

MONTECITO WATER DISTRICT

FINANCIAL STATEMENTS

June 30, 2020

MONTECITO WATER DISTRICT
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FINANCIAL SECTION



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, 2020, 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, 2020, 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.

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 38, the Schedule of Pension Contributions on page 39, the Schedule of Changes in the Total OPEB Liability and Related Ratios on page 40, and the Schedule of OPEB Contributions on page 41 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 2019 financial statements and expressed an unmodified audit opinion on those audited financial statements in the report dated March 10, 2020. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2019, 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 December 1, 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, Remy & Hargheim LLP

Santa Maria, California
December 1, 2020

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

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, 2020 and 2019. 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 2020, the District's Net Position increased by 37.5% or \$12,165,871, from \$32,431,462 to \$44,597,333, primarily due to the settlement funds received from Southern California Edison (SCE) in the amount of \$7,865,852, and Federal Emergency Management Administration (FEMA) reimbursements and insurance proceeds in the amounts of \$1,430,817 and \$340,599 respectively, both associated with the 2017 Thomas Fire and January 9, 2018 debris flow disasters. The true increase in Net Position prior to these special items would be 9.1% or \$2,944,487 due to a number of factors including an increase in Operating Revenue of \$1,538,498 and an increase of \$308,213 in Capital Cost Recovery Fees. 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 FEMA reimbursements and insurance proceeds both associated with the 2017 Thomas Fire and January 9, 2018 debris flow disasters 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 2020, the District's Operating Revenues increased by 8.57% or \$1,538,498 primarily associated with increased water sales resulting from a warmer winter season followed by a warm and dry spring and summer. Water Sales, which includes revenue from both water sales and the Water Shortage Emergency (WSE) surcharge made up \$1,522,103 of the increase. In 2019, the District's Operating Revenues decreased by 3.23% or \$598,053 primarily associated with decreased water sales 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, but were offset by an increase of \$375,195 in monthly service charges (approximately equal to the amount waived in 2018 due to the lack of water service as a result of the debris flow).

In 2020, the District's Operating Expenses increased by 0.56% or \$93,673. Primary factors influencing this increase include a decrease in Joint Powers Authority (JPA) expenses of \$507,682, an increase in the General and Administrative expenses of \$322,765 and an increase in Treatment expenses of \$91,058. In 2019, the District's Operating Expenses increased 7.0% or \$1,016,873, 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.

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*.

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

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 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 37.

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 \$44,597,333 and \$32,431,462 as of June 30, 2020 and 2019, respectively.

The largest portion of the District's net position, 48.2% and 49.2% as of June 30, 2020 and 2019, 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.

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Condensed Statements of Net Position

	<u>2020</u>	<u>2019</u>	<u>2020-2019</u> <u>Change</u>	<u>2018</u>	<u>2019-2018</u> <u>Change</u>
Assets:					
Current assets	\$ 31,875,495	\$ 29,102,225	\$ 2,773,270	\$ 24,338,864	\$ 4,763,361
Capital assets, net	40,273,991	35,254,609	5,019,382	32,546,261	2,708,348
Total assets	<u>72,149,486</u>	<u>64,356,834</u>	<u>7,792,652</u>	<u>56,885,125</u>	<u>7,471,709</u>
Deferred outflows of resources	<u>1,855,840</u>	<u>1,332,502</u>	<u>523,338</u>	<u>1,395,169</u>	<u>(62,667)</u>
Liabilities:					
Current liabilities	2,544,939	4,264,913	(1,719,974)	1,651,379	2,613,534
Non-current liabilities	26,361,920	28,403,721	(2,041,801)	26,019,791	2,383,930
Total liabilities	<u>28,906,859</u>	<u>32,668,634</u>	<u>(3,761,775)</u>	<u>27,671,170</u>	<u>4,997,464</u>
Deferred inflows of resources	<u>501,134</u>	<u>589,240</u>	<u>(88,106)</u>	<u>517,403</u>	<u>71,837</u>
Net Position:					
Net investment in capital assets	21,475,639	15,946,255	5,529,384	12,739,179	3,207,076
Restricted	3,527,601	6,494,911	(2,967,310)	3,963,542	2,531,369
Unrestricted	19,594,093	9,990,296	9,603,797	13,389,000	(3,398,704)
Total net position	<u>\$ 44,597,333</u>	<u>\$ 32,431,462</u>	<u>\$ 12,165,871</u>	<u>\$ 30,091,721</u>	<u>\$ 2,339,741</u>

At the end of fiscal years 2020 and 2019, the District showed a positive balance in its unrestricted net position of \$19,594,093 and \$9,990,296, respectively, which may be utilized in future years for operations and capital improvement projects.

The cash and investments portion of the unrestricted net position as of June 30, 2020 consists primarily of Board Assigned Reserves totaling \$5,400,000, the remaining portion of settlement funds received from Southern California Edison totaling \$4,850,324, accrued funds for the State Water Project annual payment totaling \$1,651,718, \$2,618,857 of Unassigned Reserves, and an additional \$1,924,510 invested in groundwater storage in Semitropic Groundwater Banking and Exchange Program .

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2020	2019	Change	2018	Change
Revenues:					
Operating revenues	\$ 19,482,097	\$ 17,943,599	\$ 1,538,498	\$ 18,541,652	\$ (598,053)
Non-operating revenues	1,286,843	540,665	746,178	252,779	287,886
Total Revenues	20,768,940	18,484,264	2,284,676	18,794,431	(310,167)
Expenses:					
Operating expenses	15,633,053	15,553,982	79,071	14,537,109	1,016,873
Depreciation and amortization	1,198,312	1,183,710	14,602	1,246,226	(62,516)
Non-operating expenses	1,549,850	1,411,401	138,449	1,400,496	10,905
Total Expenses	18,381,215	18,149,093	232,122	17,183,831	965,262
Net income before capital contributions	2,387,725	335,171	2,052,554	1,610,600	(1,275,429)
Capital contributions	556,762	248,549	308,213	79,364	169,185
Change in net position	2,944,487	583,720	2,360,767	1,689,964	(1,106,244)
Special item - FEMA Reimbursements	1,430,817	2,029,953	(599,136)	2,188,934	(158,981)
Special item - Insurance Proceeds	340,599	104,895	235,704	-	104,895
Special item -Disaster Repairs	(415,884)	(378,827)	(37,057)	(2,188,934)	1,810,107
Special item - legal settlement proceeds	7,865,852	-	7,865,852	-	-
Net position, beginning of year	32,431,462	30,091,721	2,339,741	29,252,905	838,816
Restatement	-	-	-	(851,148)	851,148
Net position, beginning of year - as restated	32,431,462	30,091,721	2,339,741	28,401,757	1,689,964
Net position, end of year	\$ 44,597,333	\$ 32,431,462	\$ 12,165,871	\$ 30,091,721	\$ 2,339,741

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 \$12,165,871 and \$2,339,741 for the fiscal years ended June 30, 2020 and 2019, respectively.

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

In 2020, the District's total revenue increased by 8.6% or \$1,538,498, primarily due to an increase in water sales resulting from a warmer winter season followed by a warm and dry spring and summer. Water Sales, which includes revenue from both water sales and the Water Shortage Emergency (WSE) surcharge makes up \$1,522,103 of the increase.

In 2019, the District's total revenue decreased by 1.7% or \$310,167, primarily due to a decrease in water sales resulting from an above normal wet winter followed by a cool and foggy spring and early summer. Water sales, which includes revenue from both 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 due to the lack of water service as a result of the debris flow). 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 2020, the District's total operating expenses increased by 0.56% or \$93,673. Primary factors influencing this increase include a decrease in Joint Powers Authority (JPA) expenses of \$507,682, offset by an increase in the General and Administrative expenses of \$322,765 and an increase in Treatment expenses of \$91,058.

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.

It should be noted that in FY 2020, the Montecito Groundwater Sustainability Agency (GSA) was formed under the Montecito Water District. In FY 2020, the GSA was considered a department of the District, and as such, contributes to the operating expenses that are included in the District's Statement of Revenues, Expenses and Changes in Net Position.

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

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

Total Revenues

	2020	2019	Change	2018	Change
Operating revenues:					
Water consumption sales	\$ 9,376,305	\$ 8,380,077	\$ 996,228	\$ 8,925,156	\$ (545,079)
Monthly service charge	4,276,307	4,264,586	11,721	3,889,391	375,195
Ordinance 93 - drought penalty charge	-	-	-	(3,105)	3,105
Water shortage emergency surcharge	5,753,179	5,227,304	525,875	5,658,886	(431,582)
Other charges for services	76,306	71,632	4,674	71,324	308
Total operating revenue	<u>19,482,097</u>	<u>17,943,599</u>	<u>1,538,498</u>	<u>18,541,652</u>	<u>(598,053)</u>
Non-operating revenue:					
Rental revenue	42,785	42,933	(148)	44,163	(1,230)
Picay hydroelectric power	-	1,912	(1,912)	7,994	(6,082)
Investment earnings	192,392	281,776	(89,384)	138,422	143,354
Other non-operating revenues	1,051,666	214,044	837,622	62,200	151,844
Total non-operating revenue	<u>1,286,843</u>	<u>540,665</u>	<u>746,178</u>	<u>252,779</u>	<u>287,886</u>
Total revenues	<u>20,768,940</u>	<u>18,484,264</u>	<u>2,284,676</u>	<u>18,794,431</u>	<u>(310,167)</u>

Total Expenses

Operating expenses:					
Source of supply - water purchases	8,279,649	8,787,331	(507,682)	8,288,016	499,315
Source of supply - operational costs	154,590	108,990	45,600	137,826	(28,836)
Water treatment - operation costs	1,418,644	1,327,586	91,058	1,303,031	24,555
Transmission and distribution	1,238,735	1,180,285	58,450	1,587,681	(407,396)
Customer service and meter reading	476,804	407,924	68,880	456,333	(48,409)
General and administrative	4,064,631	3,741,866	322,765	2,764,222	977,644
Total operating expenses	<u>15,633,053</u>	<u>15,553,982</u>	<u>79,071</u>	<u>14,537,109</u>	<u>1,016,873</u>
Depreciation - capital recovery	<u>1,198,312</u>	<u>1,183,710</u>	<u>14,602</u>	<u>1,246,226</u>	<u>(62,516)</u>
Non-operating expenses:					
Interest expense	987,797	869,640	118,157	846,074	23,566
Cater treatment plant ozone debt	231,647	231,647	-	231,647	-
Cater treatment plant - ozone project obligation	276,346	276,346	-	276,346	-
Joint-project cost commitments	102,984	102,984	-	129,965	(26,981)
(Gain)/Loss on disposition of capital projects	4,000	(16,292)	20,292	(30,612)	14,320
Amortization of debt premium	(52,924)	(52,924)	-	(52,924)	-
Total non-operating expenses	<u>1,549,850</u>	<u>1,411,401</u>	<u>138,449</u>	<u>1,400,496</u>	<u>10,905</u>
Total Expenses	<u>\$ 18,381,215</u>	<u>\$ 18,149,093</u>	<u>\$ 232,122</u>	<u>\$ 17,183,831</u>	<u>\$ 965,262</u>

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Capital Asset Administration

At the end of fiscal year 2020 and 2019, the District's investment in capital assets amounted to \$40,273,991 and \$35,254,609, 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 fiscal year 2020 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 2020 were as follows:

	Balance 2019	Additions	Transfers / Deletions	Balance 2020
Capital assets:				
Non-depreciable assets	\$ 4,289,974	\$ 5,911,061	\$ (624,435)	\$ 9,576,600
Depreciable assets	57,321,899	366,474	564,594	58,252,967
Accumulated depreciation	(26,357,264)	(1,198,312)		(27,555,576)
Total capital assets, net	<u>\$ 35,254,609</u>	<u>\$ 5,079,223</u>	<u>\$ (59,841)</u>	<u>\$ 40,273,991</u>

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	<u>\$ 32,546,261</u>	<u>\$ 3,014,552</u>	<u>\$ (306,204)</u>	<u>\$ 35,254,609</u>

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

Debt Administration

Changes in long-term debt amounts for 2020 were as follows:

	Balance 2019	Additions	Transfers / Deletions	Balance 2020
Long-term debt:				
Bond payable	\$ 13,889,168	\$ -	\$ (52,924)	\$ 13,836,244
DWR Ortega Loan payable	5,419,186	-	(457,079)	4,962,107
AMI Loan Payable	3,000,000	-	(3,000,000)	-
Total long-term debt	<u>\$ 22,308,354</u>	<u>\$ -</u>	<u>\$ (3,510,003)</u>	<u>\$ 18,798,351</u>

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	<u>\$ 19,807,082</u>	<u>\$ 3,000,000</u>	<u>\$ (498,728)</u>	<u>\$ 22,308,354</u>

(See note 6 for further discussion)

Conditions Affecting Current Financial Position

Management is unaware of any conditions as of June 30, 2020, that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future except as otherwise explained in Note 14.

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 - ENTERPRISE FUND
June 30, 2020
With Comparative Totals for June 30, 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current:		
Cash and investments	\$ 16,445,796	\$ 9,053,477
Restricted - cash and investments	3,872,832	6,874,705
Receivables:		
Accounts receivable - water sales and services, net	2,099,092	1,448,223
Accounts receivable - federal reimbursements	1,283,396	2,033,446
Accounts receivable - other	857,190	6,263
Accrued interest		18,139
Materials and supplies inventory	244,589	262,665
Prepaid water charges	6,925,736	9,261,632
Prepaid expenses and other deposits	146,864	143,675
Total Current Assets	<u>31,875,495</u>	<u>29,102,225</u>
Noncurrent:		
Capital assets - not being depreciated	9,576,600	4,289,974
Capital assets - being depreciated, net	30,697,391	30,964,635
Total Noncurrent Assets	<u>40,273,991</u>	<u>35,254,609</u>
Total Assets	<u>72,149,486</u>	<u>64,356,834</u>
Deferred Outflows of Resources		
Deferred pensions	1,214,248	1,254,442
Deferred OPEB	641,592	78,060
Total Deferred Outflows of Resources	<u>1,855,840</u>	<u>1,332,502</u>
Liabilities		
Current:		
Accounts payable and accrued expenses	690,524	2,371,497
Accrued wages and related payables	86,078	70,598
Unearned revenue and other deposits	989,864	818,426
Accrued interest payable	345,231	379,794
Water exchange liability	40,000	
Long-term liabilities - due within one year:		
Accrued compensated absences	107,462	94,562
Bonds payable	52,924	52,924
Loan payable	232,856	477,112
Total Current Liabilities	<u>2,544,939</u>	<u>4,264,913</u>
Noncurrent:		
Accrued compensated absences	322,385	283,685
Bonds payable	13,783,320	13,836,244
Loan payable	4,729,252	7,942,074
OPEB liability	2,681,178	1,940,133
Net pension liability	4,845,785	4,401,585
Total Noncurrent Liabilities	<u>26,361,920</u>	<u>28,403,721</u>
Total Liabilities	<u>28,906,859</u>	<u>32,668,634</u>
Deferred Inflows of Resources		
Deferred pensions	474,942	589,240
Deferred OPEB	26,192	
Total Deferred Inflows of Resources	<u>501,134</u>	<u>589,240</u>
Net Position		
Net investment in capital assets	21,475,639	15,946,255
Restricted - water agreements, debt reserve and capital lease proceeds in escrow	3,527,601	6,494,911
Unrestricted	19,594,093	9,990,296
Total Net Position	<u>\$ 44,597,333</u>	<u>\$ 32,431,462</u>

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

MONTECITO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2020
With Comparative Totals for the Fiscal Year Ended June 30, 2019

	2020	2019
Operating Revenues:		
Water consumption sales	\$ 9,376,305	\$ 8,380,077
Monthly service charge	4,276,307	4,264,586
Water shortage emergency surcharge and availability charge	5,753,179	5,227,304
Other charges for services	76,306	71,632
Total operating revenues	19,482,097	17,943,599
Operating Expenses:		
Source of supply - water purchases	8,279,649	8,787,331
Source of supply - operational costs	154,590	108,990
Water treatment - operational costs	1,418,644	1,327,586
Transmission and distribution	1,238,735	1,180,285
Customer service and meter reading	476,804	407,924
General and administrative	4,064,631	3,741,866
Depreciation	1,198,312	1,183,710
Total operating expenses	16,831,365	16,737,692
Operating income (loss)	2,650,732	1,205,907
Nonoperating Revenues (Expenses):		
Rental revenue	42,785	42,933
Picay hydroelectric power		1,912
Investment earnings	192,392	281,776
Interest expense	(987,797)	(869,640)
Cater treatment plant obligation	(231,647)	(231,647)
Cater treatment plant - ozone project obligation	(276,346)	(276,346)
Joint-project cost commitments	(102,984)	(102,984)
Amortization of debt premium	52,924	52,924
Gain(loss) on disposal of capital assets	(4,000)	16,292
Other non-operating revenues	1,051,666	214,044
Total nonoperating revenues (expenses)	(263,007)	(870,736)
Income (loss) before capital contributions	2,387,725	335,171
Capital contributions		
Capital contributions	507,394	213,390
Connection fees	49,368	35,159
Total capital contributions	556,762	248,549
Change in net position prior to Special Items	2,944,487	583,720
Special Items		
FEMA reimbursements	1,430,817	2,029,953
Insurance proceeds	340,599	104,895
Legal settlement proceeds	7,865,852	
Disaster repairs	(415,884)	(378,827)
Change in net position	12,165,871	2,339,741
Net position, beginning of fiscal year	32,431,462	30,091,721
Net position, end of fiscal year	\$ 44,597,333	\$ 32,431,462

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, 2020
With Comparative Totals for the Fiscal Year Ended June 30, 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 17,138,387	\$ 18,328,250
Payments to suppliers	(9,909,936)	(10,820,477)
Payments to employees	(3,931,888)	(3,680,575)
Net cash provided by operating activities	<u>3,296,563</u>	<u>3,827,198</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(6,277,535)	(4,198,262)
Proceeds from sale of capital assets		322,496
Proceeds from capital contributions	556,762	248,549
Proceeds from direct borrowing		3,000,000
FEMA grants received	2,186,210	590,317
Principal paid on long-term debt	(3,457,078)	(445,804)
Interest paid on long-term debt	(1,022,360)	(835,077)
Net cash used by capital financing and related activities	<u>(8,014,001)</u>	<u>(1,317,781)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rental revenue	42,785	42,933
Picay hydroelectric power		1,912
Cater treatment plant obligation	(231,647)	(231,647)
Cater treatment plant - ozone project obligation	(276,346)	(276,346)
Joint-project cost commitments	(102,984)	(102,984)
Legal settlement	7,865,852	
Disaster repairs	(415,884)	(378,827)
Insurance proceeds	963,911	1,591,666
Other non-operating income, net	1,051,666	214,044
Net cash provided by noncapital financing activities	<u>8,897,353</u>	<u>860,751</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	210,531	283,098
Net cash provided by investing activities	<u>210,531</u>	<u>283,098</u>
Net increase in cash and cash equivalents	4,390,446	3,653,266
Cash and cash equivalents, July 1	<u>15,928,182</u>	<u>12,274,916</u>
Cash and cash equivalents, June 30	<u>\$ 20,318,628</u>	<u>\$ 15,928,182</u>
Reconciliation to Statement of Net Position:		
Cash and investments - cash equivalents	\$ 16,445,796	\$ 9,053,477
Restricted cash and investments - cash equivalents	<u>3,872,832</u>	<u>6,874,705</u>
	<u>\$ 20,318,628</u>	<u>\$ 15,928,182</u>

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

MONTECITO WATER DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2020
With Comparative Totals for the Fiscal Year Ended June 30, 2019

**Reconciliation to reconcile operating income to net cash
provided (used) by operating activities:**

	<u>2020</u>	<u>2019</u>
Operating income	\$ 2,650,732	\$ 1,205,907
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,198,312	1,183,710
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable	(2,343,710)	384,651
Materials and supplies inventory	18,076	53,796
Prepaid water charges	2,335,896	(445,867)
Prepaid expenses and other deposits	(3,189)	(31,418)
Deferred outflow - pension	40,194	140,727
Deferred outflow - OPEB	(563,532)	(78,060)
Accounts payables	(1,199,212)	1,195,200
Accrued wages and related payables	15,480	16,346
Unearned revenue and other deposits	(41,223)	(10,469)
Water exchange liability	40,000	
Compensated absences	51,600	10,312
Net OPEB liability	741,045	198,776
Net pension liability	444,200	(68,250)
Deferred inflow - pension	(114,298)	71,837
Deferred inflow - OPEB	26,192	
Net cash provided (used) by operating activities	<u>\$ 3,296,563</u>	<u>\$ 3,827,198</u>

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 – REPORTING ENTITY

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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.

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (Continued)

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. Additionally, employees have the option to cash-out vacation balances in excess of 80 hours once per calendar year.

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, 2018
- Measurement Date: June 30, 2019
- Measurement Period: July 1, 2018 to June 30, 2019

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 Notes 7 and 8 for a detailed listing of the deferred outflows 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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (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 are 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. GASB 87 and 97 may have an effect on the District while the rest will not have an effect on the District.

Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after June 15, 2021.
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, 2020.
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, 2019.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Future Accounting Pronouncements (Continued)

Statement No. 91	"Conduit Debt Obligations"	The provisions of this statement are effective for fiscal years beginning after December 15, 2021.
Statement No. 92	"Omnibus 2020"	The provisions of this statement are effective for fiscal years beginning after June 15, 2021.
Statement No. 93	"Replacement of Interbank Offered Rates"	The provision of this statement except for paragraphs 11b, 13, and 14 are effective for fiscal years beginning after June 15, 2020. Paragraph 11b is effective for fiscal years beginning after December 31, 2021. Paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021.
Statement No. 94	"Public-Private and Public-Public Partnerships and Availability Payment Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.
Statement No. 96	"Subscription-Based Information Technology Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.
Statement No. 97	"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32"	The provisions of this statement are effective for fiscal years beginning December 15, 2019.

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, 2020 and June 30, 2019 are classified in the accompanying financial statements as follows:

	2020	2019
Cash on hand	\$ 350	\$ 350
Deposits with financial institutions	9,535,604	1,377,871
Deposits held in escrow with financial institutions		3,000,000
Investments	10,782,674	11,549,961
	<u>\$ 20,318,628</u>	<u>\$ 15,928,182</u>

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

	2020	2019
Cash and investments	\$ 16,445,796	\$ 9,053,477
Restricted cash and investments	3,872,832	6,874,705
Total cash and investments	<u>\$ 20,318,628</u>	<u>\$ 15,928,182</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 3 – CASH AND INVESTMENTS (Continued)

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 2 investments are the Stored Water Recovery Units with a fair value of \$1,924,510 and the CCWA investment pool of \$2,074,582. Money market investments of \$6,783,582 are measured at amortized costs and are not level 1, 2 or 3 investments.

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%	None
Commercial Paper — Pooled Funds	270 days	100%	None
Commercial Paper — Non-pooled Funds	270 days	100%	None
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	N/A	100%	None

* 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:

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 3 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

Investment Type	2020				
	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
CCWA Investment Pool	\$ 2,074,582	\$ 2,074,582	\$ -	\$ -	\$ -
Money market funds	4,984,946	4,984,946			
Semitropic Stored Water Recovery Units	1,924,510	1,924,510			
Held by bond trustee					
Money market funds	1,798,636	1,798,636			
	<u>\$ 10,782,674</u>	<u>\$ 10,782,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investment Type	2019				
	Carrying Amount	Remaining Maturity (in Months)			
		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			
	<u>\$ 11,549,961</u>	<u>\$ 11,549,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

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

Investment Type	2020							
	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End					Not Rated
			Aaa	Aa2	A1	A2	A3	
CCWA Investment Pool	\$ 2,074,582	N/A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,074,582
Money market funds	4,984,946							4,984,946
Semitropic Stored Water Recovery Units	1,924,510							1,924,510
Held by bond trustee								
Money market funds	1,798,636							1,798,636
	<u>\$ 10,782,674</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,782,674</u>

Investment Type	2019							
	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End					Not Rated
			Aaa	Aa2	A1	A2	A3	
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
	<u>\$ 11,549,961</u>		<u>\$ 249,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 499,564</u>	<u>\$ 10,800,721</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 3 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

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

Collateral for Deposits

The collateral for certificates of deposit is generally held in safekeeping by the Federal Home Loan Bank in San Francisco as the third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintain detailed records of the security pool which are coordinated and updated weekly. 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, 2020, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- Liability Coverage: includes general, auto, and public officials liability resulting from third party losses which the District is legally liable. The ACWA JPIA pools for the first \$5 million and purchases excess coverage up to \$55 million. There is no deductible.

In addition to the above, the District also has the following insurance coverage:

- Crime coverage protects the District against losses resulting from public employee dishonesty, forgery or alteration, and computer fraud coverage. The ACWA JPIA pools for the first \$100,000, and the District purchases excess coverage up to \$3 million. The District has a \$1,000 deductible per loss.
- Property loss/Boiler and Machinery is paid based on the replacement cost or actual cash value for the property on file, subject to a \$2,500 deductible per occurrence. The District has reported insured values of \$88,869,460 for buildings, fixed equipment and personal property. Replacement cost applies to property replaced within two years after the loss, otherwise loss is paid on an actual cash value basis. 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. Mobile equipment and vehicles losses are adjusted on an actual cash value basis, subject to a \$2,500 deductible. The ACWA JPIA pools for the first \$100,000, and purchases excess coverage up to \$500 million.
- Workers' compensation insurance provides coverage for employees' work related injuries/illnesses covered by California law, and Employer's Liability Coverage up to \$4 million. The ACWA JPIA pools for the first \$2 million and excess coverage is purchased for an additional \$2 million.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 4 – RISK MANAGEMENT (Continued)

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, 2020, 2019, and 2018. 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, 2020, 2019, and 2018.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 and June 30, 2019 was as follows:

	Balance July 1, 2019	Additions	Deletions	Transfers/Reclass	Balance June 30, 2020
Capital assets not being depreciated:					
Land	\$ 101,352	\$ -	\$ -	\$ -	\$ 101,352
Construction in progress	4,188,622	5,911,061	(59,841)	(564,594)	9,475,248
Total capital assets not being depreciated	<u>\$ 4,289,974</u>	<u>\$ 5,911,061</u>	<u>\$ (59,841)</u>	<u>\$ (564,594)</u>	<u>\$ 9,576,600</u>
Capital assets being depreciated:					
Transmission and distribution system	\$ 28,215,417	\$ 102,168	\$ -	\$ 483,929	\$ 28,801,514
Juncal dam	2,145,448			80,665	2,226,113
Wells and water sources	4,091,315	25,400			4,116,715
Water rights	142,234				142,234
Bella Vista treatment plant	5,829,748				5,829,748
Other treatment plants and facilities	344,294				344,294
Reservoirs and storage tanks	12,725,017				12,725,017
Meters and meter boxes	1,274,438				1,274,438
Structures and improvements	346,279				346,279
Machinery and equipment	2,207,709	238,906			2,446,615
Total depreciable assets	<u>57,321,899</u>	<u>366,474</u>		<u>564,594</u>	<u>58,252,967</u>
Less accumulated depreciation:					
Transmission and distribution system	(10,375,076)	(536,226)			(10,911,302)
Juncal dam	(1,518,821)	(31,923)			(1,550,744)
Wells and water sources	(3,278,531)	(42,430)			(3,320,961)
Water rights	(142,234)				(142,234)
Bella Vista treatment plant	(5,260,180)	(247,017)			(5,507,197)
Other treatment plants and facilities	(314,320)	(5,066)			(319,386)
Reservoirs and storage tanks	(2,288,520)	(154,104)			(2,442,624)
Meters and meter boxes	(1,106,863)	(52,689)			(1,159,552)
Structures and improvements	(261,923)	(5,054)			(266,977)
Machinery and equipment	(1,810,796)	(123,803)			(1,934,599)
Total accumulated depreciation	<u>(26,357,264)</u>	<u>(1,198,312)</u>			<u>(27,555,576)</u>
Total capital assets being depreciated, net	<u>\$ 30,964,635</u>	<u>\$ (831,838)</u>	<u>\$ -</u>	<u>\$ 564,594</u>	<u>\$ 30,697,391</u>
Net capital assets	<u>\$ 35,254,609</u>	<u>\$ 5,079,223</u>	<u>\$ (59,841)</u>	<u>\$ -</u>	<u>\$ 40,273,991</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 5 – CAPITAL ASSETS (Continued)

	Balance July 1, 2018	Additions	Deletions	Transfers	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	<u>\$ 1,350,774</u>	<u>\$ 3,941,789</u>	<u>\$ (306,204)</u>	<u>\$ (696,385)</u>	<u>\$ 4,289,974</u>
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	<u>56,465,896</u>	<u>256,473</u>	<u>(96,855)</u>	<u>696,385</u>	<u>57,321,899</u>
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	<u>(25,270,409)</u>	<u>(1,183,710)</u>	<u>96,855</u>		<u>(26,357,264)</u>
Total capital assets being depreciated, net	<u>\$ 31,195,487</u>	<u>\$ (927,237)</u>	<u>\$ -</u>	<u>\$ 696,385</u>	<u>\$ 30,964,635</u>
Net capital assets	<u>\$ 32,546,261</u>	<u>\$ 3,014,552</u>	<u>\$ (306,204)</u>	<u>\$ -</u>	<u>\$ 35,254,609</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 6 – LONG-TERM LIABILITIES

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2020 and June 30, 2019:

	Balance July 1, 2019	Additions	Deletions / Retirements	Balance June 30, 2020	Due Within One Year
Compensated absences	\$ 378,247	\$ 265,226	\$ (213,626)	\$ 429,847	\$ 107,462
Bonds payable:					
2010A Revenue COP	13,360,000			13,360,000	
2010A Revenue COP-premium	529,168		(52,924)	476,244	52,924
Total bonds payable	13,889,168		(52,924)	13,836,244	52,924
Loans payable:					
DWR - Ortega Loan - Direct Borrowing	5,419,186		(457,078)	4,962,108	232,856
AMI Loan - Direct Borrowing	3,000,000		(3,000,000)		
OPEB liability	1,940,133	778,534	(37,489)	2,681,178	
Net pension liability	4,401,585	906,058	(461,858)	4,845,785	
Total other liabilities	14,760,904	1,684,592	(3,956,425)	12,489,071	232,856
Total long-term liabilities	\$ 29,028,319	\$ 1,949,818	\$ (4,222,975)	\$ 26,755,162	\$ 393,242

	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	
Total 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

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
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	1,530,000	509,963	2,039,963
2026-2030	8,985,000	1,228,631	10,213,631
Total	13,360,000	\$ 4,360,070	\$ 17,720,070
Less current			
Premium on debt	476,244		
Total non-current	\$ 13,836,244		

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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 Carpinteria Valley Water District, with the Department of Water Resources (DWR) for a loan of \$10,800,000, which was increased to \$19,900,000 in July 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 its 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
2021	\$ 232,856	\$ 62,354	\$ 295,210
2022	474,527	115,893	590,420
2023	486,527	103,892	590,419
2024	498,832	91,588	590,420
2025	511,447	78,972	590,419
2026-2030	2,757,919	194,177	2,952,096
Total	4,962,108	\$ 646,876	\$ 5,608,984
Less current	(232,856)		
Total non-current	\$ 4,729,252		

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 its 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. The loan was paid off early in full during the fiscal year ended June 30, 2020.

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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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 \$139 per month for 2020. 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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

B. Employees Covered

As of June 30, 2020, actuarial valuation, the following current and former employees were covered by the benefit terms under the District's Plan:

Active plan members	27
Inactive plan members or beneficiaries currently receiving benefits	10
Total	<u>37</u>

C. Contributions

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

D. Total OPEB Liability

The District's OPEB Liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the OPEB Liability was determined by an actuarial valuation as of June 30, 2020.

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 2017 CalPERS Retiree Mortality for All Employees.

Retirement and turnover assumptions used in the June 30, 2020 valuation were based on the 2017 CalPERS 2.0%@55 Rates for Miscellaneous Employees, the 2017 CalPERS 2.0%@62 Rates for Miscellaneous Employees and the 2017 CalPERS Turnover for Miscellaneous Employees studies.

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.

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:

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

D. Total OPEB Liability (Continued)

Reporting Date	Measurement Date	Long-Term Expected Return of Plan Investments (if any)	Bond Buyer 20 Rate Index	Discount Rate
June 30, 2020	June 30, 2020	2.20%	2.20%	2.20%
June 30, 2019	June 30, 2019	3.50%	3.50%	3.50%

Change of Assumptions

The discount rate was reduced from 3.5% to 2.2% for the reporting date June 30, 2020.

Changes in the OPEB Liability

	Total OPEB Liability
Balance at June 30, 2019 (Valuation Date June 30, 2020)	<u>\$ 1,940,133</u>
Changes recognized for the measurement period:	
Service cost	90,330
Interest	68,829
Difference between expected and actual experience	(29,550)
Changes of assumptions	648,925
Contributions - employer	
Net investment income	
Benefit payments	(37,489)
Administrative expense	
Net Changes	<u>741,045</u>
Balance at June 30, 2020 (Measurement Date June 30, 2020)	<u><u>\$ 2,681,178</u></u>

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 (1.20 percent) or 1 percentage point higher (3.20 percent) than the current discount rate:

	1% Decrease 1.20%	Discount Rate 2.20%	1% Increase 3.20%
Total OPEB Liability	\$ 3,138,686	\$ 2,681,178	\$ 2,311,070

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	\$ 2,239,384	\$ 2,681,178	\$ 3,248,247

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

For the fiscal year ended June 30, 2020, the District recognized OPEB expense of \$241,194. As of the fiscal year ended June 30, 2020, the District reported deferred outflows of resources related to OPEB from the following sources:

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

D. Total OPEB Liability (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 26,192
Change in assumptions	641,592	
	<u>\$ 641,592</u>	<u>\$ 26,192</u>

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

Fiscal year ending June 30,	Amount
2021	\$ 82,035
2022	82,035
2023	82,035
2024	82,035
2025	82,035
Thereafter	205,225
	<u>\$ 615,400</u>

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 PEPRM Miscellaneous plan (PEPRM Miscellaneous). The Montecito Water District does not have any rate plans in the safety risk pool.

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 PEPRM Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRM 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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 8 – PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

The Plans' provisions and benefits in effect at June 30, 2020, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire Date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	10.221% + \$289,364	6.985% + \$954

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 \$495,261 for the fiscal year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$4,845,785 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2020, the District's proportion share of net pension liability for miscellaneous plans as of June 30, 2019 and 2018 was as follows:

	<u>Miscellaneous</u>
Proportion-June 30, 2018	0.116793%
Proportion-June 30, 2019	0.121008%
Change-increase(decrease)	<u>0.004215%</u>

For the year ended June 30, 2020, the District recognized pension expense of \$865,356. 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, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 8 – PENSION PLAN (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 495,261	\$ -
Changes in assumptions	217,572	76,159
Differences between expected and actual experience	309,589	24,553
Net difference between projected and actual earnings on retirement plan investments		78,429
Difference in proportions	191,826	
Differences in actual contributions and proportionate share of contributions		295,801
	<u>\$ 1,214,248</u>	<u>\$ 474,942</u>

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

\$495,261 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, 2021.

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:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 276,814
2022	(73,975)
2023	25,961
2024	15,245
	<u>\$ 244,045</u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 8 – PENSION PLAN (Continued)

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

	Miscellaneous
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
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.

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 it has changed its methodology.

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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 8 – PENSION PLAN (Continued)

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

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
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	<u>100.0%</u>		

(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:

	<u>1% Decrease 6.15%</u>	<u>Discount Rate 7.15%</u>	<u>1% Increase 8.15%</u>
District's proportionate share of the net pension plan liability	\$ 7,523,779	\$ 4,845,785	\$ 2,635,288

Pension Plan Fiduciary Net Position

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

C. Payable to Pension Plan

At June 30, 2020, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2020.

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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 9 – DEFERRED COMPENSATION SAVINGS PLAN (Continued)

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) was subject to tiered rates plus a penalty premium of \$30 per HCF for that month. Subsequent water use, in excess of the monthly allocation, resulted 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. Following improved water supply conditions, in May 2019, the Board adopted Ordinance 96 repealing Ordinance 95, establishing updated water use restrictions and reclassifying the declared drought severity to D1 – Moderate Drought or Stage 1 conditions in accordance with the District Water Shortage Contingency Plan.

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 \$5,446,275 for the fiscal year ended June 30, 2020. On June 25, 2020, the Board of Directors held a Proposition 218 public hearing to consider adoption of Resolution 2200 establishing new water rates and charges including the repeal of the Water Shortage Emergency Surcharge. Following receipt of public comments and protests, Resolution 2200 was adopted by the Board of Directors repealing Resolution 2124 in its entirety.

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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 11 – STATE WATER CONTRACT (Continued)

Each Santa Barbara County State Water Project participant, including the District, has entered into a Water Supply Agreement in order to provide for the development, financing, construction, operation and maintenance of the CCWA Project. The purpose of the Water Supply Agreements is to assist in carrying out the purposes of CCWA with respect to the CCWA Project by: (1) requiring CCWA to sell, and the Santa Barbara County State Water Project participants to buy, a specified amount of water from CCWA ("take or pay"); and (2) assigning the Santa Barbara County State Water Project participant's entitlement rights in the SWP to CCWA. Although the District does have an ongoing financial responsibility pursuant to the Water Supply Agreement between the District and 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.

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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 11 – STATE WATER CONTRACT (Continued)

<u>Fiscal Year</u>	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Debt Service</u>	<u>Total</u>
2021	\$ 3,811,507	\$ 549,597	\$ 1,689,788	\$ 6,050,892
2022	3,568,180	1,122,789	1,815,723	6,506,692
2023	3,651,003	1,171,216		4,822,219
2024	3,970,730	1,222,064		5,192,794
2025	3,982,562	1,275,455		5,258,017
Thereafter	42,444,955			42,444,955
	<u>\$ 61,428,937</u>	<u>\$ 5,341,121</u>	<u>\$ 3,505,511</u>	<u>\$ 70,275,569</u>

The numbers provided from the table above, are estimated based upon the following assumptions. Starting with the fiscal year 2020/2021, the CCWA fixed costs are estimated to increase 3% annually and are projected to the year 2036. No variable costs are assumed after 2024/2025 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 entire chart was supplied by CCWA as of 7/27/2020.

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

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

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

<u>Fiscal Year</u>	<u>Total</u>
2021	\$ 6,050,892
2022	6,506,692
2023	4,822,219
2024	5,192,794
2025	5,258,017
Thereafter	42,444,955
	<u>\$ 70,275,569</u>

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

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

Legal

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 400 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. The District expects that this case will either be totally defended or resolved well within the limits of the District’s insurance coverage.

Settlement

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.

NOTE 14 – SUBSEQUENT EVENTS

Debt Refinancing

In September 2020, the District successfully refinanced its outstanding 2010 Certificates of Participation (COP) bonds. The District had \$13,360,000 outstanding at approximately 5.17% interest rate. The principal reason for the refinance was to get a savings from reduced interest rates. In the refinance process, it was determined that the District could also take advantage of reduced interest rates on its Department of Water Resources (DWR) State Revolving Fund (SRF) loan, which had an outstanding amount of \$4,962,107 at 2.513% interest at the time of the refinance. In an additional effort to save money through the refinancing, the District used \$3,000,000 of the remaining SCE settlement funds to pay down the total debt included in the refinancing. By combining the 2010 COP’s, the DWR SRF loan and the \$3,000,000 cash payment, the District has reduced its refinanced debt obligation to \$11,390,000 at an interest rate of 1.21%. This reduction will save the District approximately \$3,000,000 over the remaining term of the new 2020 COP’s, which is July 1, 2029.

COVID 19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 14 – SUBSEQUENT EVENTS (Continued)

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity as of the date of issuance of these financial statements. To date, the District has not experienced a measurable impact to its financial condition, liquidity, operations, suppliers and workforce as a result of COVID-19.

Contract Extensions

As mentioned in Note 12, the Cachuma Project contracts that were renewed in 1995 were amended in September 2020 extending the contract term by 3-years to September 2023. This extension is to provide additional time for contract renewal. Pending the outcome of the contract renewal process, the operation of the Cachuma Project, including future storage of water in Project facilities remains uncertain.

Long Term Water Supply Agreement with City of Santa Barbara

In September 2020, the District entered into a long-term Water Supply Agreement (WSA) with the City of Santa Barbara involving the City supplying and the District receiving 1,430 acre feet of potable water irrespective of hydrologic conditions for a term of 50 years. This reliable, drought proof water supply, backed by the City's Charles E. Meyer Desalination Facility, will become part of the District's permanent water supply portfolio and will help counter the regulatory, environmental, and climatic challenges impacting the District's current water sources. Water deliveries and the associated expenses will be realized by the District beginning in January 2022. The associated expenses are incorporated into the District current water rates and charges adopted by the Board of Directors, via Resolution 2200 on June 25, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

MONTECITO WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last 10 Years*
As of June 30, 2020

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

	2020	2019	2018	2017	2016
Proportion of the net pension liability	0.04729%	0.04568%	0.04507%	0.04388%	0.04117%
Proportionate share of the net pension liability	\$ 4,845,785	\$ 4,401,585	\$ 4,469,835	\$ 3,797,410	\$ 2,825,954
Covered payroll	\$ 2,370,119	\$ 2,240,729	\$ 2,064,143	\$ 1,767,276	\$ 2,098,340
Proportionate share of the net pension liability as percentage of covered payroll	204.45%	196.44%	216.55%	214.87%	134.68%
Plan's total pension liability	\$ 41,426,453,489	\$ 38,944,855,364	\$ 37,161,348,332	\$ 33,358,627,624	\$ 31,771,217,402
Plan's fiduciary net position	\$ 31,179,414,067	\$ 29,308,589,559	\$ 27,244,095,376	\$ 24,705,532,291	\$ 24,907,305,871
Plan fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%
	2015				
Proportion of the net pension liability	0.04313%				
Proportionate share of the net pension liability	\$ 2,684,006				
Covered payroll	\$ 1,984,673				
Proportionate share of the net pension liability as percentage of covered payroll	135.24%				
Plan's total pension liability	\$ 30,829,966,631				
Plan's fiduciary net position	\$ 24,607,502,515				
Plan fiduciary net position as a percentage of the total pension liability	79.82%				

Notes to Schedule:

Changes in assumptions

In 2018, inflation was changed from 2.75 percent to 2.50 percent and individual salary increases and overall payroll growth was reduced from 3.00 percent to 2.75 percent.

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 six years are shown.

MONTECITO WATER DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
Last 10 Years*
As of June 30, 2020

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

	2020	2019	2018	2017	2016
Contractually required contribution (actuarially determined)	\$ 495,261	\$ 424,172	\$ 349,307	\$ 312,822	\$ 282,023
Contribution in relation to the actuarially determined contributions	(495,261)	(424,172)	(349,307)	(312,822)	(282,023)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 2,345,321	\$ 2,370,119	\$ 2,240,729	\$ 2,064,143	\$ 1,767,276
Contributions as a percentage of covered payroll	21.12%	17.90%	15.59%	15.16%	15.96%
	2015				
Contractually required contribution (actuarially determined)	\$ 226,841				
Contribution in relation to the actuarially determined contributions	(226,841)				
Contribution deficiency (excess)	\$ -				
Covered payroll	\$ 2,098,340				
Contributions as a percentage of covered payroll	10.81%				

Notes to Schedule

Valuation Date: 6/30/2017

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018/2019 were derived from the June 30, 2017 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2017 funding valuation report.
Inflation	2.63%
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.

Valuation Date:	6/30/2017	6/30/2016	6/30/2015
Discount Rate:	7.150%	7.375%	7.650%

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

MONTECITO WATER DISTRICT**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**

Last 10 Years*

As of June 30, 2020

Measurement Period	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 90,330	\$ 81,048	\$ 78,879
Interest on the total OPEB liability	68,829	61,775	62,860
Actual and expected experience difference	(29,550)		
Changes in assumptions	648,925	89,711	
Changes in benefit terms			
Benefit payments	(37,489)	(33,758)	(32,460)
Net change in total OPEB Liability	741,045	198,776	109,279
Total OPEB liability- beginning	1,940,133	1,741,357	1,632,078
Total OPEB liability- ending	\$ 2,681,178	\$ 1,940,133	\$ 1,741,357
Covered payroll	\$ 2,345,321	\$ 2,370,119	\$ 2,240,729
Total OPEB liability as a percentage of covered payroll	114.32%	81.86%	77.71%

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

MONTECITO WATER DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
Last 10 Years*
As of June 30, 2020

As of June 30, 2020, the plan is not administered through a qualified trust. Therefore there is no Actuarially Determined Contribution (ADC). Benefit payments and implicit subsidy of \$37,489 were made on a pay-as-you-go basis for the fiscal year ended June 30, 2020.

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.

