

**MONTECITO WATER DISTRICT  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
For the Fiscal Year Ended  
June 30, 2023  
(With Comparative Amounts as of June 30, 2022)**

**NIGRO & NIGRO<sup>PC</sup>**

**MONTECITO WATER DISTRICT**  
*For the Fiscal Year Ended June 30, 2023*  
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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Montecito Water District  
Montecito, California

### Opinion

We have audited the accompanying financial statements of the Montecito Water District (District), which comprise the balance sheet as of June 30, 2023, and related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2023, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of the District's Contributions to the Defined Benefit Pension Plan, and Schedule of Changes in the District's Net OPEB Liability and Related Ratios 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.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Combining Schedules of Balance Sheets and Combining Schedules of Revenues, Expenses, and Changes in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Prior-Year Comparative Information**

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2022, from which such partial information was derived.

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

In accordance with *Government Auditing Standards*, we have also issued a separate report dated February 27, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.



Murrieta, California  
February 27, 2024

## **MONTECITO WATER DISTRICT**

### *Management's Discussion and Analysis (Unaudited)*

*For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)*

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Management's Discussion and Analysis (MD&A) offers readers of Montecito Water District's financial statements a narrative overview of the District's financial activities for the year ended June 30, 2023. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- In fiscal year 2023, the District's net position increased 3.01%, or \$1,738,379 from the prior year's net position of \$57,668,585 to \$59,406,964, as a result of the year's operations.
- In fiscal year 2023, operating revenues decreased by 13.97%, or \$3,336,831 from \$23,887,949 to \$20,551,118, from the prior year, primarily due to a \$3,368,485 decrease in water sales as a result of the increased amount of rainfall.
- In fiscal year 2023, operating expenses before depreciation expense decreased by 2.08% or \$424,307 from \$20,371,185 to \$19,946,878, from the prior year, primarily due to decreases in water purchases and general and administrative costs.

### **REQUIRED FINANCIAL STATEMENTS**

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

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

## MONTECITO WATER DISTRICT

### Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

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#### FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

#### Condensed Balance Sheets

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>Change</u>
<b>Assets:</b>			
Current assets	\$ 28,287,698	\$ 32,121,243	\$ (3,833,545)
Non-current assets	3,594,539	3,676,932	(82,393)
Capital assets, net	<u>51,622,911</u>	<u>47,285,855</u>	<u>4,337,056</u>
<b>Total assets</b>	<u>83,505,148</u>	<u>83,084,030</u>	<u>421,118</u>
<b>Deferred outflows of resources</b>	<u>3,069,286</u>	<u>1,576,589</u>	<u>1,492,697</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 86,574,434</u>	<u>\$ 84,660,619</u>	<u>\$ 1,913,815</u>
<b>Liabilities:</b>			
Current liabilities	\$ 6,999,232	\$ 5,785,937	\$ 1,213,295
Non-current liabilities	<u>18,821,302</u>	<u>17,105,614</u>	<u>1,715,688</u>
<b>Total liabilities</b>	<u>25,820,534</u>	<u>22,891,551</u>	<u>2,928,983</u>
<b>Deferred inflows of resources</b>	<u>1,346,936</u>	<u>4,100,483</u>	<u>(2,753,547)</u>
<b>Net position:</b>			
Net investment in capital assets	40,161,077	34,370,382	5,790,695
Restricted	3,557,438	3,605,230	(47,792)
Unrestricted	<u>15,688,449</u>	<u>19,692,973</u>	<u>(4,004,524)</u>
<b>Total net position</b>	<u>59,406,964</u>	<u>57,668,585</u>	<u>1,738,379</u>
<b>Total liabilities, deferred outflows of resources and net position</b>	<u>\$ 86,574,434</u>	<u>\$ 84,660,619</u>	<u>\$ 1,913,815</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$59,406,964 as of June 30, 2023.



## MONTECITO WATER DISTRICT

*Management's Discussion and Analysis (Unaudited)*

*For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)*

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### FINANCIAL ANALYSIS OF THE DISTRICT (continued)

#### Condensed Balance Sheets (continued)

By far the largest portion of the District's net position (68% as of June 30, 2023) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

At the end of year 2023, the District showed a positive balance in its unrestricted net position of \$15,688,449 which may be utilized in future years.

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

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>Change</u>
Operating revenues	\$ 20,551,118	\$ 23,887,949	\$ (3,336,831)
Operating expenses	<u>(19,946,878)</u>	<u>(20,371,185)</u>	<u>424,307</u>
<b>Operating income before depreciation</b>	604,240	3,516,764	(2,912,524)
Depreciation expense	<u>(1,335,844)</u>	<u>(1,214,748)</u>	<u>(121,096)</u>
<b>Operating income</b>	(731,604)	2,302,016	(3,033,620)
Non-operating revenues(expenses), net	1,263,525	1,290,947	(27,422)
Capital Contributions	<u>607,037</u>	<u>594,140</u>	<u>12,897</u>
<b>Change in net position before special items</b>	1,138,958	4,187,103	(3,048,145)
Special Items, net	<u>599,421</u>	<u>1,050,836</u>	<u>(451,415)</u>
<b>Change in net position</b>	1,738,379	5,237,939	(3,499,560)
Net position:			
<b>Beginning of year</b>	<u>57,668,585</u>	<u>52,430,646</u>	<u>5,237,939</u>
<b>End of year</b>	<u>\$ 59,406,964</u>	<u>\$ 57,668,585</u>	<u>\$ 1,738,379</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased 3.01%, or \$1,738,379 from the prior year's net position of \$57,668,585 to \$59,406,964, as a result of the year's operations.

## MONTECITO WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

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### FINANCIAL ANALYSIS OF THE DISTRICT (continued)

#### Total Revenues

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>Increase (Decrease)</u>
<b>Operating revenues:</b>			
Water sales	\$ 15,171,677	\$ 18,540,162	\$ (3,368,485)
Water service charges	4,715,236	4,628,283	86,953
Water surcharges	306,415	307,458	(1,043)
Other operating revenues	<u>357,790</u>	<u>412,046</u>	<u>(54,256)</u>
<b>Total operating revenues</b>	<u>20,551,118</u>	<u>23,887,949</u>	<u>(3,336,831)</u>
<b>Non-operating revenues:</b>			
Rental revenue	59,808	47,016	12,792
Investment earnings	425,442	14,190	411,252
Groundwater Sustainability Agency:			
Groundwater sustainability fee	1,033,375	1,082,231	(48,856)
Grant funding	-	307,504	(307,504)
Sale of capital assets	(113)	-	(113)
Other non-operating revenues	<u>412,185</u>	<u>572,280</u>	<u>(160,095)</u>
<b>Total non-operating revenues</b>	<u>1,930,697</u>	<u>2,023,221</u>	<u>(92,524)</u>
<b>Total revenues</b>	<u>\$ 22,481,815</u>	<u>\$ 25,911,170</u>	<u>\$ (3,429,355)</u>

In fiscal year 2023, operating revenues decreased by 13.97%, or \$3,336,831 from \$23,887,949 to \$20,551,118, from the prior year, primarily due to a \$3,368,485 decrease in water sales as a result of the increased amount of rainfall. Non-operating revenues decreased by 4.57%, or \$92,524 from \$2,023,221 to \$1,930,697 primarily due to decreases in Groundwater Sustainability Agency sustainability grant revenue, as well as decreases in other-non operating revenue.

## MONTECITO WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

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### FINANCIAL ANALYSIS OF THE DISTRICT (continued)

#### Total Expenses

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>Increase (Decrease)</u>
<b>Operating expenses:</b>			
Source of supply - water purchases	\$ 10,766,774	\$ 11,127,538	\$ (360,764)
Source of supply - operational costs	511,595	292,964	218,631
Water treatment	1,490,190	1,638,357	(148,167)
Transmission and distribution	1,630,946	1,554,368	76,578
Customer services	484,289	459,949	24,340
General and administrative	<u>5,063,084</u>	<u>5,298,009</u>	<u>(234,925)</u>
<b>Total operating expenses</b>	<u>19,946,878</u>	<u>20,371,185</u>	<u>(424,307)</u>
Depreciation expense	<u>1,335,844</u>	<u>1,214,748</u>	<u>121,096</u>
<b>Non-operating expenses:</b>			
Interest expense	448,600	495,200	(46,600)
Cater treatment plant obligation	231,091	231,647	(556)
Cater treatment plant - ozone project obligation	276,346	276,902	(556)
Joint-project cost commitments	-	17,164	(17,164)
Amortization of debt premium and debt refunding	<u>(288,639)</u>	<u>(288,639)</u>	<u>-</u>
<b>Total non-operating expenses</b>	<u>667,398</u>	<u>732,274</u>	<u>(64,876)</u>
<b>Total expenses</b>	<u>\$ 21,950,120</u>	<u>\$ 22,318,207</u>	<u>\$ (368,087)</u>

In fiscal year 2023, operating expenses before depreciation expense decreased by 2.08% or \$424,307 from \$20,371,185 to \$19,946,878, from the prior year, primarily due to decreases in water purchases and general and administrative costs. Also, non-operating expenses decreased by 8.86%, or \$64,876 from \$732,274 to 667,398, primarily due to a decrease in interest expense on long-term debt.

#### Capital Assets

	<u>Balance June 30, 2023</u>	<u>Balance June 30, 2022</u>
<b>Capital assets:</b>		
Non-depreciable assets	\$ 5,470,302	\$ 5,550,035
Depreciable assets	76,711,599	70,990,703
Accumulated depreciation	<u>(30,558,990)</u>	<u>(29,254,883)</u>
<b>Total capital assets, net</b>	<u>\$ 51,622,911</u>	<u>\$ 47,285,855</u>

At the end of year 2023, the District's investment in capital assets amounted to \$51,622,911 (net of accumulated depreciation), respectively. Capital asset additions amounted to \$5,672,900 for various projects and equipment. See Note 6 for further information.

## MONTECITO WATER DISTRICT

*Management's Discussion and Analysis (Unaudited)*

*For the Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)*

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### FINANCIAL ANALYSIS OF THE DISTRICT (continued)

#### Debt Administration

The long-term debt of the District is summarized below:

	<u>Balance</u> <u>June 30, 2023</u>	<u>Balance</u> <u>June 30, 2022</u>
Long-term debt:		
Loans and bonds payable	<u>\$ 11,237,170</u>	<u>\$ 12,653,365</u>

Long-term debt decreased by a total of \$1,416,195 for the year ended June 30, 2023. Principal payments were \$1,165,000 and amortization of the debt premiums amounted to \$251,195. See Note 8 for further information.

### NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### CONDITIONS AFFECTING CURRENT AND FUTURE FINANCIAL POSITION

Management is unaware of any item that would affect the District's current financial position.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager or Business Manager of Montecito Water District, 583 San Ysidro Road, Santa Barbara, California, 93118 at (805) 969-2271.

# MONTECITO WATER DISTRICT

## Balance Sheets

June 30, 2023 (With Comparative Amounts as of June 30, 2022)

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2023</b>	<b>2022</b>
<b>Current assets:</b>		
Cash and investments (Note 2)	17,020,404	\$ 21,367,398
Accounts receivable, net (Note 4)	1,776,321	2,663,911
Lease receivable (Note 5)	34,601	32,234
Other receivables	110,450	269,837
Other asset – water rights banking deposit	1,250,000	1,250,000
Inventory – materials and supplies	1,238,960	856,222
Prepaid water charges	5,774,673	5,170,767
Prepaid expenses and other deposits	1,082,289	510,874
<b>Total current assets</b>	<b>28,287,698</b>	<b>32,121,243</b>
<b>Non-current assets:</b>		
Restricted – cash and investments (Note 2 and 3)	3,557,438	3,605,230
Lease receivable (Note 5)	37,101	71,702
Capital assets – not being depreciated (Note 6)	5,470,302	5,550,035
Capital assets – being depreciated, net (Note 6)	46,152,609	41,735,820
<b>Total non-current assets</b>	<b>55,217,450</b>	<b>50,962,787</b>
<b>Total assets</b>	<b>83,505,148</b>	<b>83,084,030</b>
<b>Deferred outflows of resources:</b>		
Deferred amounts related to net OPEB obligation (Note 9)	397,374	484,830
Deferred amounts related to net pension liability (Note 10)	2,671,912	1,091,759
<b>Total deferred outflows of resources</b>	<b>3,069,286</b>	<b>1,576,589</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 86,574,434</b>	<b>\$ 84,660,619</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	5,170,925	\$ 4,094,363
Deposits and unearned revenues	240,945	143,230
Accrued interest payable	224,300	247,600
Long-term liabilities – due within one year:		
Compensated absences (Note 7)	148,062	135,744
Bonds payable (Note 8)	1,215,000	1,165,000
<b>Total current liabilities</b>	<b>6,999,232</b>	<b>5,785,937</b>
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 7)	444,184	407,232
Bonds payable (Note 8)	10,022,170	11,488,365
Net OPEB obligation (Note 9)	2,074,461	2,070,019
Net pension liability (Note 10)	6,280,487	3,139,998
<b>Total non-current liabilities</b>	<b>18,821,302</b>	<b>17,105,614</b>
<b>Total liabilities</b>	<b>25,820,534</b>	<b>22,891,551</b>
<b>Deferred inflows of resources:</b>		
Deferred amounts related to leases (Note 5)	64,721	97,082
Deferred amounts related to debt refunding (Note 8)	224,664	262,108
Deferred amounts related to net OPEB obligation (Note 9)	558,672	763,150
Deferred amounts related to net pension liability (Note 10)	498,879	2,978,143
<b>Total deferred inflows of resources</b>	<b>1,346,936</b>	<b>4,100,483</b>
<b>Net position:</b>		
Net investment in capital assets (Note 11)	40,161,077	34,370,382
Restricted	3,557,438	3,605,230
Unrestricted	15,688,449	19,692,973
<b>Total net position</b>	<b>59,406,964</b>	<b>57,668,585</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 86,574,434</b>	<b>\$ 84,660,619</b>

# MONTECITO WATER DISTRICT

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

For the Fiscal Year Ended June 30, 2023 (With Comparative Amounts as of June 30, 2022)

	<u>2023</u>	<u>2022</u>
<b>Operating revenues:</b>		
Water sales	15,171,677	\$ 18,540,162
Water service charges	4,715,236	4,628,283
Water surcharges and availability charges	306,415	307,458
Other operating revenues	357,790	412,046
<b>Total operating revenues</b>	<u>20,551,118</u>	<u>23,887,949</u>
<b>Operating expenses:</b>		
Source of supply – water purchases	10,766,774	11,127,538
Source of supply – operational costs	511,595	292,964
Water treatment	1,490,190	1,638,357
Transmission and distribution	1,630,946	1,554,368
Customer services	484,289	459,949
General and administrative	5,063,084	5,298,009
<b>Total operating expenses</b>	<u>19,946,878</u>	<u>20,371,185</u>
<b>Operating income before depreciation</b>	604,240	3,516,764
Depreciation expense	<u>(1,335,844)</u>	<u>(1,214,748)</u>
<b>Operating income</b>	<u>(731,604)</u>	<u>2,302,016</u>
<b>Non-operating revenues(expenses):</b>		
Rental revenue	59,808	47,016
Investment earnings	425,442	14,190
Groundwater Sustainability Agency: (Note 15)		
Groundwater sustainability fee	1,033,375	1,082,231
Grant funding	-	307,504
Other non-operating revenues	412,185	572,280
Interest expense	(448,600)	(495,200)
Amortization of debt premium and debt refunding	288,639	288,639
Cater treatment plant obligation	(231,091)	(231,647)
Cater treatment plant – ozone project obligation	(276,346)	(276,902)
Joint-project cost commitments	-	(17,164)
Sale of capital assets	113	-
<b>Total non-operating revenues(expenses), net</b>	<u>1,263,525</u>	<u>1,290,947</u>
<b>Income before capital contributions</b>	<u>531,921</u>	<u>3,592,963</u>
<b>Capital contributions</b>		
Capacity charges	481,183	455,018
Connection fees	125,854	139,122
<b>Change in net position before special items</b>	1,138,958	4,187,103
<b>Special items</b>		
FEMA reimbursements	-	1,050,836
Legal settlement proceeds	599,421	-
<b>Change in net position</b>	1,738,379	5,237,939
<b>Net position:</b>		
Beginning of year	57,668,585	52,430,646
End of year	<u>\$ 59,406,964</u>	<u>\$ 57,668,585</u>

# MONTECITO WATER DISTRICT

## Statements of Cash Flows

For the Fiscal Year Ended June 30, 2023 (With Comparative Amounts as of June 30, 2022)

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	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers and others	\$ 21,728,044	\$ 22,812,653
Cash paid to employees for salaries and wages	(3,303,832)	(3,078,070)
Cash paid to vendors and suppliers for materials and services	<u>(18,139,142)</u>	<u>(14,039,163)</u>
<b>Net cash provided by operating activities</b>	<u>285,070</u>	<u>5,695,420</u>
<b>Cash flows from non-capital financing activities:</b>		
Rental revenue	59,808	47,016
Groundwater Sustainability Agency:		
Groundwater sustainability fee	1,033,375	1,082,231
Grant funding	-	307,504
Cater treatment plant obligation	(231,091)	(231,647)
Cater treatment plant - ozone project obligation	(276,346)	(276,902)
Joint-project cost commitments	-	(17,164)
Legal settlement	599,421	-
Other non-operating income, net	<u>412,185</u>	<u>572,280</u>
<b>Net cash provided by non-capital financing activities</b>	<u>1,597,352</u>	<u>1,483,318</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(5,672,900)	(4,219,436)
Proceeds from the sale of capital assets	113	-
Proceeds from local capital contributions	607,037	594,140
FEMA grants received	-	2,574,330
Principal paid on long-term debt	(1,165,000)	(335,000)
Interest paid on long-term debt	<u>(471,900)</u>	<u>(501,900)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(6,702,650)</u>	<u>(1,887,866)</u>
<b>Cash flows from investing activities:</b>		
Purchase of investments, net	(8,751,768)	-
Investment earnings	<u>317,523</u>	<u>14,190</u>
<b>Net cash provided by investing activities</b>	<u>(8,434,245)</u>	<u>14,190</u>
<b>Net increase(decrease) in cash and cash equivalents</b>	(13,254,473)	5,305,062
<b>Cash and cash equivalents:</b>		
Beginning of year	<u>24,972,628</u>	<u>19,667,566</u>
End of year	<u>\$ 11,718,155</u>	<u>\$ 24,972,628</u>
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>		
Cash and cash equivalents	\$ 17,020,404	\$ 21,367,398
Restricted cash and cash equivalents	3,557,438	3,605,230
Less: Investments in U.S. treasury obligations	<u>(8,859,687)</u>	<u>-</u>
<b>Total cash and cash equivalents</b>	<u>\$ 11,718,155</u>	<u>\$ 24,972,628</u>

**MONTECITO WATER DISTRICT***Statements of Cash Flows (continued)**For the Fiscal Year Ended June 30, 2023 (With Comparative Amounts as of June 30, 2022)*

	<u>2023</u>	<u>2022</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ (731,604)	\$ 2,302,016
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation	1,335,844	1,214,748
<b>Change in assets - (increase)decrease:</b>		
Accounts receivable, net	887,590	(34,869)
Lease receivable	32,234	29,993
Other receivables	159,387	(218,908)
Other asset - water rights banking deposit	-	(1,250,000)
Inventory - materials and supplies	(382,738)	(460,280)
Prepaid water charges	(603,906)	2,187,280
Prepaid expenses	(571,415)	(352,500)
<b>Change in deferred outflows of resources - (increase)decrease</b>		
Deferred amounts related to net OPEB obligation	87,456	87,457
Deferred amounts related to net pension liability	(1,580,153)	130,575
<b>Change in liabilities - increase(decrease):</b>		
Accounts payable and accrued expenses	1,076,562	2,470,865
Deposits and unearned revenues	97,715	(851,512)
Compensated absences	49,270	12,110
Net OPEB obligation	4,442	(798,473)
Net pension liability	3,140,489	(2,146,727)
<b>Change in deferred inflows of resources - increase(decrease)</b>		
Deferred amounts related to leases	(32,361)	(32,360)
Deferred amounts related to net OPEB obligation	(204,478)	740,316
Deferred amounts related to net pension liability	(2,479,264)	2,665,689
<b>Total adjustments</b>	<u>1,016,674</u>	<u>3,393,404</u>
<b>Net cash provided by operating activities</b>	<u>\$ 285,070</u>	<u>\$ 5,695,420</u>
<b>Non-cash investing, capital and financing transactions:</b>	<u>2023</u>	<u>2022</u>
Change in fair-value of investments	\$ 107,919	\$ -
Amortization of deferred amount on debt refunding	\$ (37,444)	\$ (37,444)
Amortization of premium on refunding bonds	\$ (251,194)	\$ (251,194)



# MONTECITO WATER DISTRICT

## *Notes to Financial Statements*

*June 30, 2023*

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### **NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Description of Organization**

The Montecito Water District (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 Standards Board Statement No. 61, The Financial Reporting Entity (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

#### **B. Basis of Presentation, Basis of Accounting**

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 financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

##### 1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of 90 days or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

##### 2. Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

*Level 2* – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

*Level 3* – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

##### 3. Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indentures, external constraints, or laws and regulations of other governments.

##### 4. Receivables and Allowance for Doubtful Accounts

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts.

##### 5. Prepaids

Certain payments of vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

##### 6. Lease Receivable and Deferred Inflows of Resources

The primary objective is to enhance the relevance and consistency of information about the governments' leasing activities. As a lessor, the District is required to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The District's lease receivable is measured at the present value of the lease payments expected to be received during the lease term. Under the lease agreement, the District may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received. A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

##### 7. Inventory – Materials and Supplies

Supply inventories maintained by the District consist primarily of water meters and accessories, water pipes, valves, and various fittings. Inventories are valued at cost using the first-in, first-out method.

##### 8. Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District's policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service lives for the District's classes of assets are as follows:

Description	Estimated Lives
Water supply and sources	5 – 50 years
Treatment plants	25 – 50 years
Distribution system	25 – 70 years
Reservoirs	25 – 100 years
Buildings and improvements	5 – 50 years
Office	5 – 25 years
Equipment	5 – 20 years

##### 9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

##### 10. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated. Additionally, employees have the option to cash-out vacation balances in excess of 80 hours once per calendar year.

##### 11. 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 and addition 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.

The following timeframes are used for pension reporting:

Valuation Date June 30, 2021  
Measurement Date June 30, 2022  
Measurement Period July 1, 2021 to June 30, 2022

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retirees) as of the beginning of the measurement period.

##### 12. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's Retiree Benefits Plan ("the Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments which are reported at cost.

The following timeframes are used for OPEB reporting:

Valuation Date June 30, 2022  
Measurement Date June 30, 2023  
Measurement Period July 1, 2022 to June 30, 2023

# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

##### 13. Water Sales

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

##### 14. Deposit Connection Fees

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

##### 15. Capital Contributions

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

##### 16. Net Position

Net position is classified into two components: net investment in capital assets and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted 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 registrations.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

#### D. Use of Estimates

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

#### E. Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

## MONTECITO WATER DISTRICT

### Notes to Financial Statements

June 30, 2023

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#### NOTE 2 – CASH AND INVESTMENTS

Cash and investments were classified in the accompanying financial statements as follows:

<u>Description</u>	<u>June 30, 2023</u>
Cash and cash investments	\$ 17,020,404
Restricted – cash and investments	<u>3,557,438</u>
<b>Total cash and investments</b>	<b><u><u>\$ 20,577,842</u></u></b>

Cash and investments consisted of the following:

<u>Description</u>	<u>June 30, 2023</u>
Petty cash	\$ 340
Demand deposits held with financial institutions	3,506,055
Investments	<u>17,071,447</u>
<b>Total cash and investments</b>	<b><u><u>\$ 20,577,842</u></u></b>

#### Demand Deposits with Financial Institutions

At June 30, 2023, the carrying amount of the District's demand deposits were \$3,506,055 and the financial institution's balances were \$2,896,468. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

#### Custodial Credit Risk – Deposits

Custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction the District 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 deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2023, the District's deposits were covered by the Federal Deposit Insurance Corporation insurance limits or collateralized as required by California law.

# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

### NOTE 2 – CASH AND INVESTMENTS (continued)

#### Investments

The District's investments as of June 30, 2023 are presented in the following Investment Table:

Type of Investments	Measurement Input	Credit Rating	Total Fair Value	Maturity
				12 Months or Less
U.S. treasury obligations	Level 1	N/A	\$ 8,859,687	\$ 8,859,687
CCWA Investment pool	Level 2	N/A	1,495,292	1,495,292
Semitropic stored water recovery units	Level 2	N/A	1,924,510	1,924,510
Money-market mutual funds	N/A	AAA	4,791,958	4,791,958
<b>Total investments</b>			<b>\$ 17,071,447</b>	<b>\$ 17,071,447</b>

Level 2 investments are the Semitropic Stored Water Recovery Units with a fair value of \$1,924,510 and the CCWA Investment Pool of \$1,495,292. Money Market Mutual Funds investments of \$4,791,958 are measured at amortized costs and are not level 1, 2 or 3 investments.

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

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

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5-years	100%	None
U.S. Government Sponsored Agency Securities	5-years	100%	None
State of California Obligations	5-years	100%	None
CA Local Agency Obligations	5-years	100%	None
Negotiable Certificates of Deposit (Negotiable CD)	5-years	30%	None
Banker's Acceptances	180 days	100%	None
Repurchase Agreements	1-year	100%	None
Commercial Paper	270 days	100%	None
Medium- Term Notes	5-years	100%	None
California Local Agency Investment Fund (LAIF)	N/A	100%	None
Mutual Funds and Money Market Mutual Funds	N/A	100%	None

## MONTECITO WATER DISTRICT

### Notes to Financial Statements

June 30, 2023

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#### NOTE 2 – CASH AND INVESTMENTS (continued)

##### 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 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 in the Investment Table that shows the distribution of the District's investments by maturity as of June 30, 2023.

##### 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 a rating by a nationally recognized statistical rating organization. Presented in the Investment Table are Standard & Poor's credit ratings for the District's investments as of June 30, 2023. U.S. treasury obligations are not required to be rated and therefore no rating has been assigned.

#### NOTE 3 – RESTRICTED ASSETS

Restricted assets at June 30, 2023 consists of the following;

<u>Description</u>	<u>June 30, 2023</u>
GSA restricted funds – ARB	\$ 622,880
CCWA rate coverage reserve	1,495,258
Debt service restricted funds	<u>1,439,300</u>
<b>Total restricted cash and cash equivalents</b>	<b><u>\$ 3,557,438</u></b>

#### NOTE 4 – ACCOUNTS RECEIVABLE, NET

The accounts receivable, net balance at June 30, 2023 consists of the following;

<u>Description</u>	<u>June 30, 2023</u>
Accounts receivable	\$ 1,836,321
Allowance for doubtful accounts	<u>(60,000)</u>
<b>Total accounts receivable, net</b>	<b><u>\$ 1,776,321</u></b>



# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 5 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES

Changes in the District’s lease receivable for the year ended June 30, 2023 was as follows:

Description	Balance			Balance June 30, 2023
	June 30, 2022	Additions	Deductions	
Cellular antenna site rental	\$ 103,936	\$ -	\$ (32,234)	\$ 71,702

The District is reporting a total lease receivable of \$71,702 and a total related deferred inflows of resources related to leases of \$64,721 for the year ending June 30, 2023. Also, the District is reporting total lease revenue of \$32,361 and interest revenue of \$1,787 related to lease payments received for the year ending June 30, 2023.

The lease held by the District does not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2.00% to discount the lease revenue to the net present value. In some cases, leases contain termination clauses. In these cases, the clause requires the lessee or lessor to show cause to terminate the lease. Also, certain leasing-types are considered “volatile leases.” Those volatile leases were not extended past their initial lease period for financial statement recognition due to their volatility.

The District’s lease is noted as follows:

#### **Cellular Antenna Site Rental**

The District, on July 1, 2021, renewed a continuous lease for 60 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of \$161,803. As of June 30, 2023, the value of the lease receivable was \$71,702. The lease is required to make monthly fixed payments of \$2,540 for the first 12-month period, then increase 5.0% per year. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$64,721 as of June 30, 2023. The District recognized lease revenue of \$32,361 and interest revenue of \$1,787 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period. Since this is considered a volatile lease only this lease period has been recognized.

Minimum future lease receipts for the next two fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 34,601	\$ 1,121	\$ 35,722
2025	37,101	407	37,508
Total	71,702	\$ 1,528	\$ 73,230
Current	(34,601)		
Long-term	\$ 37,101		

Changes in the District’s deferred inflows of resources related to leases for June 30, 2023 is as follows:

Description	Balance			Balance June 30, 2022
	July 1, 2021	Additions	Deductions	
Cellular antenna site rental	\$ 97,082	\$ -	\$ (32,361)	\$ 64,721

**MONTECITO WATER DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2023*

**NOTE 5 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)**

The amounts reported as deferred inflows of resources related to leases for the year ended June 30, 2023, will be amortized in future periods as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Inflows of Resources
2024	\$ 32,361
2025	32,360
<b>Total</b>	<b>\$ 64,721</b>

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Changes in capital assets for the fiscal year ended June 30, 2023, were as follows:

Description	Balance July 1, 2022	Additions	Deletions/ Transfers	Balance June 30, 2023
<b>Non-depreciable assets:</b>				
Land	\$ 101,352	\$ -	\$ -	\$ 101,352
Construction-in-process	5,448,683	5,731,674	(5,811,407)	5,368,950
<b>Total non-depreciable assets</b>	<b>5,550,035</b>	<b>5,731,674</b>	<b>(5,811,407)</b>	<b>5,470,302</b>
<b>Depreciable assets:</b>				
Transmission and distribution system	38,929,362	603,667	-	39,533,029
Juncal dam	2,347,495	256,848	(28,435)	2,575,908
Wells and water sources	4,326,054	-	-	4,326,054
Water rights	142,234	-	-	142,234
Bella vista treatment plant	6,777,724	187,761	-	6,965,485
Other treatment plants and facilities	388,649	68,232	-	456,881
Reservoirs and storage tanks	12,779,497	-	-	12,779,497
Meters and meter boxes	1,316,856	3,801,670	-	5,118,526
Structures and improvements	1,801,230	403,512	-	2,204,742
Machinery and equipment	2,181,602	430,943	(3,302)	2,609,243
<b>Total depreciable assets</b>	<b>70,990,703</b>	<b>5,752,633</b>	<b>(31,737)</b>	<b>76,711,599</b>
<b>Accumulated depreciation:</b>				
Transmission and distribution system	(12,189,615)	(766,443)	-	(12,956,058)
Juncal dam	(1,665,639)	(49,886)	28,435	(1,687,090)
Wells and water sources	(3,415,334)	(51,309)	-	(3,466,643)
Water rights	(142,234)	-	-	(142,234)
Bella vista treatment plant	(5,617,092)	(75,768)	-	(5,692,860)
Other treatment plants and facilities	(329,519)	(9,501)	-	(339,020)
Reservoirs and storage tanks	(2,751,782)	(157,468)	-	(2,909,250)
Meters and meter boxes	(1,183,216)	(11,932)	-	(1,195,148)
Structures and improvements	(276,417)	(53,107)	-	(329,524)
Machinery and equipment	(1,684,035)	(160,430)	3,302	(1,841,163)
<b>Total accumulated depreciation</b>	<b>(29,254,883)</b>	<b>(1,335,844)</b>	<b>31,737</b>	<b>(30,558,990)</b>
<b>Total depreciable assets, net</b>	<b>41,735,820</b>	<b>4,416,789</b>	<b>-</b>	<b>46,152,609</b>
<b>Total capital assets, net</b>	<b>\$ 47,285,855</b>	<b>\$ 10,148,463</b>	<b>\$ (5,811,407)</b>	<b>\$ 51,622,911</b>

**MONTECITO WATER DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2023*

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**NOTE 7 – COMPENSATED ABSENCES**

Summary changes to compensated absences balances for the year ended June 30, 2023, were as follows:

<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 542,976	\$ 573,831	\$ (524,561)	\$ 592,246	\$ 148,062	\$ 444,184

**NOTE 8 – BONDS PAYABLE**

Changes in the bonds payable balance are as follows:

<u>Description</u>	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2023</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
2020 COP Refunding Bonds	\$ 10,895,000	\$ -	\$ (1,165,000)	\$ 9,730,000	\$ 1,215,000	\$ 8,515,000
<b>Sub-total bonds payable</b>	10,895,000	-	(1,165,000)	9,730,000	1,215,000	8,515,000
Less: Unamortized bond - premiums	1,758,365	-	(251,195)	1,507,170	-	1,507,170
<b>Total bonds payable</b>	<u>\$ 12,653,365</u>	<u>\$ -</u>	<u>\$ (1,416,195)</u>	<u>\$ 11,237,170</u>	<u>\$ 1,215,000</u>	<u>\$ 10,022,170</u>

**2020 Certificates of Participation Refunding Bonds**

On September 9, 2020, the District took advantage of the decline in interest rates and the funding received from the legal settlement to refund (defease) its DWR – Ortega Loan and the 2010A Refunding Revenue Certificates of Participation Bonds with a new \$11,390,000 2020 Certificates of Participation Refunding Bonds debt offering. The District achieved a net present value savings from the defeasance of \$3,302,335.

The bonds refunding incurred a deferred amount on the refunding of \$336,996, which is being amortized over the life of the debt on a straight-line basis. Changes to the deferred amount on refunding for the year ended June 30, 2023, were as follows:

<u>Description</u>	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2023</u>
Deferred amounts related to refunding	\$ 262,108	\$ -	\$ (37,444)	\$ 224,664

The bonds were issued at a premium of \$2,260,782, which is being amortized over the life of the debt on a straight-line basis.

## MONTECITO WATER DISTRICT

### Notes to Financial Statements

June 30, 2023

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#### NOTE 8 – BONDS PAYABLE

These bonds mature in various amounts through July 1, 2029. Principal and interest are payable annually on July 1 at rates ranging from 4.00% to 5.00%. The installment payments on these bonds are secured by a first priority lien on the net revenues of the District. Maturities of the 2020 COP Refunding Bonds and interest payments subsequent to June 30, 2023, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,215,000	\$ 424,300	\$ 1,639,300
2025	1,260,000	374,800	1,634,800
2026	1,315,000	323,300	1,638,300
2027	1,375,000	262,625	1,637,625
2028	1,445,000	192,125	1,637,125
2029-2030	<u>3,120,000</u>	<u>157,750</u>	<u>3,277,750</u>
Total	9,730,000	<u>\$ 1,734,900</u>	<u>\$ 11,464,900</u>
Current	<u>(1,215,000)</u>		
Long-term	<u>\$ 8,515,000</u>		

#### NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

##### Summary

The following balances on the balance sheet will be addressed in this footnote as follows:

<u>Description</u>	<u>2023</u>
OPEB related deferred outflows	\$ 397,374
Net other post-employment benefits obligation	2,074,461
OPEB related deferred inflows	558,672

##### A. General Information about the OPEB Plan

###### Plan Description

The District provides health insurance benefits through the Association of California Water Agencies (ACWA/JPIA) Blue Cross plan and Kaiser Permanente (small business plan) to some employees who retire. Medical, dental, and vision benefits are paid for life for retiring employees that were hired on or before May 16, 2013. For employees hired after May 16, 2013, the District will not provide group medical, vision care, and dental health insurance plans after their retirement.

###### Eligibility

A retired employee and dependent spouse, or spouse of a deceased employee or retiree, must satisfy the following requirements in order to be eligible for postemployment medical and dental benefits.

###### Participants

At June 30, 2023 measurement date, the following members were part of the plan:

# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

	<u>2022</u>
Inactive plan members or beneficiaries currently receiving benefit payments	11
Inactive plan members entitled to but not yet receiving benefit payments	-
Active plan members	<u>12</u>
Total	23

#### Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and/or the District's Board of Directors. Currently, contributions are not required from plan members. The District has been typically funding this OPEB plan on a pay-as-you-go basis.

#### Contributions

Benefit provisions and contribution requirements are established and may be amended through agreements and memorandums of understanding between the District and its employees. The plan does not require employee contributions. Administrative costs of this plan are financed by the District. For fiscal year ended June 30, 2023, the District's contributions totaling \$83,815 in current year premium payments.

#### Accounting for the Plan

The other post-employment benefit trust is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

#### B. Net OPEB Liability

The District's total OPEB liability was measured as of June 30, 2023 and was determined by an actuarial valuation as of June 30, 2022. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

#### Actuarial Assumptions

The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2023
Actuarial Cost Method	Entry age normal, level percentage of payroll
Asset Valuation Method	Market value of assets as of the measurement date
Actuarial Assumptions:	
Discount Rate	
Long-Term Expected	
Rate of Return on Investments	3.65%
Inflation	2.50%
Payroll increases	2.75%
Healthcare Trend Rates	Pre-65 - 8.00% trending down 0.25% annually to 5.0% by 2031 and later Post-65 - 5.50% trending down 0.25% annually to 5.0% by 2021 and later
Morbidity	CalPERS 2013 Study
Mortality	CalPERS 2014 Study
Disability	Not valued
Retirement	2014 CalPERS Public Agency Miscellaneous experience study; 2.5% @55 and 2% @62
Percent Married	80% of future retirees would enroll a spouse

**MONTECITO WATER DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2023*

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**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

**Discount Rate**

The discount rate used to measure the total OPEB liability was 3.65%. The projection of cash flows used to determine the discount rate assumed that the District’s contributions will be made at rates equal to the actuarially determined contribution rates.

**C. Changes in the Net OPEB Liability**

The changes in the total OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
<b>Balance at June 30, 2022 (Measurement date June 30, 2021)</b>	\$ 2,070,019	\$ -	\$ 2,070,019
<b>Changes for the year:</b>			
Service cost	47,208	-	47,208
Interest	72,631	-	72,631
Differences in experience	-	-	-
Changes in assumption	(31,582)	-	(31,582)
Employer contributions	-	83,815	(83,815)
Net investment income	-	-	-
Benefit payments	(83,815)	(83,815)	-
Net changes	4,442	-	4,442
<b>Balance at June 30, 2023 (Measurement date June 30, 2022)</b>	<u>\$ 2,074,461</u>	<u>\$ -</u>	<u>\$ 2,074,461</u>

**Changes of Assumptions**

In fiscal year 2022, the Discount rate was changed to 3.65% from 3.54%, which decreased the total OPEB liability by \$31,582.

**Change of Benefit Terms**

In fiscal year 2022, the measurement period, there were no changes to the actuarial assumptions.

**Subsequent Events**

There were no subsequent events that would materially affect the results presented in this disclosure.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.65%) or 1 percentage point higher (4.65%) than the current discount rate:

1% Decrease 2.65%	Discount Rate 3.65%	1% Increase 4.65%
<u>\$ 2,378,420</u>	<u>\$ 2,074,461</u>	<u>\$ 1,826,205</u>

**MONTECITO WATER DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2023*

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**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

**C. Changes in the Net OPEB Liability**

**Sensitivity of the Total OPEB Liability to Changes in Medical Trend Rates**

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using medical trend rates that are 1-percentage point lower:

Healthcare Cost		
7.0% Decreasing to 4.0%	8.0% Decreasing to 5.0%	9.0% Decreasing to 6.0%
\$ 1,773,380	\$ 2,074,461	\$ 2,445,492

**D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

For the year ended June 30, 2023, the District recognized OPEB credit of \$28,765. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 397,374	\$ (260,434)
Differences between expected and actual experience	-	(298,238)
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<b>\$ 397,374</b>	<b>\$ (558,672)</b>

The differences between projected and actual earnings on plan investments is amortized over five years. The District reported \$0 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2024	\$ (148,604)
2025	(148,604)
2026	5,653
2027	70,245
2028	58,366
Thereafter	1,646
<b>Total</b>	<b>\$ (161,298)</b>

At June 30, 2023, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2023.

**MONTECITO WATER DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2023*

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**NOTE 10 – PENSION PLAN**

**Summary**

The following balances on the balance sheet will be addressed in this footnote as follows:

<u>Description</u>	<u>2023</u>
Pension related deferred outflows	\$ 2,671,912
Net pension liability	6,280,487
Pension related deferred inflows	498,879

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan".

**A. General Information about the Pension Plan**

**The Plan**

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	<u>Miscellaneous Plans</u>	
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>
Hire date	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 63 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.0%
Required member contribution rates	7.000%	6.750%
Required employer contribution rates – FY 2022	10.880%	7.590%

**Plan Description**

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2021 Annual Actuarial Valuation Reports. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.



# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 10 – PENSION PLAN (continued)

#### A. General Information about the Pension Plan

At June 30, 2022 measurement date, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active members	14	14	28
Transferred and terminated members	7	4	11
Retired members and beneficiaries	46	1	47
<b>Total plan members</b>	<b>67</b>	<b>19</b>	<b>86</b>

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

#### Benefits Provided

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

#### Contributions

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

**MONTECITO WATER DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2023*

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**NOTE 10 – PENSION PLAN (continued)**

**A. General Information about the Pension Plan (continued)**

**Contributions (continued)**

Contributions for the year ended June 30, 2023, were as follows:

Contribution Type	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Contributions – employer	\$ 601,956	\$ 110,345	\$ 712,301

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

**Proportionate Share of Net Pension Liability and Pension Expense**

The District’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2022, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. The District’s proportionate share of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The following table shows the District’s proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2023:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2023	Fiscal Year Ending June 30, 2022	
Measurement Date	June 30, 2022	June 30, 2021	
Percentage of Risk Pool Net Pension Liability	0.134221%	0.165367%	-0.031146%
Percentage of Plan Net Pension Liability	0.054373%	0.058059%	-0.003686%

The District’s proportionate share percentage of the net pension liability for the June 30, 2022, measurement date was as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
<b>CalPERS – Miscellaneous Plan:</b>			
Balance as of June 30, 2021 (Measurement Date)	\$ 21,427,999	\$ 18,288,001	\$ 3,139,998
Balance as of June 30, 2022 (Measurement Date)	\$ 22,932,086	\$ 16,651,599	\$ 6,280,487
<b>Change in Plan Net Pension Liability</b>	<b>\$ 1,504,087</b>	<b>\$ (1,636,402)</b>	<b>\$ 3,140,489</b>

# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 10 – PENSION PLAN (continued)

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

##### Proportionate Share of Net Pension Liability and Pension Expense (continued)

For the year ended June 30, 2023, the District recognized pension credit of \$206,627. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 712,301	\$ -
Difference between actual and proportionate share of employer contributions	-	(280,627)
Adjustment due to differences in proportions	39,501	(133,779)
Differences between expected and actual experience	126,124	(84,473)
Differences between projected and actual earnings on pension plan investments	1,150,418	-
Changes in assumptions	<u>643,568</u>	<u>-</u>
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<b><u>\$ 2,671,912</u></b>	<b><u>\$ (498,879)</u></b>

The 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 subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.8 years.

**MONTECITO WATER DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2023*

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**NOTE 10 – PENSION PLAN (continued)**

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

**Proportionate Share of Net Pension Liability and Pension Expense (continued)**

An amount of \$712,301 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

<u>Amortization Period</u> <u>Fiscal Year Ended June 30</u>	<u>Deferred</u> <u>Outflows/(Inflows)</u> <u>of Resources</u>
2024	\$ 323,184
2025	279,963
2026	153,949
2027	<u>703,636</u>
<b>Total</b>	<u>\$ 1,460,732</u>

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability**

For the measurement period ending June 30, 2022 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2021, total pension liability. The June 30, 2022, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

**Long-term Expected Rate of Return**

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 10 – PENSION PLAN (continued)

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

##### Long-term Expected Rate of Return (continued)

The table below reflects long-term expected real rate of return by asset class.

<u>Asset Class</u>	<u>Assumed Asset</u>	<u>Real Return</u> <sup>1,2</sup>
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Estate	15.0%	3.21%
Leverage	-5.0%	-0.59%
	<u>100.0%</u>	

<sup>1</sup> An expected inflation of 2.3% is used for this period.

<sup>2</sup> Figures are based on the Asset Liability Management study.

##### Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

##### Subsequent Events

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions will be reflected in the GASB 68 accounting valuation reports for the June 30, 2022, measurement date.

**MONTECITO WATER DISTRICT**  
*Notes to Financial Statements*  
*June 30, 2023*

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**NOTE 10 – PENSION PLAN (continued)**

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

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

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate	Current	Discount Rate
	- 1%	Discount	+ 1%
	5.90%	Rate 6.90%	7.90%
CalPERS – Miscellaneous Plan	9,406,544	\$ 6,280,487	\$ 3,708,518

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

**C. Payable to the Pension Plans**

At June 30, 2023, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended June 30, 2023.

**NOTE 11 – NET INVESTMENT IN CAPITAL ASSETS**

Net investment in capital assets consisted of the following as of June 30:

Description	June 30, 2023	June 30, 2022
<b>Net investment in capital assets:</b>		
Capital assets – not being depreciated	\$ 5,470,302	\$ 5,550,035
Capital assets, net – being depreciated	46,152,609	41,735,820
Deferred amounts related to refunding	(224,664)	(299,552)
Bonds payable – current portion	(1,215,000)	(1,165,000)
Bonds payable – non-current portion	(10,022,170)	(11,488,365)
<b>Total net investment in capital assets</b>	<b>\$ 40,161,077</b>	<b>\$ 34,332,938</b>

# MONTECITO WATER DISTRICT

## Notes to Financial Statements

June 30, 2023

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### NOTE 12 – DEFERRED COMPENSATION SAVINGS PLAN

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

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

### NOTE 13 – RISK MANAGEMENT POOL

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Further information about the Insurance Authority is as follows:

<b>A. Entity</b>	ACWA-JPIA
<b>B. Purpose</b>	To pool member contributions and realize the advantages of self-insurance
<b>C. Participants</b>	As of September 30, 2022 – 396 member districts
<b>D. Governing board</b>	Nine representatives employed by members
<b>E. Condensed financial information</b>	September 30, 2022
<b>Audit signed</b>	February 7, 2023
<b>Statement of financial position:</b>	<b>Sept 30, 2022</b>
<b>Total assets</b>	<u>\$ 246,615,214</u>
<b>Deferred outflows</b>	<u>6,108,562</u>
<b>Total liabilities</b>	<u>137,126,606</u>
<b>Deferred inflows</b>	<u>2,813,249</u>
<b>Net position</b>	<u>\$ 112,783,921</u>
<b>Statement of revenues, expenses and changes in net position:</b>	
<b>Total revenues</b>	\$ 175,619,417
<b>Total expenses</b>	<u>(212,646,028)</u>
<b>Change in net position</b>	(37,026,611)
<b>Beginning – net position</b>	<u>149,810,532</u>
<b>Ending – net position</b>	<u>\$ 112,783,921</u>
<b>F. Member agencies share of year-end financial position</b>	Not Calculated

## MONTECITO WATER DISTRICT

### *Notes to Financial Statements*

*June 30, 2023*

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#### **NOTE 13 – RISK MANAGEMENT POOL (continued)**

The District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$500,000,000 (total insurable value of \$48,405,017). The District has a \$2,500 deductible for buildings, personal property and fixed equipment, a \$25,000/\$50,000 deductible for accidental mechanical breakdown, a \$1,000 deductible for mobile equipment, and a \$500 deductible for licensed vehicles.

General Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage in layers up to of \$60,000,000. This program does not have a deductible.

Auto Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage in layers up to \$60,000,000. This program does not have a deductible.  
Public Officials' Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage in layers up to \$60,000,000.

Cyber Liability - The Insurance Authority has purchased insurance coverage of \$3,000,000 per occurrence/\$5,000,000 aggregate. This program does not have a deductible.

Crime - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence. The District has a \$1,000 deductible.

Public Official Bond - The District has purchased a \$200,000 bond to cover the general manager's faithful performance of duty.

Workers' Compensation - The Insurance Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased up to the statutory limit for workers' compensation coverage. The Insurance Authority is self-insurance up to \$2,000,000 and has purchased excess insurance coverage of \$2,000,000 for employer's liability coverage.

Underground Storage Tank Pollution Liability - The Insurance Authority is self-insured up to \$500,000 per occurrence and has purchased excess coverage of \$3,000,000. The District has a \$10,000 deductible.

The District pays annual premiums for these coverages. They are subject to retrospective adjustments based on claims expended. The nature and amount of these adjustments cannot be estimated and are charged to expenses as invoiced. There were no instances in the past three years where a settlement exceeded the District's coverage.

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, 2023, 2022, and 2021. 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, 2023, 2022, and 2021.



## MONTECITO WATER DISTRICT

### Notes to Financial Statements

June 30, 2023

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#### NOTE 14 – STATE WATER CONTRACT

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

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

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

<u>Fiscal Year</u>	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Total</u>
2024	4,185,472	77,000	4,262,472
2025	4,189,709	372,299	4,562,008
2026	4,174,528	604,611	4,779,139
2027	4,330,698	626,547	4,957,245
Thereafter	<u>36,705,647</u>	<u>-</u>	<u>36,705,647</u>
<b>Total</b>	<b><u>\$ 53,586,054</u></b>	<b><u>\$ 1,680,457</u></b>	<b><u>\$ 55,266,511</u></b>

Additional information and complete financial statements for the CCWA are available for public inspection at 255 Industrial Way, Buellton, CA.

## MONTECITO WATER DISTRICT

### Notes to Financial Statements

June 30, 2023

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#### NOTE 15 – GROUNDWATER SUSTAINABILITY AGENCY

The District has initiated formation of a Groundwater Sustainability Agency (GSA) for the Montecito Groundwater Basin. The primary purpose of a GSA is to develop and implement a Groundwater Sustainability Plan (GSP) to achieve long-term groundwater sustainability within the Montecito Groundwater Basin. On June 24, 2021, the District approved the Montecito GSA Groundwater Sustainability Fee to develop and implement the GSP. The fee is based on customer parcel-size and is designed to equitably recover costs of the GSA while ensuring that the benefit received from sustainable management of the Montecito Groundwater Basin is proportional to the fees paid. The fee is scheduled for five-years beginning in the fiscal year ended June 30, 2021.

The District is also receiving state grant funding to support the required preparation of the GSP.

#### NOTE 16 – 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 (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 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.

##### **Excluded Leases – Short-Term Leases and De Minimis Leases**

The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12 - months (or less), including any options to extend, regardless of their probability of being exercised.

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

## **MONTECITO WATER DISTRICT**

*Notes to Financial Statements*

*June 30, 2023*

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### **NOTE 16 – 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.

#### **Grant Awards**

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

#### **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 the ultimate outcome of such matters, if any, will not materially affect its financial condition.

### **NOTE 17 – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through February 27, 2024, the date which the financial statements were available to be issued

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***Required Supplementary Information***

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**MONTECITO WATER DISTRICT**

*Schedule of the District's Proportionate Share of the Net Pension Liability  
For the Year Ended June 30, 2023*

**Last Ten Fiscal Years\***

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

<b>Measurement Date</b>	<b>District's Proportion of the Net Pension Liability</b>	<b>District's Proportionate Share of the Net Pension Liability</b>	<b>District's Covered Payroll</b>	<b>District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</b>	<b>Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability</b>
June 30, 2014	0.04313%	\$ 2,684,006	\$ 1,984,673	135.24%	79.82%
June 30, 2015	0.04117%	2,825,954	2,098,340	134.68%	78.40%
June 30, 2016	0.04388%	3,797,410	1,767,276	214.87%	74.06%
June 30, 2017	0.04507%	4,469,835	2,064,143	216.55%	75.51%
June 30, 2018	0.04568%	4,401,585	2,240,729	196.44%	76.84%
June 30, 2019	0.04729%	4,845,784	2,370,119	204.45%	75.66%
June 30, 2020	0.04859%	5,286,724	2,345,321	225.42%	74.23%
June 30, 2021	0.05806%	3,139,998	2,718,172	115.52%	85.35%
June 30, 2022	0.05473%	6,280,487	2,744,134	228.87%	72.62%

**Notes to Schedule:**

**Benefit Changes:**

There were no changes in benefits.

**Changes in Assumptions:**

**From fiscal year June 30, 2015 and June 30, 2016:**

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015, measurement date is without reduction of pension plan administrative expense.

**From fiscal year June 30, 2016 to June 30, 2017:**

There were no changes in assumptions.

**From fiscal year June 30, 2017 to June 30, 2018:**

The discount rate was reduced from 7.65% to 7.15%.

**From fiscal year June 30, 2018 to June 30, 2019:**

There were no significant changes in assumptions.

**From fiscal year June 30, 2019 to June 30, 2020:**

There were no significant changes in assumptions.

**From fiscal year June 30, 2020 to June 30, 2021:**

There were no significant changes in assumptions.

**From fiscal year June 30, 2021 to June 30, 2022:**

There were no significant changes in assumptions.

**From fiscal year June 30, 2022 to June 30, 2023:**

The discount rate was reduced from 7.15% to 6.90% and the inflation rate from 2.5% to 2.30%.

\*Fiscal year 2014 was the first measurement date year of implementation; therefore, only nine years are shown.

**MONTECITO WATER DISTRICT**

*Schedule of the District's Contributions to the Defined Benefit Pension Plan  
For the Year Ended June 30, 2023*

**Last Ten Fiscal Years\***

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

<b>Fiscal Year</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in Relation to the Actuarially Determined Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
June 30, 2015	\$ 226,841	\$ (226,841)	\$ -	\$ 2,098,340	10.81%
June 30, 2016	282,023	(282,023)	-	1,767,276	15.96%
June 30, 2017	312,822	(312,822)	-	2,064,143	15.16%
June 30, 2018	349,307	(349,307)	-	2,240,729	15.59%
June 30, 2019	424,172	(424,172)	-	2,370,119	17.90%
June 30, 2020	495,261	(495,261)	-	2,345,321	21.12%
June 30, 2021	572,292	(572,292)	-	2,718,172	21.05%
June 30, 2022	625,143	(625,143)	-	2,744,134	22.78%
June 30, 2023	712,301	(712,301)	-	3,117,138	22.85%

**Notes to Schedule:**

<b>Fiscal Year</b>	<b>Valuation Date</b>	<b>Actuarial Cost Method</b>	<b>Asset Valuation Method</b>	<b>Inflation</b>	<b>Investment Rate of Return</b>
June 30, 2015	June 30, 2012	Entry Age	Fair Value	2.75%	7.65%
June 30, 2016	June 30, 2013	Entry Age	Fair Value	2.75%	7.65%
June 30, 2017	June 30, 2014	Entry Age	Fair Value	2.75%	7.65%
June 30, 2018	June 30, 2015	Entry Age	Fair Value	2.75%	7.15%
June 30, 2019	June 30, 2016	Entry Age	Fair Value	2.50%	7.15%
June 30, 2020	June 30, 2017	Entry Age	Fair Value	2.50%	7.15%
June 30, 2021	June 30, 2018	Entry Age	Fair Value	2.50%	7.15%
June 30, 2022	June 30, 2019	Entry Age	Fair Value	2.50%	7.15%
June 30, 2023	June 30, 2020	Entry Age	Fair Value	2.30%	6.90%

<b>Amortization Method</b>	Level percentage of payroll, closed
<b>Salary Increases</b>	Depending on age, service, and type of employment
<b>Investment Rate of Return</b>	Net of pension plan investment expense, including inflation
<b>Retirement Age</b>	50 years (2%@55 and 2%@60), 52 years (2%@62)
<b>Mortality</b>	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\*Fiscal year 2015 was the first measurement date year of implementation; therefore, only nine years are shown.

# MONTECITO WATER DISTRICT

## Schedule of Changes in the District's Net OPEB Liability and Related Ratios For the Year Ended June 30, 2023

Fiscal Year Ended	Last Ten Fiscal Years*					
	June 30, 2022	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2021	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>Total OPEB liability:</b>						
Service cost	\$ 47,208	\$ 171,643	\$ 165,375	\$ 90,330	\$ 81,048	\$ 78,879
Interest	72,631	63,120	60,185	68,829	61,775	62,860
Changes of assumptions	(31,582)	(441,589)	18,150	648,925	89,711	-
Differences between expected and actual experience	-	(527,442)	-	(29,550)	-	-
Benefit payments	(83,815)	(64,205)	(56,396)	(37,489)	(33,758)	(32,460)
<b>Net change in total OPEB liability</b>	<b>4,442</b>	<b>(798,473)</b>	<b>187,314</b>	<b>741,045</b>	<b>198,776</b>	<b>109,279</b>
<b>Total OPEB liability - beginning</b>	<b>2,070,019</b>	<b>2,868,492</b>	<b>2,681,178</b>	<b>1,940,133</b>	<b>1,741,357</b>	<b>1,632,078</b>
<b>Total OPEB liability - ending</b>	<b>2,074,461</b>	<b>2,070,019</b>	<b>2,868,492</b>	<b>2,681,178</b>	<b>1,940,133</b>	<b>1,741,357</b>
<b>District's net OPEB liability</b>	<b>\$ 2,074,461</b>	<b>\$ 2,070,019</b>	<b>\$ 2,868,492</b>	<b>\$ 2,681,178</b>	<b>\$ 1,940,133</b>	<b>\$ 1,741,357</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Covered payroll</b>	<b>3,117,138</b>	<b>2,744,134</b>	<b>2,718,172</b>	<b>2,345,321</b>	<b>2,370,119</b>	<b>2,240,729</b>
<b>District's net OPEB liability as a percentage of covered payroll</b>	<b>66.55%</b>	<b>75.43%</b>	<b>105.53%</b>	<b>114.32%</b>	<b>81.86%</b>	<b>77.71%</b>

### Notes to Schedule:

#### Benefit Changes:

Measurement Date June 30, 2017 – There were no changes in benefits

Measurement Date June 30, 2018 – Coverage expanded to spouses for future retirees hired on or after July 1, 2009 if they have 25 years of service, effective fiscal year ending June 30, 2018

Measurement Date June 30, 2019 – There were no changes in benefits

Measurement Date June 30, 2020 – There were no changes in benefits

Measurement Date June 30, 2021 – There were no changes in benefits

#### Changes in Assumptions:

Measurement Date June 30, 2017 – Average per capita claims cost was updated to reflect actual 2017 premiums, health care cost trend rate was updated to reflect 2018 industry survey data, and mortality table was updated to reflect most recent CalPERS studies.

Measurement Date June 30, 2018 – There were no changes in benefits

Measurement Date June 30, 2019 – There were no changes in benefits

Measurement Date June 30, 2020 – There were no changes in benefits

Measurement Date June 30, 2021 – The interest assumption changed from 2.16% to 3.54%

Measurement Date June 30, 2021 – The interest assumption changed from 3.54% to 3.65%

\* Fiscal year 2018 was the first year of implementation; therefore, only six years are shown.

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***Supplementary Information***

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**MONTECITO WATER DISTRICT**  
*Combining Schedules of Balance Sheets*  
*For the Year Ended June 30, 2023*

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	<u>Water Fund</u>	<u>GSA Fund</u>	<u>Total</u>
<b><u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 2)	\$ 17,020,404	\$ -	\$ 17,020,404
Accounts receivable, net (Note 4)	1,776,321	-	1,776,321
Lease receivable (Note 5)	34,601	-	34,601
Other receivables	5,225	105,225	110,450
Other asset – water rights banking deposit	1,250,000	-	1,250,000
Inventory – materials and supplies	1,238,960	-	1,238,960
Prepaid water charges	5,774,673	-	5,774,673
Prepaid expenses and other deposits	1,082,289	-	1,082,289
Due (to)/from other funds	-	-	-
<b>Total current assets</b>	<u>28,182,473</u>	<u>105,225</u>	<u>28,287,698</u>
<b>Non-current assets:</b>			
Restricted – cash and cash equivalents (Note 2 and 3)	2,934,558	622,880	3,557,438
Lease receivable (Note 5)	37,101	-	37,101
Capital assets – not being depreciated (Note 6)	5,470,302	-	5,470,302
Capital assets – being depreciated, net (Note 6)	45,403,813	748,796	46,152,609
<b>Total non-current assets</b>	<u>53,845,774</u>	<u>1,371,676</u>	<u>55,217,450</u>
<b>Total assets</b>	<u>82,028,247</u>	<u>1,476,901</u>	<u>83,505,148</u>
<b>Deferred outflows of resources:</b>			
Deferred amounts related to net OPEB obligation (Note 9)	397,374	-	397,374
Deferred amounts related to net pension liability (Note 10)	2,671,912	-	2,671,912
<b>Total deferred outflows of resources</b>	<u>3,069,286</u>	<u>-</u>	<u>3,069,286</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 85,097,533</u>	<u>\$ 1,476,901</u>	<u>\$ 86,574,434</u>

**MONTECITO WATER DISTRICT**  
*Combining Schedules of Balance Sheets (continued)*  
*For the Year Ended June 30, 2023*

	<u>Water Fund</u>	<u>GSA Fund</u>	<u>Total</u>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u></b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 4,731,403	439,522	\$ 5,170,925
Deposits and unearned revenues	240,945	-	240,945
Accrued interest payable	224,300	-	224,300
Long-term liabilities – due within one year:			
Compensated absences (Note 7)	146,982	1,080	148,062
Bonds payable (Note 8)	1,215,000	-	1,215,000
<b>Total current liabilities</b>	<u>6,558,630</u>	<u>440,602</u>	<u>6,999,232</u>
<b>Non-current liabilities:</b>			
Long-term liabilities – due in more than one year:			
Compensated absences (Note 7)	440,945	3,239	444,184
Bonds payable (Note 8)	10,022,170	-	10,022,170
Net OPEB obligation (Note 9)	2,074,461	-	2,074,461
Net pension liability (Note 10)	6,280,487	-	6,280,487
<b>Total non-current liabilities</b>	<u>18,818,063</u>	<u>3,239</u>	<u>18,821,302</u>
<b>Total liabilities</b>	<u>25,376,693</u>	<u>443,841</u>	<u>25,820,534</u>
<b>Deferred inflows of resources:</b>			
Deferred amounts related to leases (Note 5)	64,721	-	64,721
Deferred amounts related to debt refunding (Note 8)	224,664	-	224,664
Deferred amounts related to net OPEB obligation (Note 9)	558,672	-	558,672
Deferred amounts related to net pension liability (Note 10)	498,879	-	498,879
<b>Total deferred inflows of resources</b>	<u>1,346,936</u>	<u>-</u>	<u>1,346,936</u>
<b>Net position:</b>			
Net investment in capital assets (Note 11)	39,412,281	748,796	40,161,077
Restricted	2,934,558	622,880	3,557,438
Unrestricted	16,027,065	(338,616)	15,688,449
<b>Total net position</b>	<u>58,373,904</u>	<u>1,033,060</u>	<u>59,406,964</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 85,097,533</u>	<u>\$ 1,476,901</u>	<u>\$ 86,574,434</u>

**MONTECITO WATER DISTRICT***Combining Schedules of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2023*

	<b>Water Fund</b>	<b>GSA Fund</b>	<b>Total</b>
<b>Operating revenues:</b>			
Water sales	\$ 15,171,677	\$ -	\$ 15,171,677
Water service charges	4,715,236	-	4,715,236
Water surcharges and availability charges	306,415	-	306,415
Other operating revenues	357,790	-	357,790
<b>Total operating revenues</b>	<b>20,551,118</b>	<b>-</b>	<b>20,551,118</b>
<b>Operating expenses:</b>			
Source of supply – water purchases	10,766,774	-	10,766,774
Source of supply – operational costs	511,595	-	511,595
Water treatment	1,490,190	-	1,490,190
Transmission and distribution	1,630,946	-	1,630,946
Customer services	484,289	-	484,289
General and administrative	4,138,461	924,623	5,063,084
<b>Total operating expenses</b>	<b>19,022,255</b>	<b>924,623</b>	<b>19,946,878</b>
<b>Operating income before depreciation</b>	<b>1,528,863</b>	<b>(924,623)</b>	<b>604,240</b>
Depreciation expense	(1,335,844)	-	(1,335,844)
<b>Operating income (loss)</b>	<b>193,019</b>	<b>(924,623)</b>	<b>(731,604)</b>
<b>Non-operating revenues(expenses):</b>			
Rental revenue	59,808	-	59,808
Investment earnings	425,442	-	425,442
Groundwater Sustainability Agency: (Note 15)			
Groundwater sustainability fee	-	1,033,375	1,033,375
Grant funding	-	-	-
Other non-operating revenues	412,298	-	412,298
Interest expense	(448,600)	-	(448,600)
Amortization of debt premium and debt refunding	288,639	-	288,639
Cater treatment plant obligation	(231,091)	-	(231,091)
Cater treatment plant – ozone project obligation	(276,346)	-	(276,346)
Transfers in(out) - grant matching	(219,364)	219,364	-
<b>Total non-operating income (loss)</b>	<b>10,786</b>	<b>1,252,739</b>	<b>1,263,525</b>
<b>Change in net position before capital contributions</b>	<b>203,805</b>	<b>328,116</b>	<b>531,921</b>
<b>Capital contributions:</b>			
Capacity charges	481,183	-	481,183
Connection fees	125,854	-	125,854
<b>Change in net position before special items</b>	<b>810,842</b>	<b>328,116</b>	<b>1,138,958</b>
<b>Special items</b>			
Legal settlement proceeds	599,421	-	599,421
<b>Change in net position</b>	<b>1,410,263</b>	<b>328,116</b>	<b>1,738,379</b>
<b>Net position:</b>			
Beginning of year	56,963,641	704,944	57,668,585
End of year	<b>\$ 58,373,904</b>	<b>\$ 1,033,060</b>	<b>\$ 59,406,964</b>

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***Other Independent Auditors' Reports***

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Montecito Water District  
Montecito, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montecito Water District (District), which comprise the balance sheet as of June 30, 2023, and the related statement of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 27, 2024.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



Murrieta, California  
February 27, 2024