2025-2029	1,646,216	184,063	1,830,279
Total	3,000,000	$ 660,556	$ 3,660,556
Less current	(250,000)		
Total non-current	$ 2,750,000		

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

A. Plan Description

Plan administration. The District provides post-retirement medical coverage through CalPERS under the Public Employees Medical and Hospital Care Act (PEMHCA), also referred to as PERS Health.

Benefits provided. The District offers the same medical plans to its retirees as to its active employees, with the general exception that upon reaching age 65 and becoming eligible for Medicare, the retiree must join one of the Medicare Supplement coverages offered under PEMHCA.

Employees become eligible to retire and receive District-paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service, or by attaining qualifying disability retirement status. The District's contribution on behalf of retirees is the same as for active employees - 100% of the PEMHCA premium for retiree and covered dependents, but not to exceed $136 per month for 2019. Benefits continue for the lifetime of the retiree with survivor benefits extended to surviving spouses for PERS annuitants who elect pension options with survivor benefits.

B. Employees Covered

As of June 30, 2019, actuarial valuation, the following current and former employees were covered by the benefit terms under the District's Plan:

Active plan members	24
Inactive plan members or beneficiaries currently receiving benefits	7
Total	31

C. Contributions

The District currently finances benefits on a pay-as-you-go basis.

D. Total OPEB Liability

The District's Net OPEB Liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of June 30, 2018. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

Actuarial assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	2.75%
Healthcare cost trend rate	4.00%
Inflation	2.75%

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Actuarial assumptions used in the June 30, 2018 valuation were based on a review of plan experience during the period July 1, 2015 to June 30, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. To achieve the goal set by the investment policy, plan assets will be managed to earn, on a long-term basis, a rate of return equal to or in excess of the target rate of return of 3.50 percent.

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

D. Total OPEB Liability (Continued)

Discount rate. GASB 75 requires a discount rate that reflects the following:

a) The long-term expected rate of return on OPEB plan investments — to the extent that the OPEB plan's fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher — to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan's projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the District's total OPEB liability is based on these requirements and the following information:

Reporting Date	Measurement Date	Long-Term Expected Return of Plan Investments (if any)	Municipal Bond 20 Year High Grade Rate Index	Discount Rate
June 30, 2019	June 30, 2019	3.50%	3.50%	3.50%

Changes in the OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	
(Valuation Date June 30, 2018)	$ 1,741,357
Changes recognized for the measurement period:	
Service cost	81,048
Interest	61,775
Changes of assumptions	89,711
Contributions - employer	
Net investment income	
Benefit payments	(33,758)
Administrative expense	
Net Changes	198,776
Balance at June 30, 2019	
(Measurement Date June 30, 2019)	$ 1,940,133

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50 percent) or 1 percentage point higher (4.50 percent) than the current discount rate:

	1% Decrease 2.50%	Discount Rate 3.50%	1% Increase 4.50%
Total OPEB Liability	$ 2,279,873	$ 1,940,133	$ 1,672,543

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

D. Total OPEB Liability (Continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4.00 percent decreasing to 3.00 percent) or 1 percentage point higher (4.00 percent increasing to 5.00 percent) than the current healthcare cost trend rates:

	1% Decrease 3.00%	Trend Rate 4.00%	1% Increase 5.00%
Total OPEB Liability	$ 1,660,784	$ 1,940,133	$ 2,272,897

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of $154,474. As of the fiscal year ended June 30, 2019, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ 78,060	$ -
	$ 78,060	$ -

Amounts reported as deferred outflows and inflows of resources will be recognized in OPEB expense as follows:

Fiscal year ending June 30,	Amount
2020	$ 11,651
2021	11,651
2022	11,651
2023	11,651
2024	11,651
Thereafter	19,805
	$ 78,060

NOTE 8 - PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan's benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

The Plan consists of a miscellaneous pool and a safety pool (referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively, including those of the Montecito Water District. The Montecito Water District's employer rate plans in the miscellaneous risk pool include the Miscellaneous plan (Miscellaneous) and the PEPRA Miscellaneous plan (PEPRA Misc.). The Montecito Water District does not have any rate plans in the safety risk pool.

NOTE 8 - PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided

The Plan 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. Classic members and PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous	
	Prior to	On or after
Hire Date	January 1, 2013	January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	9.409% + $231,449	6.842% + $618

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were $424,172 for the fiscal year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of $4,401,585 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2019, the District's proportion share of net pension liability for miscellaneous plans as of June 30, 2019 and 2018 was as follows:

	Miscellaneous
Proportion-June 30, 2017	0.113389%
Proportion-June 30, 2018	0.116793%
Change-increase(decrease)	0.003404%

NOTE 8 - PENSION PLAN (Continued)

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

For the year ended June 30, 2019, the District recognized pension expense of $568,486. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	$ 424,172	$ -
Changes in assumptions	489,537	118,470
Differences between expected and actual experience	162,688	56,065
Net difference between projected and actual earnings on retirement plan investments		118,190
Difference in proportions	178,045	
Differences in actual contributions and proportionate share of contributions		296,515
	$ 1,254,442	$ 589,240

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

$424,172 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

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

Fiscal Year Ending June 30,	Amount
2020	$ 227,500
2021	201,020
2022	(149,769)
2023	(37,721)
	$ 241,030

NOTE 8 - PENSION PLAN (Continued)

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

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.0% Net Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using 90% Scale MP 2016 published by the Society of Actuaries. For more details on this table please refer to the 2017 experience study report.

Change in Assumptions

In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the Public Employees' Retirement Fund (PERF). The mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent scale MP 2016 published by the Society of Actuaries. The inflation assumption was reduced from 2.75 percent to 2.50 percent. The assumptions for individual salary increase and overall payroll growth were reduced from 3.00 percent to 2.75 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2022. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2021-22 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

NOTE 8 - PENSION PLAN (Continued)

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

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

(a) An expected inflation of 2.00% was used for this period.
(b) An expected inflation of 2.92% was used for this period.

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

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15 percent) or 1 percentage point higher (8.15 percent) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
District's proportionate share of the net pension plan liability	$6,972,311	$ 4,401,585	$ 2,279,493

Pension Plan Fiduciary Net Position

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

NOTE 8 - PENSION PLAN (Continued)

C. Payable to Pension Plan

At June 30, 2019, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2019.

NOTE 9 - DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (the 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.

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

NOTE 10 - ORDINANCES #93/94 – DROUGHT PENALTY AND WATER SHORTAGE EMERGENCY SURCHARGE

For the fiscal year ended June 30, 2018, 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 in the sixth 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 2017, the Board approved a temporary suspension of the Ordinance 94 penalties. Subsequently, on August 23, 2017, the Board passed Ordinance 95 which fully repealed Ordinance 94, reclassified the drought severity to "D2-Severe Drought", and established updated water use restrictions.

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. The Water Shortage Emergency Surcharge was $4,918,468 for the fiscal year ended June 30, 2019.

NOTE 11 - STATE WATER CONTRACT

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

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

Each Santa Barbara County 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 County 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 that 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 7.25% 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.

NOTE 11 - STATE WATER CONTRACT (Continued)

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

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

Fiscal Year	Fixed Costs	Variable Costs	Debt Service	Total
2020	$ 2,898,900	$ 1,191,162	$ 2,019,625	$ 6,109,687
2021	3,003,182	1,233,693	2,017,176	6,254,051
2022	3,093,277	1,065,092	2,014,572	6,172,941
2023	3,186,076			3,186,076
2024	4,023,603			4,023,603
Thereafter	34,521,357			34,521,357
	$ 50,726,395	$ 3,489,947	$ 6,051,373	$ 60,267,715

The numbers provided from the table above, are estimated based upon the following assumptions. Starting with the fiscal year 2019/2020, the CCWA fixed costs are estimated to increase 3% annually and are projected to the year 2036. No variable costs are assumed after 2019/2020 because delivery requests are not made beyond that year. The debt service payments are based upon estimated final debt service schedules and are subject to change.

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

Estimates of the District's share of the project fixed costs of the State Water Project (SWP) are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates and inflation.

During the next five years and thereafter, payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

Fiscal Year	Total
2020	$ 6,109,687
2021	6,254,051
2022	6,172,941
2023	3,186,076
2024	4,023,603
Thereafter	34,521,357
	$ 60,267,715

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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 Treatment Plant

The District currently receives approximately 50% of its water supplies from or through the Cachuma Project. These surface water supplies are treated at the City of Santa Barbara's Cater Water Treatment 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 Water Treatment plant. The District's annual payments for its share of the debt service are $231,647 per year.

Cater Ozone Project

The District currently receives approximately 50% of its water supplies from or through the Cachuma Project. These surface water supplies are treated at the City of Santa Barbara's Cater Water Treatment 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 Water Treatment Plant. The District's annual payments for its share of the debt service are $276,346 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.

NOTE 13 - SPECIAL ITEMS

Despite an apparent absence of liability, the District has been served with several lawsuits as a result of the Thomas Fire of December 2017 and subsequent debris flow that took place on January 9, 2018. In excess of 600 claimants have filed actions against the District. It has been reported that Southern California Edison [“SCE”] may be primarily responsible for causing the Thomas Fire and, by extension, the subsequent debris flow. The District has been informed that SCE has approximately $1 billion in insurance coverage for this loss. The District is afforded $60 million in insurance coverage, which includes several layers of excess coverage. Although the District’s potential liability in this matter appears to be minimal, exposure is indeed significant. District’s litigation counsel has informed the District that it is in a highly defensible position. We expect that this case will either be totally defended or resolved well within the limits of the District’s insurance coverage

NOTE 14 – SUBSEQUENT EVENTS

In July 2018, the District and other public entity Plaintiffs, including the County of Santa Barbara, initiated a lawsuit against Southern California Edison (SCE) alleging that SCE was responsible for the Thomas Fire and subsequent debris flow that occurred on January 9, 2018. The District suffered immediate damage to multiple components of its infrastructure from the Thomas Fire and debris flow, as well as an ongoing loss of capacity at Jameson Lake, one source of the District’s water supply. The lawsuit sought damages for both the immediate losses and future ongoing costs. In December 2019, SCE settled the lawsuit brought by the public entity Plaintiffs, and the District’s share of the settlement was $8,164,977, of which $299,125 has been held back by litigation counsel in the event additional costs must be paid. The District has used a portion of these proceeds to pay off debt associated with the Automated Meter Infrastructure (AMI) Program in the amount of $2,876,222 in effort to keep rates as low as possible for customers.

REQUIRED SUPPLEMENTARY INFORMATION

MONTECITO WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last 10 Years*
As of June 30, 2019

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

	2019	2018	2017	2016	2015
Proportion of the net pension liability	0.04568%	0.04507%	0.04388%	0.04117%	0.04313%
Proportionate share of the net pension liability	$ 4,401,585	$ 4,469,835	$ 3,797,410	$ 2,825,954	$ 2,684,006
Covered payroll	$ 2,240,729	$ 2,064,143	$ 1,767,276	$ 2,098,340	$ 1,984,673
Proportionate share of the net pension liability as percentage of covered payroll	196.44%	216.55%	214.87%	134.68%	135.24%
Plan's total pension liability	$ 38,944,855,364	$ 37,161,348,332	$ 33,358,627,624	$ 31,771,217,402	$ 30,829,966,631
Plan's fiduciary net position	$ 29,308,589,559	$ 27,244,095,376	$ 24,705,532,291	$ 24,907,305,871	$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	75.26%	73.31%	74.06%	78.40%	79.82%

Notes to Schedule:
Changes in assumptions
In 2017, as part of the Asset Liability Management review cycle, the discount rate was changed from 7.65% to 7.15%.

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

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

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

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

	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 424,172	$ 349,307	$ 312,822	$ 282,023	$ 226,841
Contribution in relation to the actuarially determined contributions	(424,172)	(349,307)	(312,822)	(282,023)	(226,841)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 2,370,119	$ 2,240,729	$ 2,064,143	$ 1,767,276	$ 2,098,340
Contributions as a percentage of covered payroll	17.90%	15.59%	15.16%	15.96%	10.81%

Notes to Schedule

Valuation Date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018/2019 were derived from the June 30, 2016 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2016 funding valuation report.
Inflation	2.50%
Salary Increases	Varies by entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.0% net of pension plan investment and administrative expenses; includes inflation.
Retirement Age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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

MONTECITO WATER DISTRICT
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years*
As of June 30, 2019

Measurement Period	2019	2018
Total OPEB Liability		
Service cost	$ 81,048	$ 78,879
Interest on the total OPEB liability	61,775	62,860
Actual and expected experience difference		
Changes in assumptions	89,711	
Changes in benefit terms		
Benefit payments	(33,758)	(32,460)
Net change in total OPEB Liability	198,776	109,279
Total OPEB liability- beginning	1,741,357	1,632,078
Total OPEB liability- ending	$ 1,940,133	$ 1,741,357
Covered payroll	$ 2,370,119	$ 2,240,729
Total OPEB liability as a percentage of covered payroll	81.86%	77.71%

*- Fiscal year 2018 was the 1st year of implementation, therefore only two years are shown.

MONTECITO WATER DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
Last 10 Years*
As of June 30, 2019

As of June 30, 2019, the plan is not administered through a qualified trust. Therefore there is no Actuarially Determined Contribution (ADC). Benefit payments and implicit subsidy of $33,758 were made on a pay-as-you-go basis for the fiscal year ended June 30, 2019.

As of June 30, 2018, the plan is not administered through a qualified trust. Therefore there is no Actuarially Determined Contribution (ADC). Benefit payments and implicit subsidy of $32,460 were made on a pay-as-you-go basis for the fiscal year ended June 30, 2018.