



**FINANCE COMMITTEE MEETING
MONTECITO WATER DISTRICT
583 SAN YSIDRO ROAD, MONTECITO, CALIFORNIA**

**Remote Location: REEF HOUSE, CROWN POINT
BEQUIA, ST. VINCENT & THE GRENADINES
WEST INDIES**

**WEDNESDAY, JANUARY 10, 2018
AT 1:00 PM**

AGENDA

1) CALL TO ORDER, DETERMINATION OF COMMITTEE QUORUM

2) PUBLIC FORUM

This portion of the agenda may be utilized by any person to address the Finance Committee on any matter within the jurisdiction of the Committee. No consideration or discussion shall be undertaken by Committee members at this time on any item not appearing on this agenda except as permitted by the Ralph M. Brown Act. Discussion items receiving recommendations by the Committee, and/or items requiring action will be placed on the agenda of a future meeting of the Montecito Water District Board of Directors.

3) ITEMS FOR COMMITTEE DISCUSSION

A. Review Unaudited District Monthly Financial Reports

1. November 2017 Financial Statements
2. November 2017 Water Sales Report

B. Review Audited Financial Statements for 2016/17

4) DIRECTOR REQUESTS

5) ADJOURNMENT

This agenda was posted at the Montecito Water District front counter and outside front wall at 5:00 pm, January 5, 2018. The Americans with Disabilities Act provides that no qualified individual with a disability shall be excluded from participation in, or denied the benefits of, the District's programs, services or activities because of any disability. If you need special assistance to participate in this meeting, please contact the District Office at (805) 969-2271. Notification at least twenty-four (24) hours prior to the meeting will enable the District to make appropriate arrangements. Materials related to an item on this agenda submitted to the Committee after distribution of the agenda packed are available for public inspection in the Montecito Water District offices located at 583 San Ysidro Road, Montecito, CA during normal business hours.

**MONTECITO WATER DISTRICT
MEMORANDUM**

SECTION: 3-A

DATE: JANUARY 9, 2018

TO: FINANCE COMMITTEE

FROM: BUSINESS MANAGER

SUBJECT: NOVEMBER 2017 FINANCIAL REPORTS

RECOMMENDATION:

For information and discussion only; no action required.

BACKGROUND:

Each month, staff prepares a financial package that contains information comparing actual results against the budget, historical activity and other statistical data in order to identify potential fluctuations and/or trends. The information is reported to the Finance Committee and then to the Board of Directors, on a timely basis, for further discussion and appropriate Board action, if applicable.

Included in this financial package are the **Monthly Financial Statements** which include the Statement of Revenue and Expenditures and accompanying footnotes, the Statement of Net Position and the Statement of Cash Flows. These reports are prepared on an accrual basis and formatted much the same as the Annual Audited Financial Statements. These reports are prepared to provide the District's Board of Directors and customers with information about the activities and performance of the District during the month using accounting methods similar to those used by private sector companies and consistent with generally accepted accounting principles.

The financial package also includes **Dashboard Reports** which graphically depict various water sales data including water sales by classification, water sales for trailing 12, 24 and 36 months, water sales by tier and several other key trend indicators. The **Water Sales Analysis** and the **Metered Water Sales Report** track current year activity in both units of water sold (acre feet) and metered water sales.

ANALYSIS:

1. WATER SALES ANALYSIS – NOVEMBER, 2017

MONTH TO DATE WATER SALES (AF)				
CLASSIFICATION	ACTUAL	BUDGET	VARIANCE	
			AF	%
Single Family	259.89	149.31	110.58	74.1%
Multi Family	5.73	4.05	1.68	41.4%
Agricultural	28.57	14.81	13.77	93.0%
Institutional	13.70	12.46	1.24	10.0%
Commercial	21.12	17.07	4.05	23.7%
Non-Potable	10.62	4.80	5.82	121.2%
Monthly Total	339.65	202.50	137.15	67.7%

YEAR TO DATE WATER SALES (AF)				
CLASSIFICATION	ACTUAL	BUDGET	VARIANCE	
			AF	%
Single Family	1,371.10	1,369.84	1.26	0.1%
Multi Family	29.75	33.74	(3.99)	(11.8%)
Agricultural	163.85	170.52	(6.67)	(3.9%)
Institutional	121.18	194.08	(72.91)	(37.6%)
Commercial	116.32	120.61	(4.29)	(3.6%)
Non-Potable	78.55	64.22	14.33	22.3%
Yearly Total	1,880.74	1,953.00	(72.26)	(3.7%)

A. Water Sales in Acre Feet (AF)

During the month of November 2017, MWD sold 339.65 AF of water to its customers compared to a budgeted amount 202.50 AF which translates to a budget variance of +137.15 AF or 67.7%. The reason for the variance has to do with the budget process and timing, not an increase in sales versus the prior month.

B. Sales by Classification

YEAR TO DATE WATER SALES (\$)				
CLASSIFICATION	CURRENT YTD	BUDGET YTD	VARIANCE	
			\$	%
Single Family	\$ 3,493,089	\$ 3,452,735	\$ 40,354	1.2%
Multi Family	69,963	79,527	(9,564)	(12.0%)
Agricultural	227,275	237,956	(10,681)	(4.5%)
Institutional	330,556	512,121	(181,565)	(35.5%)
Commercial	315,172	324,244	(9,072)	(2.8%)
Non-Potable	47,902	39,164	8,738	22.3%
Adjustments	-	-	-	0.0%
Monthly Total	\$ 4,483,957	\$ 4,645,747	\$ (161,790)	(3.5%)

2. STATEMENT OF REVENUE AND EXPENDITURES – NOVEMBER 2017

A. Revenues

Total Revenue YTD as of November 30, 2017 is \$9,169,370 compared to the YTD Budget of \$9,552,154 for a budget variance of -\$382,784 or -4%.

	YTD ACTUAL	YTD BUDGET	OVER (UNDER)
REVENUE			
WATER SALES	4,483,957	4,645,747	(161,790)

WSE SURCHARGE	2,692,614	2,935,007	(242,393)
ORD. 94 PENALTIES	(3,105)	-	(3,105)
SERVICE CHARGES	1,775,993	1,782,077	(6,084)
WAC	-	-	-
PRIVATE FIRE HYDRANT	28,467	27,502	965
LATE CHARGES	32,082	21,255	10,827
CONNECTION FEES	13,988	7,477	6,511
CAP. COST RECOVERY	56,904	58,090	(1,186)
INTEREST	42,240	41,667	573
OTHER	46,231	33,333	12,898
TOTAL REVENUE	\$ 9,169,370	\$ 9,552,154	(\$ 382,784)

B. Expenses:

1. JPA Expenses

Total JPA Expenses YTD through November 30, 2017 are \$3,441,696 compared to the YTD budget of \$3,129,804 which is above budget by \$312k. This variance is due to the variable portion of the SWP being above budget by \$75k (but is anticipated to slowly come closer to budget over time as a result of SWP's billing practice), \$216k of supplemental water purchased to repay the AVEK water debt that was not budgeted, as well as other miscellaneous timing differences. Please see footnotes to the Financial Statements for further clarification.

2. MWD Expenses

Total MWD Expenses YTD as of November 30, 2017 are \$2,747,166 compared to the YTD budget of \$3,166,511 which is below budget by \$419k. This variance is primarily due to the following factors – **Engineering**, a recycled water feasibility study has not yet been completed (\$28k), a fish relocation project was not necessary (\$10k), as well as other combined variances (\$11k); **Public Information and Conservation**, website development has not yet taken place (\$20k), as well as other combined variances (\$20k); **Administration**, local water supply negotiations planned but not completed (\$240k), as well as other combined variances (\$101k). Please see footnotes to the Financial Statements for further clarification.

ATTACHMENTS:

- 1) Financial Package – November 2017



FINANCIAL REPORTS

FINANCE COMMITTEE MEETING

For the Month of November 2017

January 9, 2018

MONTECITO WATER DISTRICT
STATEMENT OF REVENUE AND EXPENDITURES
November 30, 2017

	MTD ACTUAL	MTD BUDGET	OVER (UNDER)	Footnote	YTD ACTUAL	YTD BUDGET	OVER (UNDER)	Footnote
REVENUE								
WATER SALES	815,859	479,064	336,795		4,483,957	4,645,747	(161,790)	(1)
WSE SURCHARGE	491,597	304,321	187,276	(1)	2,692,614	2,935,007	(242,393)	(1)
ORDINANCE 94 PENALTIES	-	-	-		(3,105)	-	(3,105)	
SERVICE CHARGES	355,134	356,274	(1,140)		1,775,993	1,782,077	(6,084)	
WATER AVAILABILITY CHARGE	-	-	-		-	-	-	
PRIVATE FIRE HYDRANT	5,683	5,620	63		28,467	27,502	965	
LATE CHARGES	8,155	4,251	3,904		32,082	21,255	10,827	
SERVICE CONNECTION FEES	1,591	-	1,591		13,988	7,477	6,511	
CAPITAL COST RECOVERY FEES	-	-	-		56,904	58,090	(1,186)	
INTEREST REVENUE - GENERAL	8,831	8,333	497		42,240	41,667	573	
OTHER REVENUE (LOSS)	22,208	4,667	17,541	(2)	43,189	23,333	19,856	(2)
REIMBURSEMENTS	-	2,000	(2,000)		3,042	10,000	(6,958)	
TOTAL REVENUE	\$ 1,709,058	\$ 1,164,530	\$ 544,528		\$ 9,169,370	\$ 9,552,154	(\$ 382,784)	
OPERATING EXPENSE								
JPA OPERATING EXPENSE								
CACHUMA OPERATIONS & MAINT BOARD (COMB)	68,199	37,999	30,200	(3)	228,671	215,741	12,930	(3)
CACHUMA CONSERVATION & RELEASE BOARD (CCRB)	8,638	8,638	-		43,188	43,188	-	
US BUREAU OF RECLAMATION (USBR)	-	-	-		51,550	51,550	-	
CATER WATER TREATMENT PLANT	333,373	315,000	18,373		323,417	315,000	8,417	
STATE WATER PROJECT (SWP) - FIXED	410,975	410,975	-		2,054,877	2,054,877	-	
STATE WATER PROJECT (SWP) - VARIABLE	40,885	89,890	(49,005)	(4)	524,467	449,448	75,019	(4)
SUPPLEMENTAL WATER PURCHASE	-	-	-		215,525	-	215,525	(5)
TOTAL JPA OPERATING EXPENSE	\$ 862,070	\$ 862,501	(\$ 432)		\$ 3,441,696	\$ 3,129,804	\$ 311,892	
MWD DIRECT EXPENSE								
JAMESON	7,924	7,579	345		55,114	50,282	4,831	
TRANSMISSION & DISTRIBUTION	116,394	120,268	(3,873)		569,492	605,070	(35,578)	(6)
TREATMENT	105,389	93,058	12,331	(7)	515,719	488,187	27,532	(7)
TOTAL MWD DIRECT EXPENSE	\$ 229,707	\$ 220,904	\$ 8,803		\$ 1,140,324	\$ 1,143,539	(\$ 3,215)	
MWD INDIRECT EXPENSE								
ENGINEERING	41,332	53,753	(12,422)	(8)	190,711	238,039	(47,328)	(8)
CUSTOMER SERVICE	34,408	32,378	2,030		170,931	165,127	5,804	
PUBLIC INFORMATION / CONSERVATION	7,496	6,234	1,263		25,455	65,613	(40,158)	(9)
FLEET	14,494	13,769	725		76,587	70,083	6,504	
ADMINISTRATION (incl Depreciation)	219,109	266,059	(46,950)	(10)	1,143,158	1,484,110	(340,952)	(10)
TOTAL MWD INDIRECT EXPENSE	\$ 316,839	\$ 372,194	(\$ 55,355)		\$ 1,606,842	\$ 2,022,972	(\$ 416,130)	
TOTAL OPERATING EXPENSE	\$ 1,408,616	\$ 1,455,599	(\$ 46,984)		\$ 6,188,862	\$ 6,296,315	(\$ 107,454)	
NET OPERATING SURPLUS / (DEFICIT)	\$ 300,443	(\$ 291,070)	\$ 591,512		\$ 2,980,509	\$ 3,255,839	(\$ 275,330)	

NON OPERATING EXPENSE			
2004 DWR ORTEGA LOAN	-	-	-
BOND INTEREST EXPENSE	-	(295,200)	295,200
CATER DWR LOAN	-	-	-
CATER CAPITAL	(115,824)	(115,824)	0
CATER OZONE	(138,173)	-	(138,173)
TOTAL NON OPERATING EXPENSE	(\$ 253,996)	(\$ 411,024)	\$ 157,028
NET OPERATING SURPLUS / (DEFICIT)	\$ 46,446	(\$ 702,094)	\$ 748,540
NET POSITION, BEGINNING OF PERIOD	\$ 31,932,971	\$ 32,539,655	(\$ 606,684)
NET POSITION, END OF PERIOD	\$ 31,979,417	\$ 31,837,561	\$ 141,856

	-	-	-
(11)	-	(295,200)	295,200
	-	-	-
	(115,824)	(115,824)	0
(12)	(138,173)	-	(138,173)
	(\$ 253,996)	(\$ 411,024)	\$ 157,028
	\$ 2,726,512	\$ 2,844,815	(\$ 118,302)
	\$ 29,252,905	\$ 28,992,747	\$ 260,158
	\$ 31,979,417	\$ 31,837,561	\$ 141,856

November 30, 2017

FOOTNOTES

- (1) **WATER SALES (in AF) - November** Actual 339.65 and Budget 202.50 = Variance 137.15; **YTD Actual 1,880.74 and Budget 1,953.00 = Variance (72.6)**
- (2) **OTHER REVENUE** - Relates to Gain on the Sale of Assets (two vehicles + misc small equipment)
- (3) **COMB - November OVER by \$30k** - October & November expenses recorded in November; **YTD OVER by \$13k** due to EPPF budgeted in later month
- (4) **STATE WATER PROJECT (VARIABLE)** - Timing difference. Anticipate slow-down in billing in coming months.
- (5) **SUPPLEMENTAL WATER PURCHASE** - Net purchases from Santa Maria to leave \$500,000 in Water Repayment Debt to AVEK relating to 2015 purchase.
- (6) **TRANSMISSION & DISTRIBUTION** - **YTD UNDER by \$35k** Variances Salaries (\$4k); Repairs (\$7k); Outside Services (\$18k); Supplies (\$10k); Utilities +\$4k
- (7) **TREATMENT - November OVER by \$12k** Outside Service (\$5k), Supplies (\$7k)
YTD OVER by \$27k Supplies (\$10k), Outside Service (\$10k), Electricity (\$7k)
- (8) **ENGINEERING - November UNDER by \$12k** Recycled Water Feasibility Study has not yet occurred
YTD UNDER by \$47k GIS (\$2k); SGMA (\$7k); Fish Relocation (\$10k); Recycled Water Feasibility (\$28k)
- (9) **PUBLIC INFORMATION / CONSERVATION** - **YTD UNDER by \$40k** Website development (\$20k); Postage (\$7k); Legal-Special (\$5k); Conserv Prg (\$5k)
- (10) **ADMINISTRATION - November UNDER by \$47k** Local Water Supply Negotiations (\$35k); Legal (\$15k)
YTD UNDER by \$341k - Salaries (\$18k); Local Water Supply Negotiations (\$240k); Legal (\$38k); Rate Sutdy (\$14k); LAFCO (\$10k); Insurance (\$12k); Computer (\$9k)
- (11) **BOND INTEREST EXPENSE - November UNDER by \$295k** - Timing difference. Payment made in December
- (12) **CATER OZONE - November OVER budget by \$138k** - Timing difference. Budgeted in April 2018

**MONTECITO WATER DISTRICT
STATEMENT OF NET POSITION - UNAUDITED
November 30, 2017**

ASSETS

Current:

Cash and investments

Operating accounts

Board reserves:

Reserve for Operations	\$	3,400,000	
Reserve for Emergencies	\$	1,000,000	
Reserve for Unanticipated Projects	\$	1,000,000	
			\$ 5,400,000

Unreserved Cash \$ 8,450,096

Legal settlement reserve \$ -

Total unrestricted cash and investments \$ 13,850,096

Restricted - cash and investments \$ 3,612,592

Total Cash (unrestricted & restricted) \$ 17,462,689

Receivables:

Accounts receivable - water sales & services, net \$ 1,773,127

Accounts receivable - other \$ 1,736

Accrued Interest \$ 2,630

Materials and supplies inventory \$ 259,941

Prepaid water charges (SWP and other prepaid water) \$ 5,378,584

Prepaid expenses and other deposits \$ 244,456

Total Current Assets \$ 7,660,474

Noncurrent:

Capital assets - not being depreciated \$ 673,526

Capital assets - being depreciated, net \$ 31,511,187

Total Noncurrent Assets \$ 32,184,713

DEFERRED OUTFLOWS OF RESOURCES

Deferred pensions \$ 1,116,776

Total Deferred Outflows of Resources \$ 1,116,776

TOTAL COMBINED ASSETS:

\$ 58,424,651

**MONTECITO WATER DISTRICT
STATEMENT OF NET POSITION - UNAUDITED
November 30, 2017 (Continued)**

LIABILITIES

Current:

Accounts payable and accrued expenses	\$	62,856	
Accrued wages and related payables	\$	10,031	
Unearned revenue and other deposits	\$	69,721	
Accrued interest payable	\$	-	
Long-term liabilities - due within one year:			
Accrued compensated absences	\$	37,001	
Bonds Payable	\$	-	
Loan Payable	\$	635,016	
Total Current Liabilities		\$	814,625

Noncurrent:

Accrued compensated absences	\$	369,087	
Accrued water exchange transfer	\$	500,000	
Bonds payable	\$	13,360,000	
Loan payable	\$	6,299,797	
Legal settlement payable	\$	-	
Other post-employment benefits payable	\$	780,930	
Net pension liability	\$	3,797,410	
Total Noncurrent Liabilities		\$	25,107,225
Total Liabilities		\$	25,921,850

DEFERRED INFLOWS OF RESOURCES

Deferred pensions	\$	523,384	
Total Deferred Inflows of Resources		\$	523,384

NET POSITION

Net investment in capital assets	\$	12,072,809	
Restricted	\$	3,612,592	
Unrestricted	\$	16,294,016	
Total Net Position		\$	31,979,417

TOTAL COMBINED LIABILITIES, DEFERRALS AND NET POSITION:

\$ 58,424,651

**MONTECITO WATER DISTRICT
STATEMENT OF CASH FLOWS - UNAUDITED
November 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

	<u>MTD</u>	<u>YTD</u>
Operating Income (loss)	\$ 291,612	\$ 2,938,269
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	104,511	515,707
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable	373,681	273,910
Materials and supplies inventory	(940)	(12,161)
Prepaid water charges	409,123	2,563,656
Prepaid expenses and other deposits	19,463	(124,653)
Litigation Liability	-	(1,140,668)
Accounts payable	208	(843,026)
Accrued wages and related payables	4,025	(44,734)
Unearned revenue and other deposits	6,207	38,154
Accrued water exchange transfer	-	(834,475)
Compensated absences	21,040	65,707
Net cash provided (used) by operating activities	<u>\$ 1,228,930</u>	<u>\$ 3,395,686</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	\$ (24,822)	\$ (705,366)
Interest Payable	-	-
Net cash provided (used) by capital financing and related activities	<u>\$ (24,822)</u>	<u>\$ (705,366)</u>

**MONTECITO WATER DISTRICT
STATEMENT OF CASH FLOWS - UNAUDITED
November 30, 2017 (Continued)**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Ortega Interest	\$ -	\$ -
Bond Interest	-	-
Cater DWR Loan	-	-
Cater Capital	(115,824)	(115,824)
Cater Ozone	(138,173)	(138,173)
	<hr/>	<hr/>
Net cash provided (used) by noncapital financing activities	\$ (253,997)	\$ (253,997)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest earnings	\$ 8,831	\$ 42,239
	<hr/>	<hr/>
Net cash provided by (used) by investing activities	\$ 8,831	\$ 42,239

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 958,942	\$ 2,478,562
	<hr/>	<hr/>
Cash and cash equivalents, beginning of period	\$ 16,503,747	\$ 14,984,127
	<hr/>	<hr/>
Cash and cash equivalents, end of period	\$ 17,462,689	\$ 17,462,689
	<hr/> <hr/>	<hr/> <hr/>

RECONCILIATION TO STATEMENT OF NET POSITION:

Cash and investments - cash equivalents	\$ 13,850,096	\$ 13,850,096
Restricted cash and investments - cash equivalents	3,612,592	3,612,592
	<hr/>	<hr/>
	\$ 17,462,689	\$ 17,462,689
	<hr/> <hr/>	<hr/> <hr/>



DASHBOARD REPORT WATER SALES (AF)

11/30/2017

MONTH TO DATE WATER SALES (AF)				
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Single Family	259.89	149.31	110.58	74.1%
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Yearly Total	1,880.74	1,953.00	(72.26)	(3.7%)

Fiscal Year = July thru June



DASHBOARD REPORT WATER SALES (\$)

MONTH TO DATE WATER SALES (\$)				
CLASSIFICATION	CURRENT MONTH	BUDGET MONTH	VARIANCE	
			\$	%
Single Family	\$ 660,562	\$ 365,681	\$ 294,881	80.6%
Multi Family	13,493	9,547	3,946	41.3%
Agricultural	40,142	21,499	18,643	86.7%
Institutional	37,062	33,095	3,967	12.0%
Commercial	58,122	46,313	11,809	25.5%
Non-Potable	6,479	2,929	3,550	121.2%
Adjustments	-	-	-	0.0%
Monthly Total	\$ 815,860	\$ 479,064	\$ 336,796	70.3%

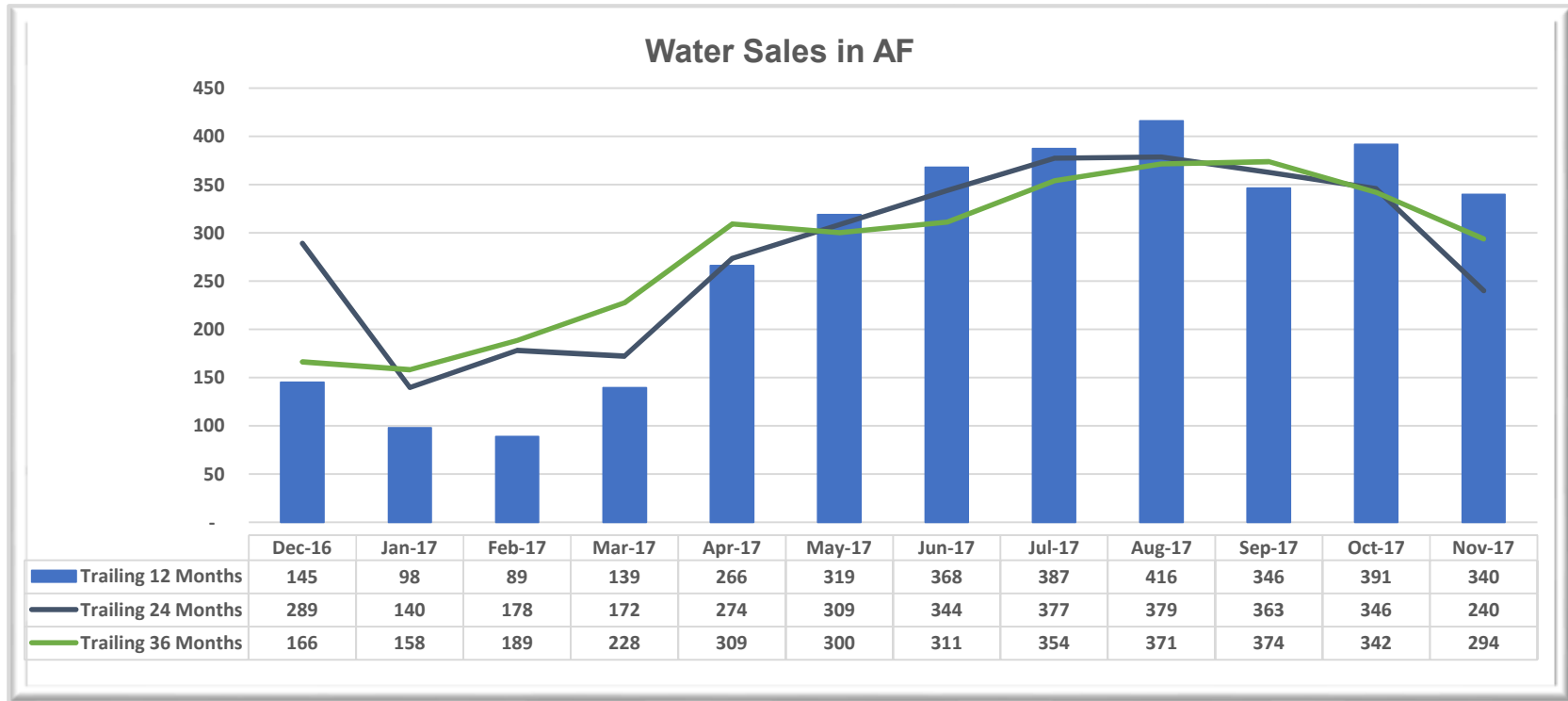
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Adjustments	-	-	-	0.0%
Monthly Total	\$ 4,483,956	\$ 4,645,748	\$ (161,792)	(3.5%)

Fiscal Year = July thru June

MONTH ENDING

11/30/2017

(Select Date From Drop Down Arrow)

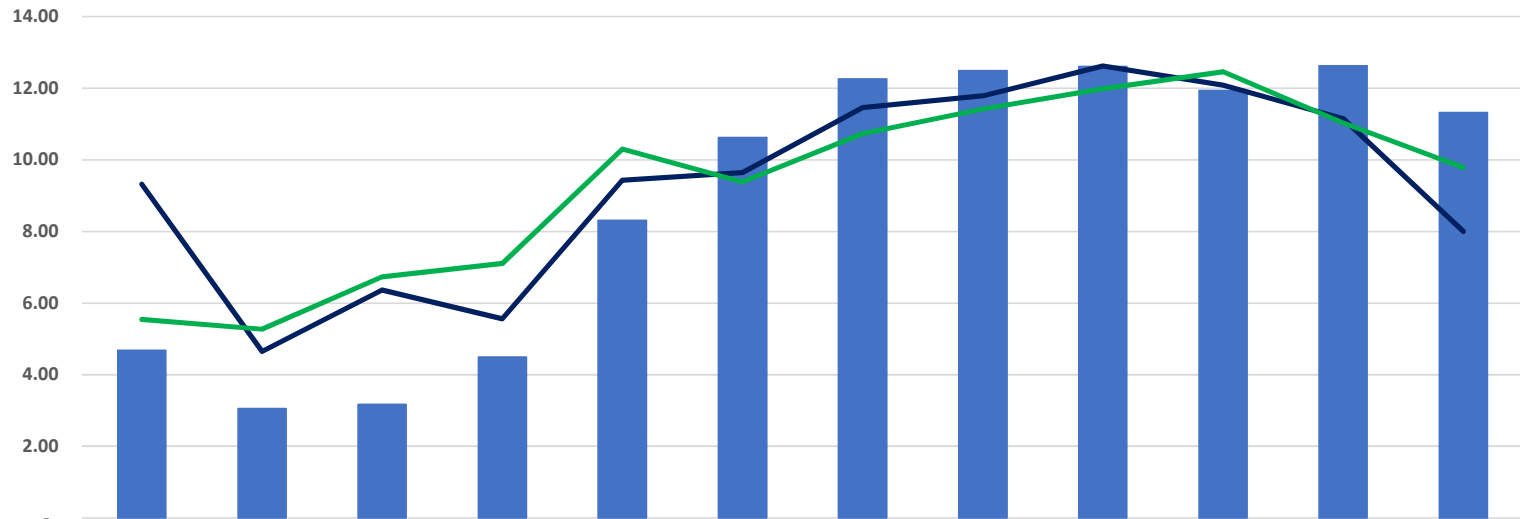


■ Trailing 12 Months 3,304 AF
■ Trailing 24 Months 3,409 AF
■ Trailing 36 Months 3,395 AF



11/30/2017

Average Daily Water Sales Per Month (AF)



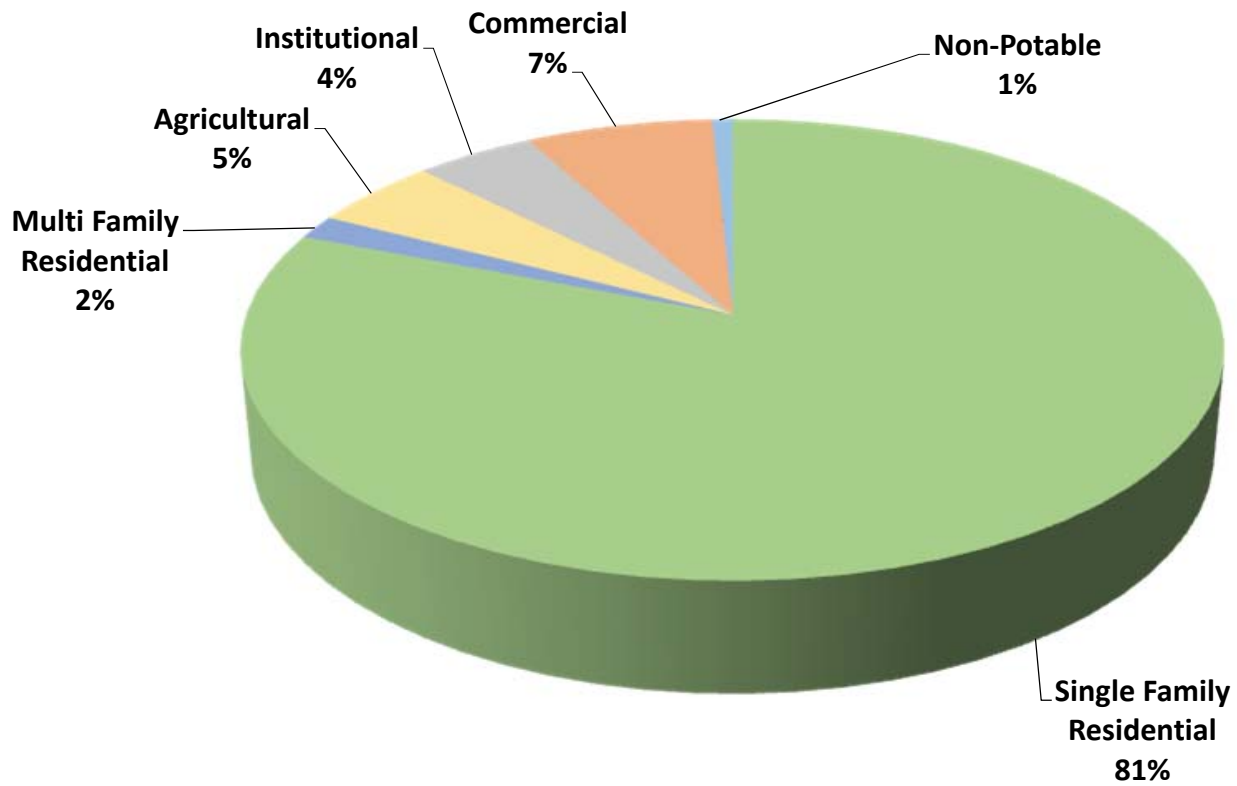
	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Trailing 12 Months	4.68	3.05	3.17	4.49	8.31	10.63	12.26	12.49	12.61	11.94	12.63	11.32
Trailing 24 Months	9.32	4.65	6.36	5.56	9.43	9.64	11.46	11.79	12.62	12.08	11.15	8.00
Trailing 36 Months	5.54	5.27	6.73	7.11	10.30	9.38	10.73	11.42	11.98	12.46	11.03	9.79

MONTH ENDING

11/30/2017

(Select Date From Drop Down Arrow)

Water Sales by Classification November 30, 2017

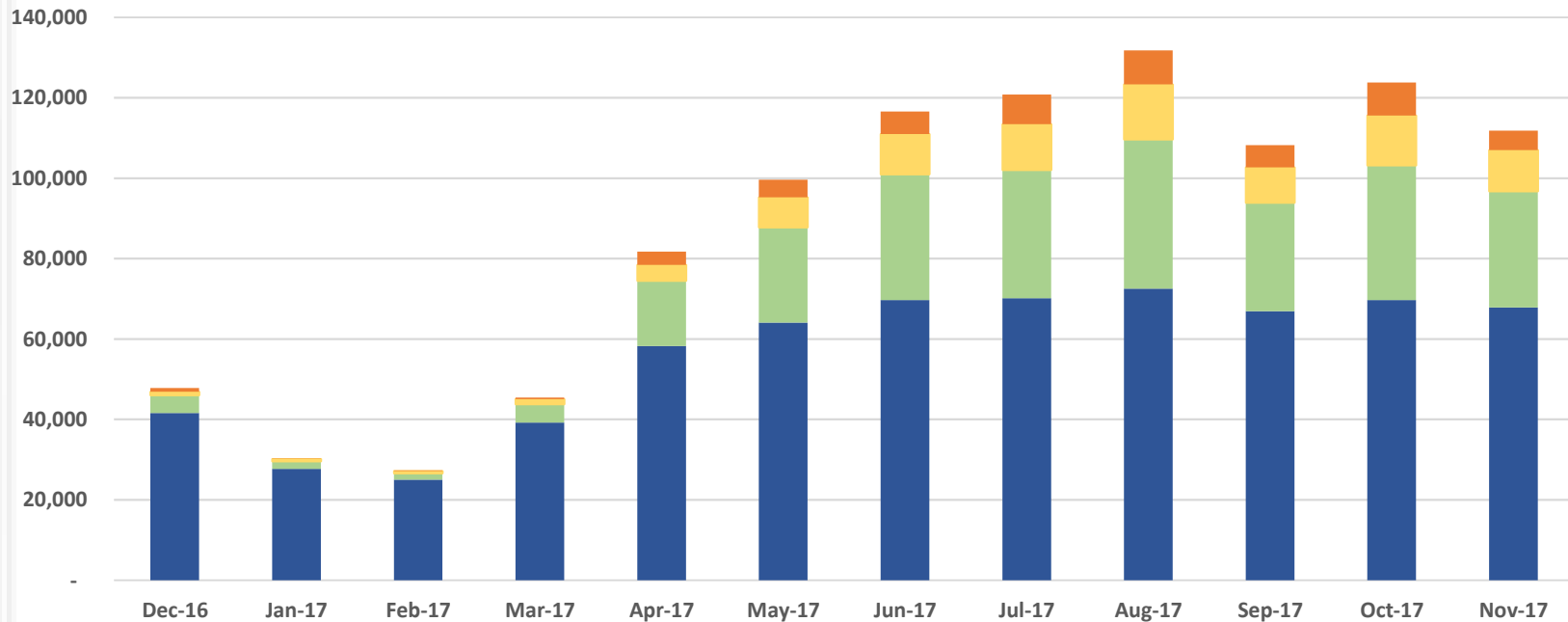




DASHBOARD REPORT SFR CONSUMPTION TRENDS

MONTH ENDING **11/30/2017**

Monthly SFR Water Consumption by Tier (HCF)



Tier 4	900	100	200	400	3,300	4,400	5,600	7,400	8,500	5,500	8,200	4,800
Tier 3	900	500	500	1,200	3,900	7,400	10,000	11,300	13,600	8,800	12,400	10,200
Tier 2	4,400	1,900	1,600	4,600	16,300	23,700	31,300	32,000	37,200	27,000	33,500	29,000
Tier 1	41,600	27,700	25,000	39,200	58,200	64,100	69,700	70,100	72,500	66,900	69,700	67,800

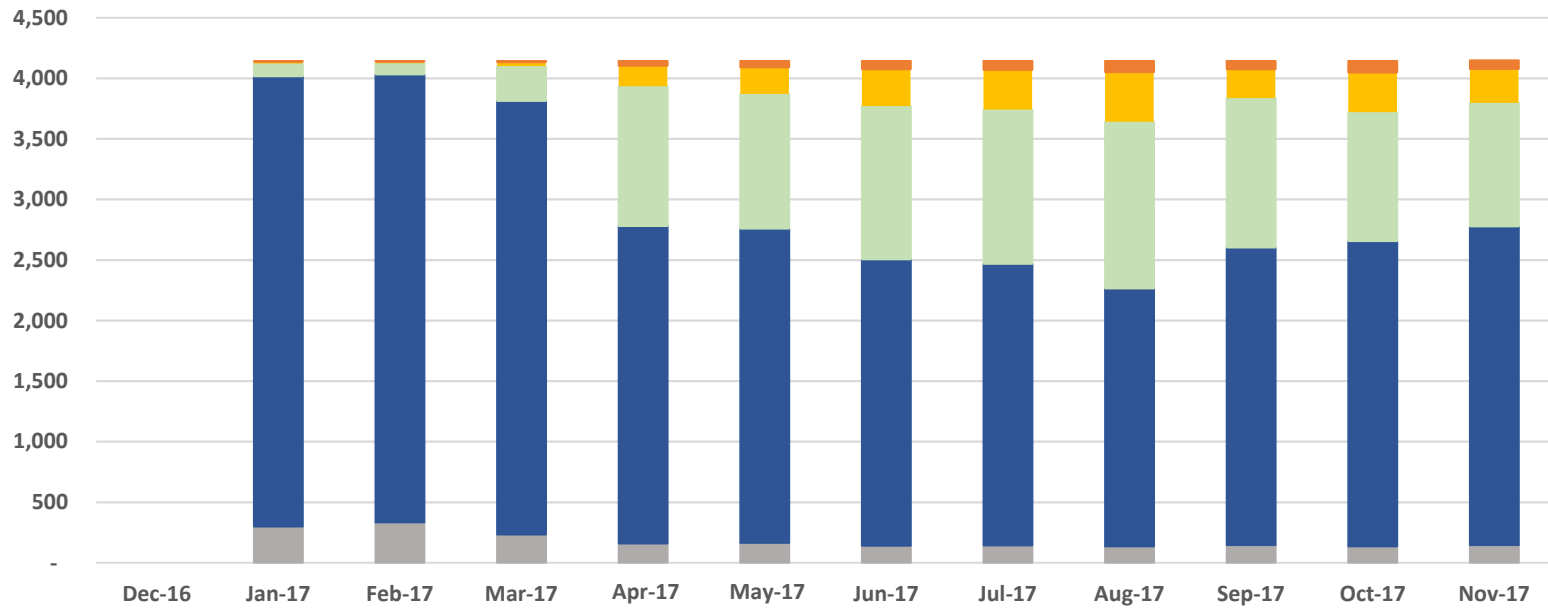


DASHBOARD REPORT SFR CONSUMPTION TRENDS

MONTH ENDING

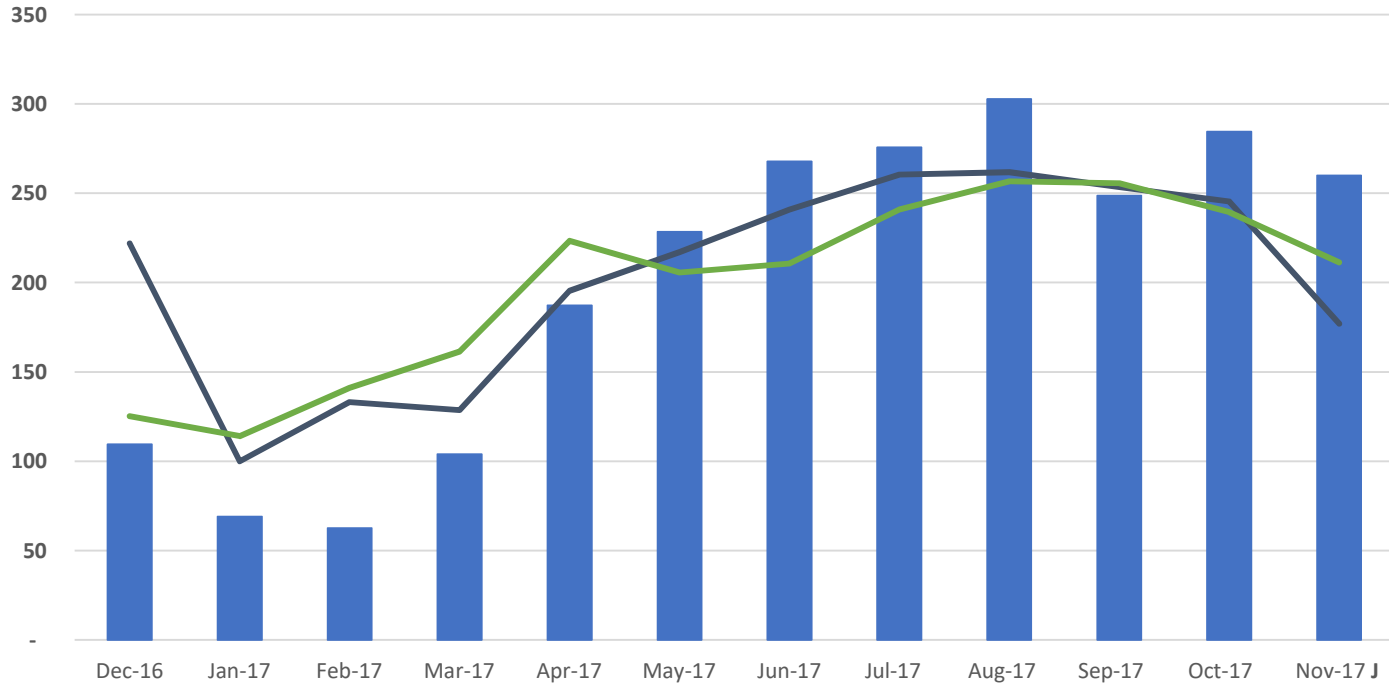
11/30/2017

Monthly SFR Water Consumption by Tier (# of Customers)



	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Tier 4 Usage	-	2	3	9	36	50	67	71	89	65	93	67
Tier 3 Usage	-	19	15	34	172	223	307	330	413	243	330	284
Tier 2 Usage	-	104	90	284	1,154	1,108	1,263	1,273	1,375	1,229	1,061	1,017
Tier 1 Usage	-	3,717	3,700	3,581	2,621	2,597	2,365	2,323	2,128	2,459	2,522	2,632
"0" Usage	-	301	335	235	160	165	141	146	138	147	137	147

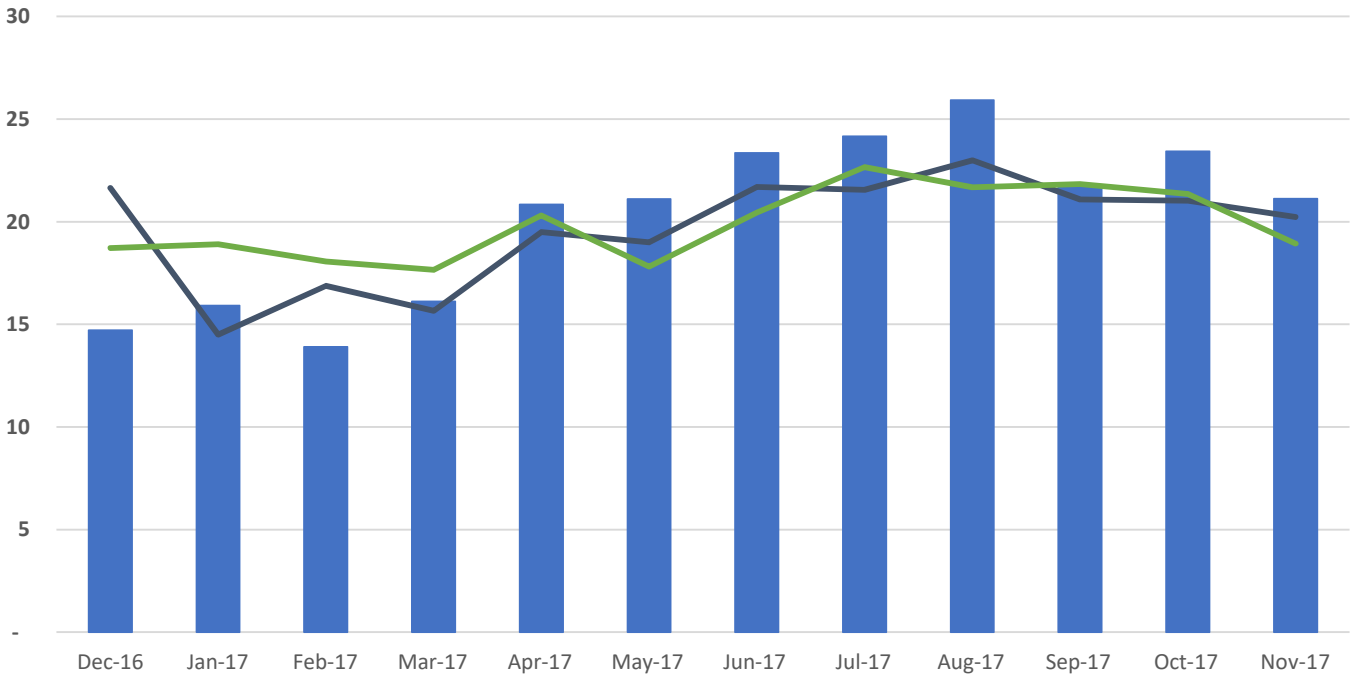
Water Sales by Month (AF) SINGLE FAMILY RESIDENTIAL



Trailing 12 Months	109	69	63	104	187	228	268	276	303	249	284	260
Trailing 24 Months	222	100	133	129	195	217	241	260	262	253	245	177
Trailing 36 Months	125	114	141	161	223	206	211	241	257	256	239	211

■ Trailing 12 Months(SINGLE FAMILY RESIDENTIAL) 2,386 AF
■ Trailing 24 Months(SINGLE FAMILY RESIDENTIAL) 2,435 AF
■ Trailing 36 Months(SINGLE FAMILY RESIDENTIAL) 2,399 AF
 Trailing 12 Months vs. Trailing 24 Months: (2.0%)
 Trailing 12 Months vs. Trailing 36 Months: (0.6%)

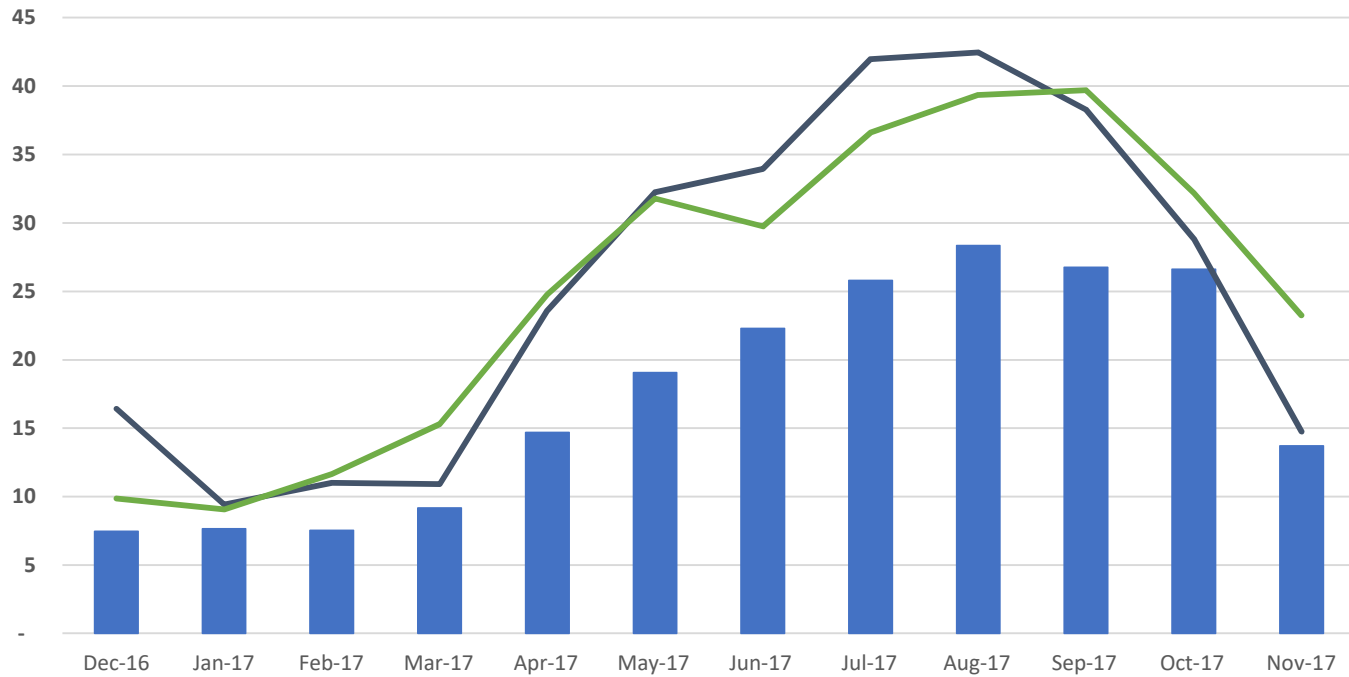
Water Sales by Month (AF) COMMERCIAL



Trailing 12 Months	15	16	14	16	21	21	23	24	26	22	23	21
Trailing 24 Months	22	14	17	16	20	19	22	22	23	21	21	20
Trailing 36 Months	19	19	18	18	20	18	20	23	22	22	21	19

■ Trailing 12 Months (COMMERCIAL) 242 AF
■ Trailing 24 Months (COMMERCIAL) 236 AF
■ Trailing 36 Months (COMMERCIAL) 238 AF
 Trailing 12 Months vs. Trailing 24 Months: 2.7%
 Trailing 12 Months vs. Trailing 36 Months: 1.6%

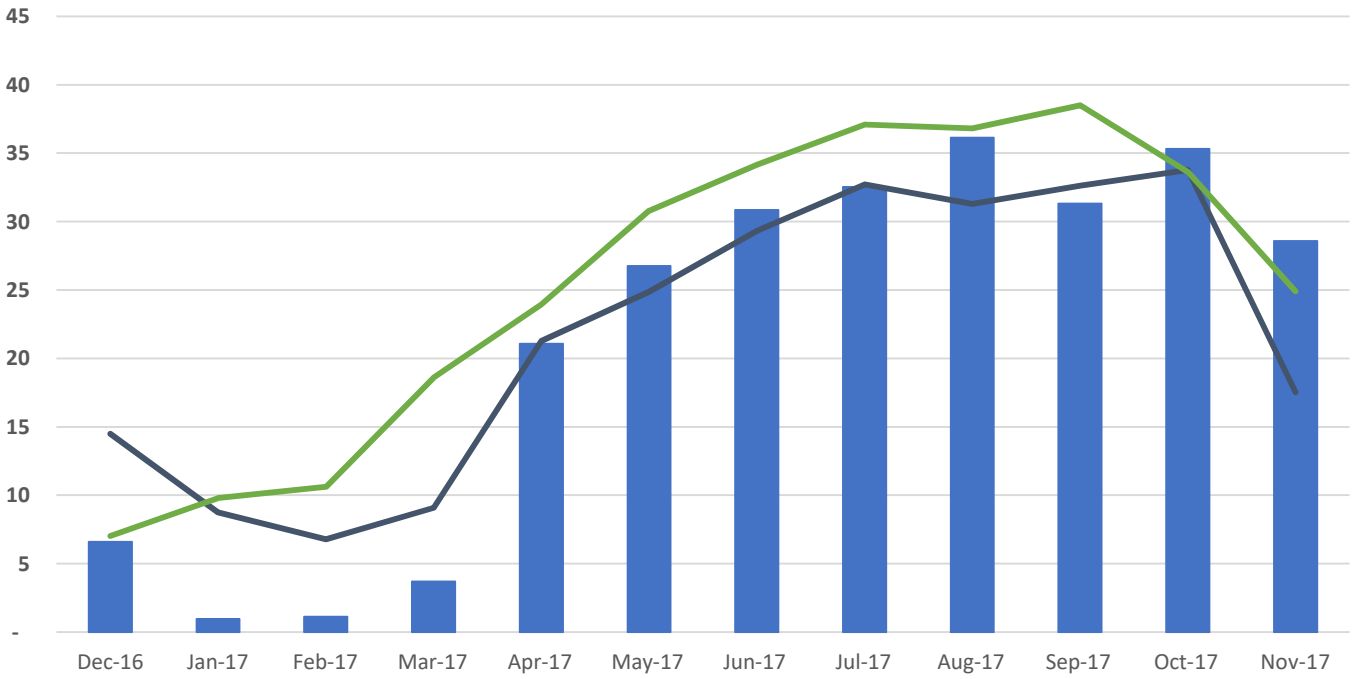
Water Sales by Month (AF) INSTITUTIONAL



Trailing 12 Months	7	8	8	9	15	19	22	26	28	27	27	14
Trailing 24 Months	16	9	11	11	24	32	34	42	42	38	29	15
Trailing 36 Months	10	9	12	15	25	32	30	37	39	40	32	23

■ Trailing 12 Months (INSTITUTIONAL) 209 AF
■ Trailing 24 Months (INSTITUTIONAL) 304 AF
■ Trailing 36 Months (INSTITUTIONAL) 303 AF
 Trailing 12 Months vs. Trailing 24 Months: (31.2%)
 Trailing 12 Months vs. Trailing 36 Months: (31.1%)

Water Sales by Month (AF) AGRICULTURE



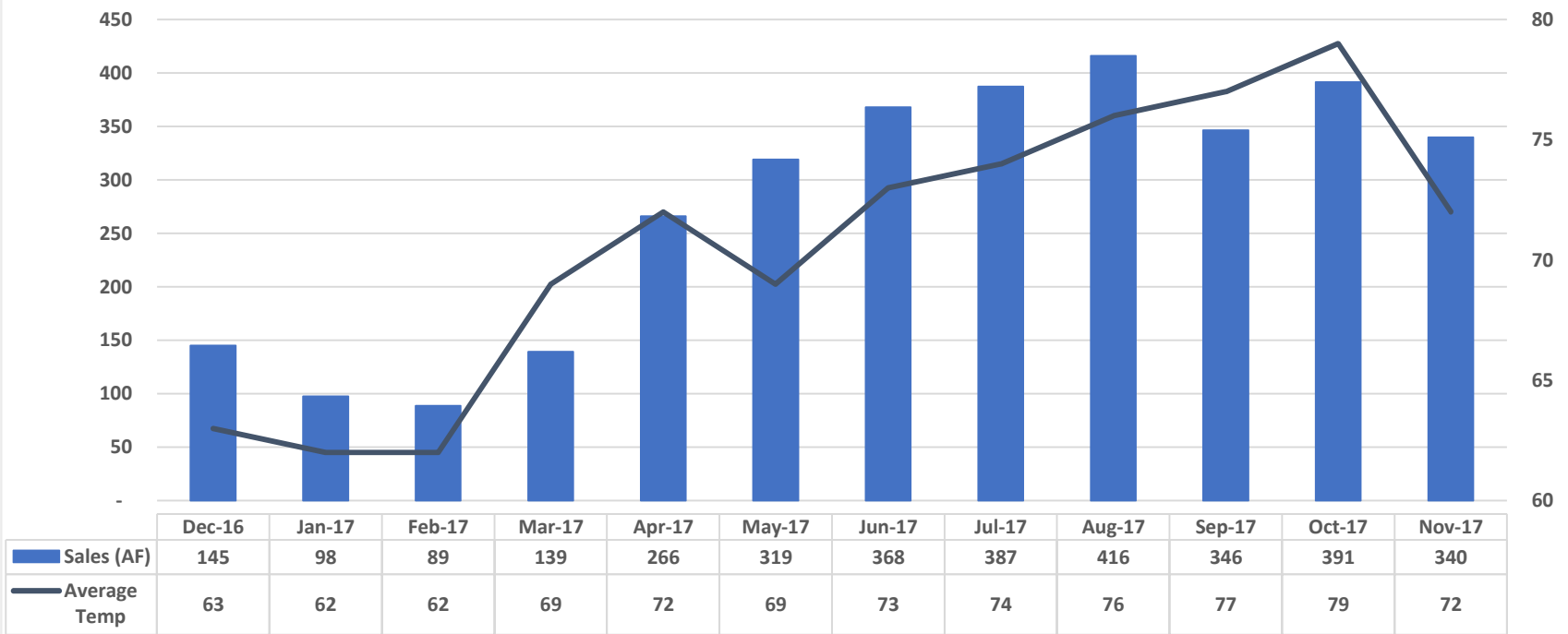
Trailing 12 Months	7	1	1	4	21	27	31	33	36	31	35	29
Trailing 24 Months	14	9	7	9	21	25	29	33	31	33	34	18
Trailing 36 Months	7	10	11	19	24	31	34	37	37	39	34	25

■ Trailing 12 Months (AGRICULTURE) 255 AF
■ Trailing 24 Months (AGRICULTURE) 263 AF
■ Trailing 36 Months (AGRICULTURE) 306 AF
 Trailing 12 Months vs. Trailing 24 Months: (2.9%)
 Trailing 12 Months vs. Trailing 36 Months: (16.7%)



11/30/2017

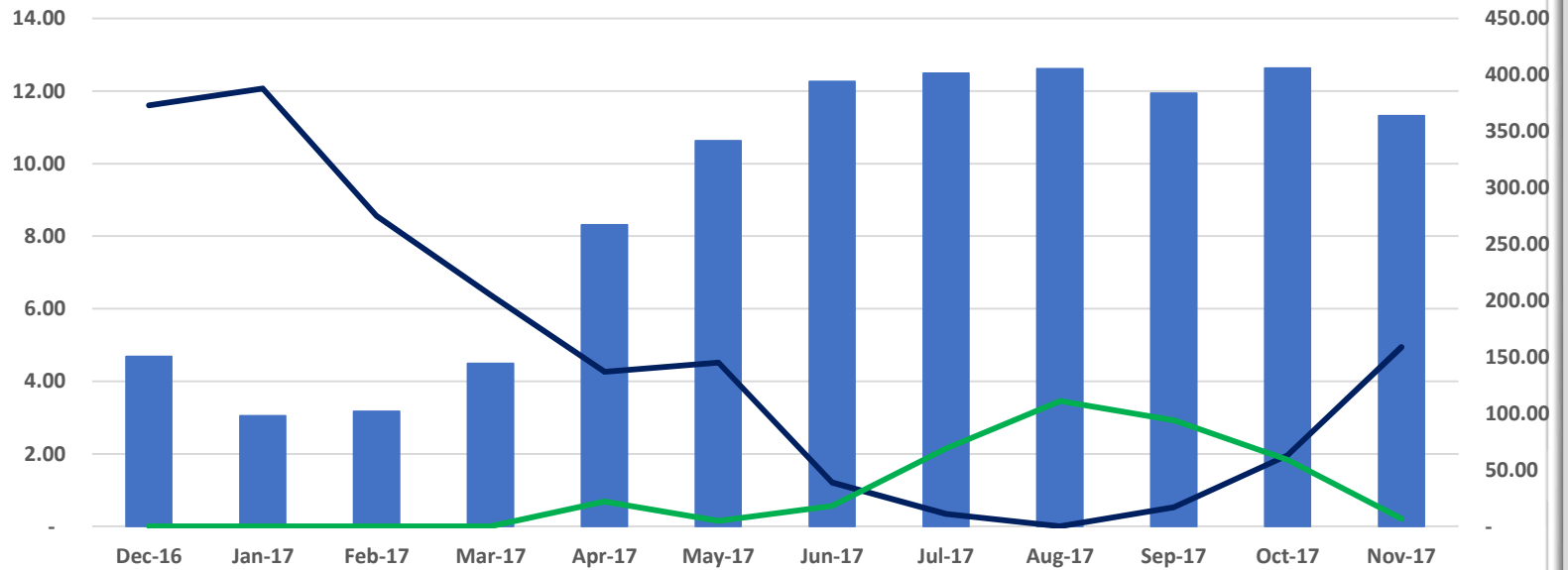
Sales / Average Temperature





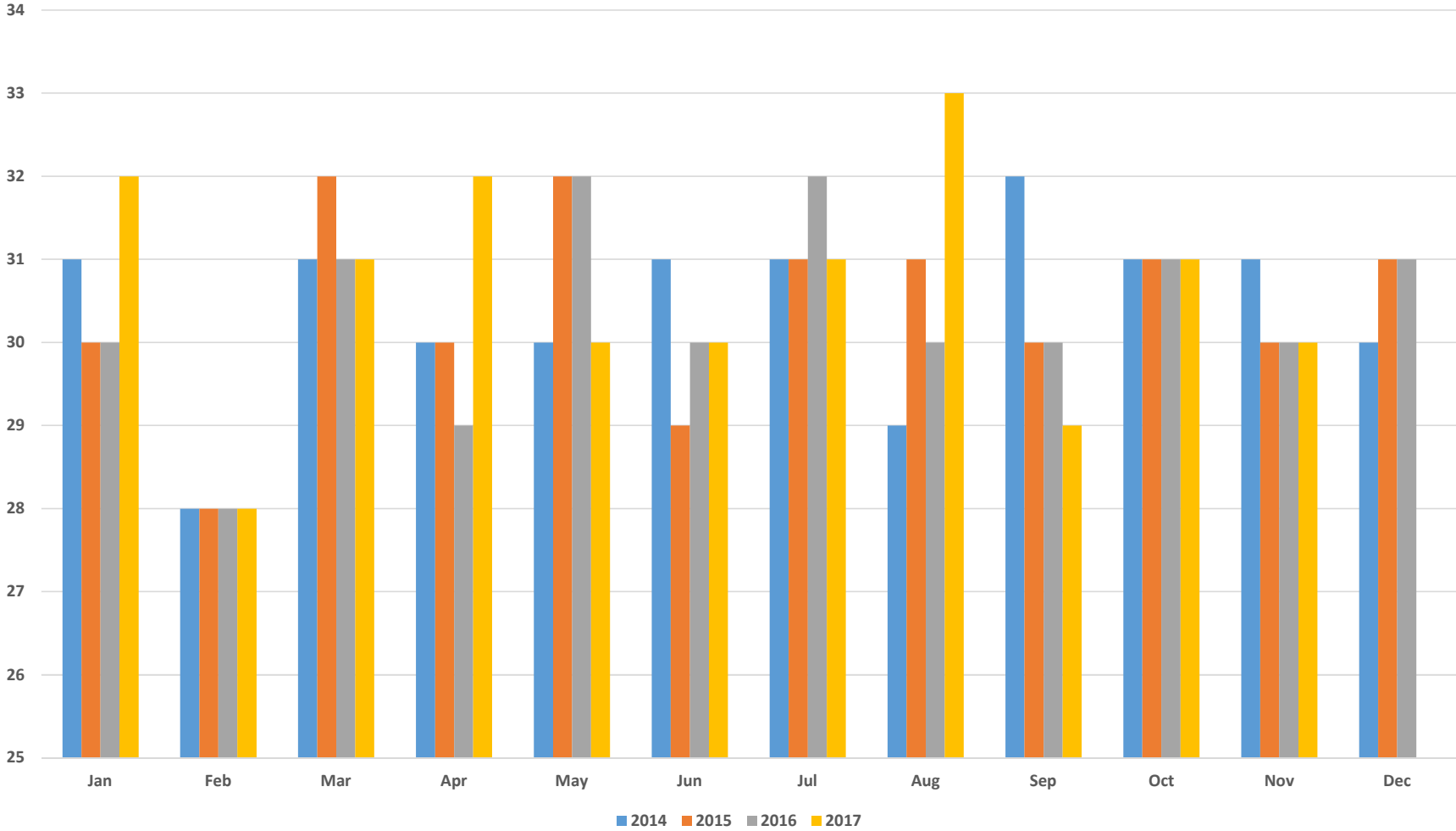
11/30/2017

Average Daily Sales - Degree Days (Base 65)

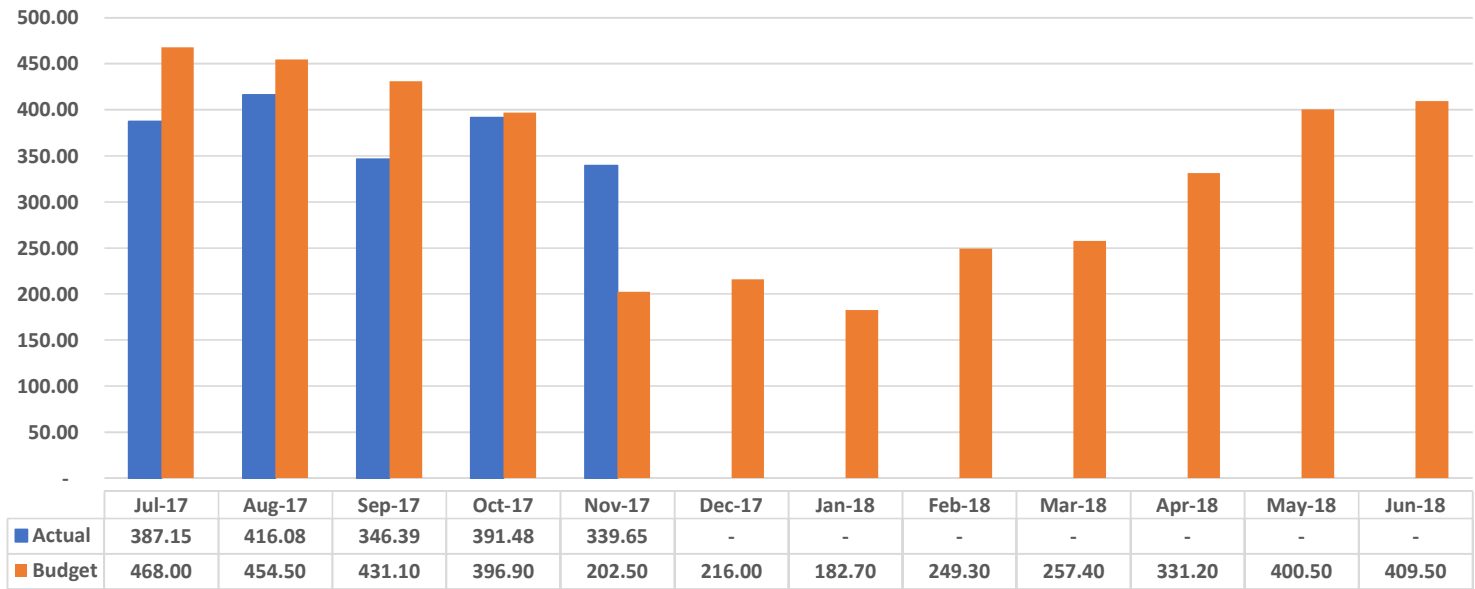


	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Average Daily Sales	4.68	3.05	3.17	4.49	8.31	10.63	12.26	12.49	12.61	11.94	12.63	11.32
Heating Degree Days	373.00	388.00	275.00	205.00	137.00	145.00	39.00	11.00	-	17.00	63.00	159.00
Cooling Degree Days	-	-	-	-	22.00	5.00	18.00	69.00	111.00	94.00	59.00	7.00

Billing Days per Month



Water Sales in AF (in AF)



**MONTECITO WATER DISTRICT
WATER SALES ANALYSIS
FOR FISCAL YEAR 2017/18**

MONTH	% SALES BREAKDOWN	2016/17 ACTUAL SALES (*)		2017/18 BUDGET SALES		2017/18 ACTUAL SALES (*)		YTD VARIANCE PRIOR YEAR VS. CURRENT YEAR				YTD VARIANCE BUDGET VS. ACTUAL			
		AF	\$	AF	\$	AF	SALES	AF	%	\$	%	AF	%	\$	%
JUL	11.6%	377.4	898,395	468.0	\$1,114,126	387.1	\$909,119	9.7	2.6%	\$10,724	1.2%	(80.9)	(17.3%)	(205,007)	(18.4%)
AUG	11.2%	378.7	897,501	454.5	\$1,077,194	416.1	\$997,265	37.4	9.9%	\$99,764	11.1%	(38.4)	(8.4%)	(79,929)	(7.4%)
SEP	10.7%	362.5	865,208	431.1	\$1,028,830	346.4	\$828,165	(16.1)	(4.4%)	-\$37,043	(4.3%)	(84.7)	(19.6%)	-\$200,665	(19.5%)
OCT	9.9%	345.5	824,021	396.9	\$946,534	391.5	\$933,549	46.0	13.3%	\$109,528	13.3%	(5.4)	(1.4%)	-\$12,985	(1.4%)
NOV	5.0%	239.9	567,578	202.5	\$479,064	339.6	\$815,859	99.7	41.6%	\$248,281	43.7%	137.1	67.7%	\$336,795	70.3%
DEC	5.3%	145.0	343,009	216.0	\$510,956	0.0	\$0	0.0	0.0%	\$0	0.0%	0.0	0.0%	\$0	0.0%
JAN	4.7%	97.6	239,823	182.7	\$448,968	0.0	\$0	0.0	0.0%	\$0	0.0%	0.0	0.0%	\$0	0.0%
FEB	6.4%	88.8	218,446	249.3	\$613,435	0.0	\$0	0.0	0.0%	\$0	0.0%	0.0	0.0%	\$0	0.0%
MAR	6.4%	139.1	332,989	257.4	\$615,911	0.0	\$0	0.0	0.0%	\$0	0.0%	0.0	0.0%	\$0	0.0%
APR	8.2%	266.0	612,907	331.2	\$785,317	0.0	\$0	0.0	0.0%	\$0	0.0%	0.0	0.0%	\$0	0.0%
MAY	10.6%	318.9	743,836	400.5	\$1,013,272	0.0	\$0	0.0	0.0%	\$0	0.0%	0.0	0.0%	\$0	0.0%
JUN	10.0%	367.8	871,971	409.5	\$955,734	0.0	\$0	0.0	0.0%	\$0	0.0%	0.0	0.0%	\$0	0.0%
TOTAL	100.0%	3,127.2	7,415,684	3,999.6	\$9,589,341	1,880.7	\$4,483,957	176.7	10.4%	\$431,254	10.6%	(72.3)	(3.7%)	(\$161,791)	(3.5%)

**YTD ACTUAL WATER SALES COMPARISON
FOR FISCAL YEAR 2017/18**

	2016/17 ACTUAL SALES (YTD)		2017/18 BUDGET SALES (YTD)		2017/18 ACTUAL SALES (YTD)		YTD VARIANCE PRIOR YEAR VS. CURRENT YEAR				YTD VARIANCE BUDGET VS. ACTUAL			
	AF	\$	AF	\$	AF	\$	AF	%	\$	%	AF	%	\$	%
Cummulative (YTD)	1,704.0	4,052,703	1,953.0	\$4,645,748	1,880.7	\$4,483,957	176.7	10.4%	\$431,254	10.6%	(72.3)	(3.7%)	(\$161,791)	(3.5%)

QUARTERLY COMPARISON - ACTUALS THROUGH NOVEMBER 2017 (*)

	2016/17 ACTUAL SALES		2017/18 BUDGET SALES		2017/18 ACTUAL SALES (*)		VARIANCE PRIOR YEAR VS. CURRENT YEAR				VARIANCE BUDGET VS. ACTUAL			
	AF	\$	AF	\$	AF	\$	AF	%	\$	%	AF	%	\$	%
Jul-Sep (Actual)	1,118.6	\$2,661,104	1,353.6	\$3,220,150	1,149.6	\$2,734,549	31.0	2.8%	\$73,445	2.8%	(204.0)	(15.1%)	(\$485,601)	(15.1%)
Oct-Dec (Actual)	730.4	1,734,608	815.4	1,936,554	731.1	\$1,749,408	0.7	0.1%	\$14,800	0.9%	(84.3)	(10.3%)	(\$187,146)	(9.7%)
Jan-Mar (Actual)	325.5	791,258	689.4	1,678,314	0.0	\$0	0.0	0.0%	\$0	0.0%	0.0	0.0%	\$0	0.0%
Apr-Jun (Actual)	952.7	2,228,714	1,141.2	2,754,323	0.0	\$0	0.0	0.0%	\$0	0.0%	0.0	0.0%	\$0	0.0%
Total (Actual)	3,127.2	\$7,415,684	3,999.6	\$9,589,341	1,881.0	\$4,483,957	31.7	10.4%	\$88,245	10.6%	(288.3)	(3.7%)	(\$672,747)	(3.5%)

(*) Sales figures reported are as of the close of billing for that period and do not reflect final financial amounts. Budgeted amounts are used prior to actual figures being available for comparative purposes

**MONTECITO WATER DISTRICT
METERED WATER SALES - ACRE FEET
ACTUALS THROUGH NOVEMBER 2017 (*)**

MONTH	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YR TOTAL
1996-97	541.74	608.10	490.40	441.30	240.80	167.50	146.40	253.70	405.00	527.50	616.60	535.40	4974.44
1997-98	627.20	629.90	624.60	590.00	235.40	179.90	159.40	128.70	186.06	242.03	290.00	415.40	4308.59
1998-99	567.80	566.30	447.60	548.00	352.67	297.30	279.40	202.90	252.80	310.00	440.10	547.97	4812.84
1999-00	656.44	621.80	542.90	541.00	341.90	501.30	285.90	146.30	288.20	329.59	529.63	556.20	5341.16
2000-01	574.40	719.30	568.50	368.20	381.30	364.00	224.90	162.00	257.00	318.60	438.00	534.20	4910.40
2001-02	571.70	631.20	501.40	436.70	214.10	191.70	235.20	331.20	378.90	499.80	655.70	586.40	5234.00
2002-03	714.96	691.72	572.91	543.09	316.16	228.56	323.44	236.50	312.70	372.00	423.10	458.72	5193.86
2003-04	707.18	677.68	675.26	528.96	286.21	320.92	275.41	267.97	398.04	624.78	623.60	668.60	6054.61
2004-05	693.71	763.52	753.31	408.50	367.50	301.60	158.00	195.30	189.00	516.50	493.40	607.50	5447.84
2005-06	659.00	695.60	656.00	413.00	372.00	294.80	265.08	345.20	180.50	203.40	357.30	623.30	5065.18
2006-07	681.40	707.50	606.70	540.80	530.70	359.80	415.50	201.10	462.90	469.10	703.00	655.00	6333.50
2007-08	739.40	832.60	642.00	594.20	509.30	328.80	188.00	212.00	474.10	629.00	694.00	675.00	6518.40
2008-09	798.00	724.64	633.87	674.67	384.67	225.41	325.87	159.67	370.15	504.98	596.33	566.11	5964.37
2009/10	742.30	631.10	657.00	458.30	445.12	227.74	190.35	139.34	294.99	348.93	571.75	538.61	5245.53
2010/11	538.41	727.65	548.36	380.37	305.68	190.81	200.96	261.47	203.60	366.94	544.19	447.14	4715.58
2011/12	617.27	555.95	610.01	446.47	294.66	316.66	337.17	394.72	371.30	271.33	504.24	582.64	5302.42
2012/13	638.77	712.13	681.09	650.89	415.54	149.43	240.86	311.99	388.90	536.67	601.32	617.82	5945.40
2013/14	697.66	730.90	684.30	662.58	496.06	378.50	530.73	357.85	206.59	305.52	373.14	352.27	5776.10
2014/15	362.48	360.73	368.36	345.56	233.41	166.23	158.11	188.53	227.57	308.96	300.16	311.07	3331.17
2015/16	353.90	371.40	373.74	342.06	293.71	289.17	139.62	178.14	172.29	273.55	308.50	343.65	3439.73
2016/17	377.38	378.68	362.54	345.53	239.92	145.00	97.59	88.78	139.09	266.01	318.90	367.79	3127.21
2017/18	387.15	416.08	346.39	391.48	339.65								1880.75
AVERAGE	602.19	625.20	561.24	484.17	345.29	267.86	246.57	226.83	293.32	391.68	494.43	523.37	5097.25
MAXIMUM	798.00	832.60	753.31	674.67	530.70	501.30	530.73	394.72	474.10	629.00	703.00	675.00	6518.40
MINIMUM	353.90	360.73	346.39	342.06	214.10	145.00	97.59	88.78	139.09	203.40	290.00	311.07	1880.75
17/18 % VS AVERAGE	64%	67%	62%	81%	98%	0%	0%	0%	0%	0%	0%	0%	37%
17/18 % VS MAXIMUM	49%	50%	46%	58%	64%	0%	0%	0%	0%	0%	0%	0%	29%

Total METER Connections = **4,604**

**MONTECITO WATER DISTRICT
MEMORANDUM**

SECTION: 3-B

DATE: JANUARY 9, 2018

TO: FINANCE COMMITTEE

FROM: BUSINESS MANAGER

SUBJECT: FISCAL YEAR 2016/17 AUDITED FINANCIAL STATEMENTS

RECOMMENDATION:

To review, discuss and provide to the Board of Directors for approval the Audited Financial Statements for the Fiscal Year Ending June 30, 2017.

BACKGROUND:

The Audited Financial Statements for the Fiscal Year Ending June 30, 2017 (2016/17 audit) are attached. The audited financial statements include the basic financial statements, the Independent Auditor's Report, and the notes to the financial statements. The Management Discussion and Analysis and the required supplemental information, on which the auditor does not express an opinion, accompany the financial statements.

An independent audit report is required by the State Controller's office, Bond Trustees, JPA agreements, and rating agencies for the issuance of debt. An independent audit assures a level of accountability for the District's financial position. As stated in the United States Government Accountability Office publication Government Auditing Standards, "Government auditing is essential in providing accountability to legislators, oversight bodies, those charged with governance, and the public. Audits provide an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations, depending upon the type and scope of the audit."

The 2016/17 fiscal year is the second year of the District's contract with the accounting firm Moss, Levy & Hartzheim LLP, (the Auditor) to perform the annual audit. Adam Guise is the manager who is responsible for performing the audit of the District's financial statements.

In working with Mr. Guise, the Finance Committee and staff have been informed with regard to changes occurring Statewide regarding the reporting of unfunded liabilities and changes in general operating and reporting policies.

DISCUSSION:

To review the audit report and have discussion and answer period with the audit manager, Adam Guise.

AUDITOR'S OPINION

The Auditor's opinion, stated in the third section on page 1 of the Independent Auditors Report, is the fundamental element of the Audited Financial Statements and is the Auditor's opinion of the presentation of the financial statements. The Auditor has issued an unqualified opinion on the District's basic financial statements as follows:

"In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Montecito Water District as of June 30, 2017, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America."

This is the best type of opinion that an entity may receive from an external auditor and means the following:

- That the Auditor provides reasonable assurance that there are no material misstatements within the Financial Statements and that they are represented fairly in accordance with Generally Accepted Accounting Principles in the United States of America and have been consistently applied.
- The Financial Statements comply with relevant statutory requirements and regulations.
- There is adequate disclosure of all material matters relevant to the proper presentation of the financial information subject to statutory requirements, where applicable.

FINANCIAL STATEMENTS

The Basic Financial Statements include the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

REQUIRED SUPPLEMENTARY INFORMATION – RETIREMENT BENEFITS

Supplemental information regarding retirement benefits is required to be reported along with the Audited Financial Statements. The Auditor does not express an opinion on this information. These schedules can be found on pages 36 through 38 of the audit report.

Accompanying Documents:

Management is required to provide a “Management’s Discussion and Analysis” report which is to be included in the audit report. The Management Discussion and Analysis report presents financial highlights, comments on the required financial statements and would report on conditions affecting the current financial position.

Once the audited financial statements are approved by the Board, the District will distribute the report to the various agencies and organizations that require them.

MONTECITO WATER DISTRICT

FINANCIAL STATEMENTS

June 30, 2017

MONTECITO WATER DISTRICT
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June 30, 2017

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Montecito Water District
Montecito, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Montecito Water District (District) as of and for the fiscal year ended June 30, 2017, and the related notes to the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Montecito Water District, as of June 30, 2017, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the Schedule of Funding Progress for Post Employment Benefits Other than Pensions on page 36, the Schedule of Proportionate Share of Net Pension Liability on page 37, and the Schedule of Pension Contributions on page 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We previously audited the Montecito Water District's 2016 financial statements, and expressed an unmodified audit opinion on those audited financial statements in the report dated February 16, 2017. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2016, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report November 29, 2017, on our consideration of the Montecito Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Remy & Haugheim LLP

Santa Maria, California
November 29, 2017

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Montecito Water District (District) provides an introduction to the financial statements of the District for the years ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

In 2017, the District's net position increased 13.49% or \$3,476,017, from \$25,776,888 to \$29,252,905, primarily due to a decrease in operating expenses relating to supplemental water purchases and a special item gain of \$552,578 relating to the class action suit. In 2016, the District's net position increased 4.04% or \$1,001,723, from \$24,775,165 to \$25,776,888, as a result of operations.

In 2017, the District's operating revenues decreased 7.37% or \$1,479,673, due to a decrease of \$1,571,145 in Ordinance 94 penalty revenue resulting from the District's decision in March 2017 to suspend penalties. In 2016, the District's operating revenues increased 33.82% or \$5,071,544, primarily due to an increase of \$4,110,989 in Water Shortage Emergency Surcharge revenue as a result of an increase in the per unit rate of \$1.87 to \$3.45 in September 2015.

In 2017, the District's operating expenses decreased 9.36% or \$1,495,207, primarily due to a decrease of \$1,306,414 in supplemental water purchases. In 2016, the District's operating expenses increased 3.27% or \$507,235, primarily due to an increase of \$1,332,835 in source of supply costs and a decrease of \$588,954 in water treatment expense.

Required Financial Statements

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

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

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the

Montecito Water District
Management's Discussion and Analysis

For the Fiscal Years Ended June 30, 2017 and 2016

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 35.

Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, the net position is \$29,252,905 and \$25,776,888 as of June 30, 2017 and 2016, respectively.

The largest portion of the District's net position, (41% and 46% as of June 30, 2017 and 2016, respectively), reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending. See note 5 for further information.

	2017	2016	2017-2016 Change	2015	2016-2015 Change
Assets:					
Current assets	\$ 25,342,382	\$ 22,193,269	\$ 3,149,113	\$ 18,285,809	\$ 3,907,460
Capital assets, net	32,367,622	32,594,685	(227,063)	33,768,012	(1,173,327)
Total assets	57,710,004	54,787,954	2,922,050	52,053,821	2,734,133
Deferred outflows of resources	1,116,776	296,553	820,223	262,957	33,596
Liabilities:					
Current liabilities	1,715,879	1,229,429	486,450	1,117,010	112,419
Non-current liabilities	27,334,612	27,407,307	(72,695)	25,522,653	1,884,654
Total liabilities	29,050,491	28,636,736	413,755	26,639,663	1,997,073
Deferred inflows of resources	523,384	670,883	(147,499)	901,950	(231,067)
Net Position:					
Net investment in capital assets	12,072,809	11,822,865	249,944	12,529,647	(706,782)
Restricted	3,651,547	3,971,642	(320,095)	3,251,355	720,287
Unrestricted	13,528,549	9,982,381	3,546,168	8,994,163	988,218
Total net position	\$ 29,252,905	\$ 25,776,888	\$ 3,476,017	\$ 24,775,165	\$ 1,001,723

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

Statements of Net Position, continued

At the end of fiscal years 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$13,528,549 and \$9,982,381, respectively, which may be utilized in future years for operations and capital projects.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2017	2016	Change	2015	Change
Revenues:					
Operating revenues	\$ 18,583,907	\$ 20,063,580	\$ (1,479,673)	\$ 14,992,036	\$ 5,071,544
Non-operating revenues	169,870	192,136	(22,266)	1,195,282	(1,003,146)
Total Revenues	18,753,777	20,255,716	(1,501,939)	16,187,318	4,068,398
Expenses:					
Operating expenses	13,251,900	14,786,806	(1,534,906)	14,264,988	521,818
Depreciation and amortization	1,227,523	1,187,824	39,699	1,202,407	(14,583)
Non-operating expenses	1,443,268	2,430,843	(987,575)	1,250,826	1,180,017
Total Expenses	15,922,691	18,405,473	(2,482,782)	16,718,221	1,687,252
Net income before capital contributions	2,831,086	1,850,243	980,843	(530,903)	2,381,146
Capital contributions	92,353	143,788	(51,435)	77,326	66,462
Change in net position	2,923,439	1,994,031	929,408	(453,577)	2,447,608
Special item - legal settlement expense	552,578	(1,775,000)	2,327,578	-	(1,775,000)
Net position, beginning of year	25,776,888	24,775,165	1,001,723	28,540,975	(3,765,810)
Prior period adjustment	-	782,692	(782,692)	(3,312,233)	4,094,925
Net position, beginning of year - as restated	25,776,888	25,557,857	219,031	25,228,742	329,115
Net position, end of year	\$ 29,252,905	\$ 25,776,888	\$ 3,476,017	\$ 24,775,165	\$ 1,001,723

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the years. In the case of the District, net position increased \$3,476,017 and increased \$1,001,723 for the fiscal years ended June 30, 2017 and 2016, respectively.

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

In 2017, the District's total revenues decreased by 7.4%, or \$1,501,939, primarily due to an decrease in operating revenues of \$1,479,673, as the result of an extreme weather event in early 2017 bringing over 21 inches of much needed rainfall. Water consumption sales decreased by 2.4%, or \$181,533 over the prior year. Ordinance 94 drought penalty charge revenue decreased \$1,571,145 as a result of the board of directors voting to suspend such penalties in March 2017. The District reversed a prior year accrual of \$1,775,000 by \$552,578 to reflect a decrease in anticipated costs relating to the class action lawsuit and related legal fees. See Note 12 for further information.

In 2016, the District's total revenues increased by 25.1%, or \$4,068,398, primarily due to an increase in operating revenues of \$5,071,544, as the result of a full year of Water Shortage Emergency Surcharge. Water consumption sales increased by 13.3%, or \$900,162 over the prior year. The District accrued \$1,775,000 for anticipated costs relating to a class action lawsuit and related legal fees. See Note 12 for further information.

In 2017, the District's total expenses decreased by 13.5%, or \$2,482,782, due to a decrease in supplemental water purchases of \$1,306,414 and a special item expense decrease of \$552,578 relating to the reduction of a prior year accrual for anticipated costs of the class action suit against the District.

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

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

Total Revenues

	2017	2016	Change	2015	Change
Operating revenues:					
Water consumption sales	\$ 7,470,909	\$ 7,652,442	\$ (181,533)	\$ 6,752,280	\$ 900,162
Monthly service charge	4,266,806	3,976,816	289,990	4,051,793	(74,977)
Ordinance 93 - drought penalty charge	1,942,324	3,513,469	(1,571,145)	3,402,310	111,159
Water shortage emergency surcharge	4,823,175	4,834,900	(11,725)	723,911	4,110,989
Other charges for services	80,693	85,953	(5,260)	61,742	24,211
Total operating revenue	18,583,907	20,063,580	(1,479,673)	14,992,036	5,071,544
Non-operating revenue:					
Rental revenue	42,738	41,524	1,214	38,473	3,051
Picay hydroelectric power	3,844	5,055	(1,211)	18,269	(13,214)
Investment earnings	62,837	58,910	3,927	24,152	34,758
legal settlement	-	4,630	(4,630)	1,058,877	(1,054,247)
Other non-operating revenues	60,452	82,017	(21,565)	55,511	26,506
Total non-operating revenue	169,871	192,136	(22,265)	1,195,282	(1,003,146)
Total revenues	18,753,778	20,255,716	(1,501,938)	16,187,318	4,068,398

Total Expenses

Operating expenses:					
Source of supply - water purchases	7,298,424	7,596,245	(297,821)	7,408,089	188,156
Source of supply - drought water purchases	764,364	2,070,778	(1,306,414)	1,159,420	911,358
Source of supply - operational costs	147,220	157,974	(10,754)	124,542	33,432
Pumping	263,169	333,909	(70,740)	295,690	38,219
Water treatment - operation costs	855,799	744,337	111,462	1,133,402	(389,065)
Transmission and distribution	1,410,833	1,268,839	141,994	1,432,593	(163,754)
Customer service and meter reading	370,498	383,887	(13,389)	397,642	(13,755)
General and administrative	2,141,593	2,230,837	(89,244)	2,313,610	(82,773)
Total operating expenses	13,251,900	14,786,806	(1,534,906)	14,264,988	521,818
Depreciation - capital recovery	1,227,523	1,187,824	39,699	1,202,407	(14,583)
Non-operating expenses:					
Interest expense	856,748	1,212,491	(355,743)	877,462	335,029
Cater treatment plant ozone debt	231,647	231,647	-	231,647	-
Cater treatment plant - ozone project obligation	276,297	276,035	262	125,402	150,633
Joint-project cost commitments	131,500	8,675	122,825	69,240	(60,565)
Loss on disposition of capital projects	-	754,918	(754,918)	-	754,918
Amortization of debt premium	(52,923)	(52,923)	-	(52,925)	2
Total non-operating expense	1,443,269	2,430,843	(987,574)	1,250,826	1,180,017
Total Expenses	\$ 15,922,692	\$ 18,405,473	\$ (2,482,781)	\$ 16,718,221	\$ 1,687,252

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

Capital Asset Administration

At the end of fiscal year 2017 and 2016, the District's investment in capital assets amounted to \$32,367,622 and \$32,594,685, respectively, (net of accumulated depreciation and amortization). This investment in capital assets includes land, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles, and construction-in-process. Major capital assets additions during the year included upgrades to the Bella Vista treatment plant, the transmission and distribution system, machinery and equipment, reservoirs and storage tanks, and structures and improvements. See Note 5 for further information.

Changes in capital assets amounts for 2017 were as follows:

	Balance	2016	Additions	Transfers / Deletions	Balance	2017
Capital assets:						
Non-depreciable assets	\$	194,223	\$ 779,084	\$ (348,246)	\$	625,061
Depreciable assets		55,641,432	221,376	348,246		56,211,054
Accumulated depreciation		(23,240,970)	(1,227,523)	-		(24,468,493)
Total capital assets, net	\$	<u>32,594,685</u>	\$ <u>(227,063)</u>	\$ -	\$	<u>32,367,622</u>

Changes in capital assets amounts for 2016 were as follows:

	Balance	2015	Additions	Transfers / Deletions	Balance	2016
Capital assets:						
Non-depreciable assets	\$	832,045	\$ 739,769	\$ (1,377,591)	\$	194,223
Depreciable assets		55,251,438	29,646	360,348		55,641,432
Accumulated depreciation		(22,315,471)	(1,187,824)	262,325		(23,240,970)
Total capital assets, net	\$	<u>33,768,012</u>	\$ <u>(418,409)</u>	\$ (754,918)	\$	<u>32,594,685</u>

Montecito Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

Debt Administration

	Balance 2016	Additions	Transfers / Deletions	Balance 2017
Long-term debt:				
Bond payable	\$ 14,047,940	\$ -	\$ (52,924)	\$13,995,016
Loan payable	6,723,880	-	(424,083)	6,299,797
OPEB payable	683,762	124,893	(27,725)	780,930
Net pension liability	2,825,954	1,627,109	(655,653)	3,797,410
Total long-term debt	<u>\$ 24,281,536</u>	<u>\$1,752,002</u>	<u>\$ (1,160,385)</u>	<u>\$24,873,153</u>

Changes in long-term debt amounts for 2016 were as follows:

	Balance 2015	Additions	Transfers / Deletions	Balance 2016
Long-term debt:				
Bond payable	\$ 14,100,863	\$ -	\$ (52,923)	\$14,047,940
Loan payable	7,137,502	-	(413,622)	6,723,880
OPEB payable	583,677	120,389	(20,304)	683,762
Net pension liability	2,684,006	1,383,800	(1,241,852)	2,825,954
Total long-term debt	<u>\$ 24,506,048</u>	<u>\$1,504,189</u>	<u>\$ (1,728,701)</u>	<u>\$24,281,536</u>

(See note 6 for further discussion)

Conditions Affecting Current Financial Position

Management is unaware of any conditions at June 30, 2017, that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Tom Sheil, Business Manager of Montecito Water District, 583 San Ysidro Road, Santa Barbara, California, 93108 – (805) 969-2271.

MONTECITO WATER DISTRICT
STATEMENT OF NET POSITION - ENTERPRISE FUND
June 30, 2017
With Comparative Totals for June 30, 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current:		
Cash and investments	\$ 11,332,580	\$ 8,594,206
Restricted - cash and investments	3,651,547	3,971,642
Receivables:		
Accounts receivable - water sales and services, net	1,757,765	2,011,352
Accounts receivable - other	281,384	78,407
Accrued interest	9,284	18,844
Materials and supplies inventory	247,780	233,315
Prepaid water charges	7,942,240	7,235,960
Prepaid expenses and other deposits	119,802	49,543
Total Current Assets	<u>25,342,382</u>	<u>22,193,269</u>
Noncurrent:		
Capital assets - not being depreciated	625,061	194,223
Capital assets - being depreciated, net	31,742,561	32,400,462
Total Noncurrent Assets	<u>32,367,622</u>	<u>32,594,685</u>
Total Assets	<u>57,710,004</u>	<u>54,787,954</u>
Deferred Outflows of Resources		
Deferred pensions	1,116,776	296,553
Total Deferred Outflows of Resources	<u>1,116,776</u>	<u>296,553</u>
Liabilities		
Current:		
Accounts payable and accrued expenses	930,303	470,857
Accrued wages and related payables	54,765	37,007
Unearned revenue and other deposits	31,566	19,381
Accrued interest payable	345,180	345,231
Long-term liabilities - due within one year:		
Accrued compensated absences	85,095	93,312
Bonds payable	52,924	52,924
Loan payable	216,046	210,717
Total Current Liabilities	<u>1,715,879</u>	<u>1,229,429</u>
Noncurrent:		
Accrued compensated absences	255,286	279,937
Accrued water exchange transfer	1,334,475	1,334,475
Bonds payable	13,942,092	13,995,016
Loan payable	6,083,751	6,513,163
Legal settlement payable	1,140,668	1,775,000
Other post-employment benefits payable	780,930	683,762
Net pension liability	3,797,410	2,825,954
Total Noncurrent Liabilities	<u>27,334,612</u>	<u>27,407,307</u>
Total Liabilities	<u>29,050,491</u>	<u>28,636,736</u>
Deferred Inflows of Resources		
Deferred pensions	523,384	670,883
Total Deferred Inflows of Resources	<u>523,384</u>	<u>670,883</u>
Net Position		
Net investment in capital assets	12,072,809	11,822,865
Restricted - water agreements and debt reserve	3,651,547	3,971,642
Unrestricted	13,528,549	9,982,381
Total Net Position	<u>\$ 29,252,905</u>	<u>\$ 25,776,888</u>

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

MONTECITO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2017
With Comparative Totals for the Fiscal Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Water consumption sales	\$ 7,470,909	\$ 7,652,442
Monthly service charge	4,266,806	3,976,816
Ordinance No. 93/94 - drought penalty charge	1,942,324	3,513,469
Water shortage emergency surcharge	4,823,175	4,834,900
Other charges for services	80,693	85,953
	<u>18,583,907</u>	<u>20,063,580</u>
Operating Expenses:		
Source of supply - water purchases	7,298,424	7,596,245
Source of supply - drought water purchases	764,364	2,070,778
Source of supply - operational costs	147,220	157,974
Pumping	263,169	333,909
Water treatment - operational costs	855,799	744,337
Transmission and distribution	1,410,833	1,268,839
Customer service and meter reading	370,498	383,887
General and administrative	2,141,593	2,230,837
Depreciation	1,227,523	1,187,824
Total operating expenses	<u>14,479,423</u>	<u>15,974,630</u>
Operating income (loss)	<u>4,104,484</u>	<u>4,088,950</u>
Nonoperating Revenues (Expenses):		
Rental revenue	42,738	41,524
Picay hydroelectric power	3,844	5,055
Investment earnings	62,837	58,910
Interest expense	(856,748)	(1,212,491)
Cater treatment plant obligation	(231,647)	(231,647)
Cater treatment plant - ozone project obligation	(276,297)	(276,035)
Joint-project cost commitments	(131,500)	(8,675)
Amortization of debt premium	52,924	52,923
Legal settlement		4,630
Loss on disposal of capital assets		(754,918)
Other non-operating revenues	60,451	82,017
Total nonoperating revenues (expenses)	<u>(1,273,398)</u>	<u>(2,238,707)</u>
Income (loss) before capital contributions	<u>2,831,086</u>	<u>1,850,243</u>
Capital contributions		
Capital contributions	71,130	118,550
Connection fees	21,223	25,238
Total capital contributions	<u>92,353</u>	<u>143,788</u>
Change in net position prior to Special Items	2,923,439	1,994,031
Special Items		
Legal settlement gain/(expense)	<u>552,578</u>	<u>(1,775,000)</u>
Change in net position	<u>3,476,017</u>	<u>219,031</u>
Net position, beginning of fiscal year	25,776,888	24,775,165
Prior period adjustment		782,692
Net position, beginning of fiscal year - restated	<u>25,776,888</u>	<u>25,557,857</u>
Net position, end of fiscal year	<u>\$ 29,252,905</u>	<u>\$ 25,776,888</u>

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

MONTECITO WATER DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2017
With Comparative Totals for the Fiscal Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 18,634,517	\$ 19,551,557
Payments to suppliers	(10,588,674)	(10,458,937)
Payments to employees	(2,896,807)	(3,090,019)
	<u>5,149,036</u>	<u>6,002,601</u>
Net cash provided (used) by operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,000,460)	(769,415)
Proceeds from capital contributions	92,353	143,788
Principal paid on long-term debt	(424,083)	(413,622)
Interest paid on long-term debt	(856,799)	(867,260)
	<u>(2,188,989)</u>	<u>(1,906,509)</u>
Net cash provided (used) by capital financing and related activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rental revenue	42,738	41,524
Picay hydroelectric power	3,844	5,055
Cater treatment plant obligation	(231,647)	(231,647)
Cater treatment plant - ozone project obligation	(276,297)	(276,035)
Joint-project cost commitments	(131,500)	(8,675)
Legal settlement	(81,754)	4,630
Other non-operating income, net	60,451	82,017
	<u>(614,165)</u>	<u>(383,131)</u>
Net cash provided (used) by noncapital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	72,397	45,542
	<u>72,397</u>	<u>45,542</u>
Net cash provided (used) by investing activities		
Net increase (decrease) in cash and cash equivalents	<u>2,418,279</u>	<u>3,758,503</u>
Cash and cash equivalents, July 1	12,565,848	8,462,114
Prior period adjustment		345,231
Cash and cash equivalents, July 1, restated	<u>12,565,848</u>	<u>8,807,345</u>
Cash and cash equivalents, June 30	<u>\$ 14,984,127</u>	<u>\$ 12,565,848</u>
Reconciliation to Statement of Net Position:		
Cash and investments - cash equivalents	\$ 11,332,580	\$ 8,594,206
Restricted cash and investments - cash equivalents	<u>3,651,547</u>	<u>3,971,642</u>
	<u>\$ 14,984,127</u>	<u>\$ 12,565,848</u>

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

MONTECITO WATER DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2017
With Comparative Totals for the Fiscal Year Ended June 30, 2016

	2017	2016
Reconciliation to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 4,104,484	\$ 4,088,950
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	1,227,523	1,187,824
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable	50,610	(512,023)
Materials and supplies inventory	(14,465)	(17,643)
Prepaid water charges	(706,280)	1,173,064
Prepaid expenses and other deposits	(70,259)	3,705
Deferred outflows	(820,223)	(33,596)
Accounts payables	459,446	(209,718)
Accrued wages and related payables	17,758	6,147
Unearned revenue and other deposits	12,185	(64,627)
Accrued water exchange transfer		460,489
Compensated absences	(32,868)	(90,937)
Net OPEB obligation	97,168	100,085
Net pension liability	971,456	141,948
Deferred inflows	(147,499)	(231,067)
	\$ 5,149,036	\$ 6,002,601
Net cash provided (used) by operating activities	\$ 5,149,036	\$ 6,002,601

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - REPORTING ENTITY

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

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

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

4. Accounts Receivable

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

5. Inventory

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

6. Prepaid Expenses

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

7. Restricted Assets

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

8. Capital Assets

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Capital Assets (Continued)

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

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

9. Compensated Absences

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

10. Pensions

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

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

- Valuation Date: June 30, 2015
- Measurement Date: June 30, 2016
- Measurement Period: July 1, 2015 to June 30, 2016

11. Deferred Outflows and Inflows of Resources

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

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

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. Net Position

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

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

13. Water Sales

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

14. Deposit Connection Fees

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

15. Capital Contributions

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

16. Budgetary Policies

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Future Accounting Pronouncements

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

Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 86	"Certain Debt Extinguishment Issues"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

D. Comparative Data/Totals Only

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

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

	2017	2016
Cash on hand	\$ 350	\$ 350
Deposits with financial institutions	2,533,277	1,077,697
Investments	12,450,500	11,487,801
	\$ 14,984,127	\$ 12,565,848

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

	2017	2016
Cash and investments	\$ 11,332,580	\$ 8,594,206
Restricted cash and investments	3,651,547	3,971,642
Total cash and investments	\$ 14,984,127	\$ 12,565,848

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

- Level 1 Investments are United States Treasury Notes with a market value of \$920,097.

Investments Authorized by the District's Investment Policy

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio *	Maximum Investment in One Issuer
State and Local Agency Bonds	5 years	100%	None
U.S. Treasury Obligations	5 years **	100%	None
U.S. Agency Obligations	5 years **	100%	None
Bankers' Acceptances	180 days	100%	30%
Commercial Paper — Pooled Funds	270 days	100%	10%
Commercial Paper — Non-pooled Funds	270 days	100%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	100%	None
Repurchase agreements	1 year	100%	None
Medium-Term Notes	5 years	100%	None
Mutual Funds and Money Market Mutual	N/A	100%	None
California Local Agency Investment Fund (LAIF)	N/A	100%	10%

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

** Except when authorized by the District's legislative body in accordance with Government Code Section 53601

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	2017 Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
CalTrust Medium Term Fund	\$ 8,798,953	\$ -	\$ 8,798,953	\$ -	\$ -
CCWA Investment Pool	1,851,860	1,851,860			
Held by bond trustee					
Money market funds	879,590	879,590			
United States Treasury Notes	920,097	483,927	436,170		
	<u>\$ 12,450,500</u>	<u>\$ 3,215,377</u>	<u>\$ 9,235,123</u>	<u>\$ -</u>	<u>\$ -</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

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

Disclosures Relating to Credit Risk

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

Investment Type	2017					
	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End			
			AAA	A+	Baa	Not Rated
Cal Trust Medium Term Trust	\$ 8,798,953	N/A	\$ -	\$ -	\$ -	\$ 8,798,953
CCWA Investment Pool	1,851,860					1,851,860
Held by bond trustee						
Money market funds	879,590					879,590
United States Treasury Notes	920,097		920,097			
	<u>\$ 12,450,500</u>		<u>\$ 920,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,530,403</u>

Investment Type	2016					
	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End			
			AAA	A+	Baa	Not Rated
State investment pool (LAIF)	\$ 7,516,159	N/A	\$ -	\$ -	\$ -	\$ 7,516,159
CCWA Investment Pool	1,585,798					1,585,798
Held by bond trustee						
Money market funds	954,168					954,168
United States Treasury Notes	1,431,676		1,431,676			
	<u>\$ 11,487,801</u>		<u>\$ 1,431,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,056,125</u>

Custodial Credit Risk

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

Collateral for Deposits

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - CASH AND INVESTMENTS (Continued)

Collateral for Deposits (Continued)

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

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

CalTRUST Investment Pool

The District is a voluntary participant in the Investment Trust of California (CalTRUST); a public joint powers authority formed to pool and invest the funds of public agencies. CalTRUST invests in fixed-income securities eligible for investment pursuant to California Government Code Sections 53601 and 53635. Investment guidelines adopted by the board of Trustees may further restrict the types of investments that are held by the Trust. Leveraging within the Trust's portfolios is prohibited. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by CalTRUST for the entire CalTRUST portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CalTRUST, which are recorded on an amortized cost basis.

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 2017, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability: The District has a \$500 deductible for general and auto liability. The District purchased additional excess coverage layers: \$60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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

- Employee dishonesty coverage and public officials' liability up to \$2,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud coverage's.
- Property loss/Boiler and Machinery is paid based on the replacement cost or actual cash value for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of \$150 million subject to a \$1,000 deductible per occurrence for most equipment. Equipment such as turbine units, internal combustion engines, electric generators and motors, pumps and transformers are subject to a \$25,000 to \$50,000 deductible.
- Workers' compensation insurance provides coverage with a self-insured retention limit of \$2 million for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2017, 2016 and 2015. 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, 2017, 2016 and 2015.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 and June 30, 2016 was as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers/Reclass	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 101,352	\$ -	\$ -	\$ -	\$ 101,352
Construction in progress	92,871	779,084		(348,246)	523,709
Total capital assets not being depreciated	\$ 194,223	\$ 779,084	\$ -	\$ (348,246)	\$ 625,061
Capital assets being depreciated:					
Transmission and distribution system	\$ 26,795,227	\$ 15,141	\$ -	\$ 263,588	\$ 27,073,956
Juncal dam	2,162,493	2,620			2,165,113
Wells and water sources	4,030,314				4,030,314
Water rights	142,234				142,234
Bella Vista treatment plant	5,751,656	22,142		20,100	5,793,898
Other treatment plants and facilities	344,294				344,294
Reservoirs and storage tanks	12,567,524	8,169		64,558	12,640,251
Meters and meter boxes	1,273,612				1,273,612
Structures and improvements	436,081				436,081
Machinery and equipment	2,137,997	173,304			2,311,301
Total depreciable assets	\$ 55,641,432	\$ 221,376	\$ -	\$ 348,246	\$ 56,211,054
Less accumulated depreciation					
Transmission and distribution system	(8,846,829)	(500,702)		(9,892)	(9,357,423)
Juncal dam	(1,465,953)	(24,170)			(1,490,123)
Wells and water sources	(3,111,319)	(107,466)			(3,218,785)
Water rights	(142,234)				(142,234)
Bella Vista treatment plant	(4,453,196)	(268,841)			(4,722,037)
Other treatment plants and facilities	(308,210)	(5,528)		9,892	(303,846)
Reservoirs and storage tanks	(1,830,643)	(152,245)			(1,982,888)
Meters and meter boxes	(923,867)	(65,687)			(989,554)
Structures and improvements	(295,100)	(6,963)			(302,063)
Machinery and equipment	(1,863,619)	(95,921)			(1,959,540)
Total accumulated depreciation	(23,240,970)	(1,227,523)	\$ -	\$ -	(24,468,493)
Total capital assets being depreciated, net	\$ 32,400,462	\$ (1,006,147)	\$ -	\$ 348,246	\$ 31,742,561
Net capital assets	\$ 32,594,685	\$ (227,063)	\$ -	\$ -	\$ 32,367,622

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS (Continued)

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 – LONG-TERM LIABILITIES

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2017 and June 30, 2016:

	Balance July 1, 2016	Additions	Deletions / Retirements	Balance June 30, 2017	Due Within One Year
Compensated absences	\$ 373,249	\$ 191,820	\$ (224,688)	\$ 340,381	\$ 85,095
Bonds payable:					
2010A Revenue COP	13,360,000			13,360,000	
2010A Revenue COP-premium	687,940		(52,924)	635,016	52,924
Total bonds payable	14,047,940		(52,924)	13,995,016	52,924
Loans payable:					
DWR - Ortega Loan	6,723,880		(424,083)	6,299,797	216,046
OPEB payable	683,762	124,893	(27,725)	780,930	
Net pension liability	2,825,954	1,627,109	(655,653)	3,797,410	
Total long-term liabilities	\$ 24,654,785	\$ 1,943,822	\$ (1,385,073)	\$ 25,213,534	\$ 354,065
	Balance July 1, 2015	Additions	Deletions / Retirements	Balance June 30, 2016	Due Within One Year
Compensated absences	\$ 464,186	\$ 190,972	\$ (281,909)	\$ 373,249	\$ 93,312
Bonds payable:					
2010A Revenue COP	13,360,000			13,360,000	
2010A Revenue COP-premium	740,863		(52,923)	687,940	52,924
Total bonds payable	14,100,863		(52,923)	14,047,940	52,924
Loans payable:					
DWR - Ortega Loan	7,137,502		(413,622)	6,723,880	210,717
OPEB payable	583,677	120,389	(20,304)	683,762	
Net pension liability	2,684,006	1,383,800	(1,241,852)	2,825,954	
Total long-term liabilities	\$ 24,970,234	\$ 1,695,161	\$ (2,010,610)	\$ 24,654,785	\$ 356,953

2010A Refunding Revenue Certificates of Participation

In 1998, \$13,690,000 of Series 1998A revenue certificates of participation were issued. Payments of interest only were due through fiscal year 2014. Annual principal payments of \$340,000 to \$1,290,000 plus interest were due for the years ending June 30, 2014 through June 30, 2027 with a true interest cost of 5.37% over the life of the bonds. On April 8, 2010, the District refinanced the 1998 COPs with the 2010A COPs.

In 2010, \$13,360,000 of Series 2010A Refunding Revenue Certificates of Participation were issued for the purpose of refinancing the Series 1998A Revenue Certificates of Participation. Scheduled annual interest payments are \$690,463 for the years ending June 30, 2010 through June 30, 2022. Annual principal payments of \$1,385,000 to \$1,990,000 plus interest are due beginning in fiscal year 2023 and ending in fiscal year 2030 with a true interest cost of 5.25% over the life of the bonds.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 – LONG-TERM LIABILITIES (Continued)

2010A Refunding Revenue Certificates of Participation (Continued)

Annual debt service payments are as follows:

Year	Principal	Interest	Total
2018	\$ -	\$ 690,463	\$ 690,463
2019		690,462	690,462
2020		690,463	690,463
2021		690,462	690,462
2022		690,463	690,463
2023-2027	7,690,000	2,522,131	10,212,131
2028-2030	5,670,000	457,013	6,127,013
Total	13,360,000	\$ 6,431,457	\$ 19,791,457
Less current			
Premium on debt	635,016		
Total non-current	\$ 13,995,016		

Department of Water Resources — Ortega Reservoir Improvement Project Contract

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

Annual debt service payments are as follows:

Year	Principal	Interest	Total
2018	\$ 216,046	\$ 79,163	\$ 295,209
2019	440,271	150,148	590,419
2020	451,406	139,014	590,420
2021	462,822	127,597	590,419
2022	474,527	115,893	590,420
2023-2027	2,558,830	393,266	2,952,096
2028-2030	1,695,895	75,363	1,771,258
Total	6,299,797	\$ 1,080,444	\$ 7,380,241
Less current	(216,046)		
Total non-current	\$ 6,083,751		

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

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

B. Funding Policy

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

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

For the year ended June 30, 2017, the District's ARC cost is \$124,893. The District's net OPEB payable obligation amounted to \$780,930 for the year ended June 30, 2017. The District contributed \$27,725 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2017.

	2017	2016
Annual required contribution (ARC)	\$ 118,059	\$ 118,059
Interest on net OPEB obligation	30,769	26,265
Adjustment to ARC	<u>(23,935)</u>	<u>(23,935)</u>
Annual OPEB cost	124,893	120,389
Contributions made	<u>(27,725)</u>	<u>(20,304)</u>
(Decrease) increase in net OPEB obligation	97,168	100,085
Net OPEB Obligation (asset) - Beginning of fiscal year	<u>683,762</u>	<u>583,677</u>
Net OPEB Obligation (asset) - end of fiscal year	<u>\$ 780,930</u>	<u>\$ 683,762</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB (obligation) asset for 2016-2017 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2017	\$ 124,893	\$ 27,725	22.2%	\$ 780,930
2016	120,389	20,304	16.9%	683,762
2015	115,904	16,227	14.0%	583,677

C. Funded Status and Funding Progress

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS (Continued)

C. Funded Status and Funding Progress (Continued)

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

D. Actuarial Methods and Assumptions

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

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

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

NOTE 8 – PENSION PLAN

A. General Information about the Pension Plan

Plan Description

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

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 – PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided

The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members and PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire Date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	8.880% + \$140,530	6.555% + \$193

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$312,822 for the fiscal year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$3,797,410 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2017, the District's proportion share of net pension liability for miscellaneous plans as of June 30, 2017, and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion-June 30, 2015	0.103007%
Proportion-June 30, 2016	0.109313%
Change-increase(decrease)	0.006306%

MONTECITO WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 – PENSION PLAN (Continued)

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

For the year ended June 30, 2017, the District recognized pension expense of \$316,556. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 312,822	\$ -
Changes in assumptions		88,369
Differences between expected and actual experience	9,341	3,166
Net difference between projected and actual earnings on retirement plan investments	662,632	
Difference in proportions	131,981	239,668
Differences in actual contributions and proportionate share of contributions		192,181
	<u>\$ 1,116,776</u>	<u>\$ 523,384</u>

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

\$312,822 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Fiscal Year Ending June 30,	Amount
2018	\$ (46,357)
2019	(13,052)
2020	161,401
2021	178,578
	<u>\$ 280,570</u>

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 – PENSION PLAN (Continued)

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

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter

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

Discount Rate

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

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 – PENSION PLAN (Continued)

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

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	<u>100.0%</u>		

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

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

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

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

	1% Decrease 6.65%	Discount Rate 7.65%	1% Increase 8.65%
District's proportionate share of the net pension plan liability	\$ 6,007,690	\$ 3,797,410	\$ 1,970,723

Pension Plan Fiduciary Net Position

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 – PENSION PLAN (Continued)

C. Payable to Pension Plan

At June 30, 2017, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

NOTE 9 – DEFERRED COMPENSATION SAVINGS PLAN

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

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

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

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

For the fiscal year ended June 30, 2017, the Montecito Water District (MWD), along with many other water agencies statewide, continued to face a serious water supply shortage crisis with Santa Barbara County in the fourth year of drought severity classified as "D4—exceptional drought".

In February 2014, the District declared a water shortage emergency by adopting Ordinance 93 establishing a mandatory water allocation/rationing program for all customer classifications and a new water service prohibition. Ordinance 93 was adopted to reduce excessive customer water usage due to: (1) four consecutive years of rainfall less than 50% of the seasonal average, and (2) to protect and extend the remaining water supply for public health and safety purposes. Ordinance 93 also includes a financial penalty as a customer conservation provision for customer monthly water use in excess of the customer monthly water supply allocation. The first occurrence of water consumed in excess of allocation during the water year (October — September) is subject to tiered rates plus a penalty premium of \$30 per HCF for that month. Subsequent water use, in excess of the monthly allocation, results in a penalty premium increase up to \$45 per HCF for that month. In March 2015, the Board passed Ordinance No. 94 which repealed Ordinance No. 93 and increased the allocation of water during the water shortage emergency, as well as, provide for penalty rates for consumption in excess of allocation. In March 2017, the Board approved a temporary suspension of the Ordinance 94 penalties. Subsequently, on August 23, 2017, the Board passed Ordinance 95 which fully repealed Ordinance 94, reclassified the drought severity to "D2-Severe Drought", and established updated water use restrictions.

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

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

These revenues have been utilized as follows:

	2017	2016
Ordinance No. 93/94 — drought penalty charge	\$ 1,942,324	\$ 3,513,469
Water Shortage Emergency (WSE) surcharge	4,823,175	4,834,900
Source of supply — drought water purchases		(2,070,778)
Drought related expenditures	(764,364)	
Net drought related revenue	6,001,135	6,277,591
Reserve for future liability — return water	(1,334,475)	(1,334,475)
Remaining underfunded reserve balance	N/A	N/A

NOTE 11 – STATE WATER CONTRACT

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

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

Each Santa Barbara State Water Project participant is required to pay to CCWA an amount equal to its share of total cost of "fixed project costs" and certain other costs in the proportion established in the Water Supply Agreement. This includes the Santa Barbara Project participant's share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operating and administrative costs.

Each Santa Barbara County Project participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. Each participant has agreed in its Water Supply Agreement to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year net revenues equal to 125% of the sum of (1) the payments required pursuant to the Water Supply Agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

CCWA is composed of eight members, all of which are public agencies. CCWA was organized and exists under a joint exercise of powers agreement among the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are apportioned between the entities based upon each entity's pro-rata share of the water provided by the project. The District's share of the project based upon number of acre-feet of water is 7.78% and entitles the District to 3,000 acre-feet of water per year from the SWP plus 300 acre-feet of drought capacity, depending upon the State's water allocation. Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

MONTECITO WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 – STATE WATER CONTRACT (Continued)

On October 1, 1992, CCWA sold \$177.1 million in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat State water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, a transmission system to deliver such water to the participating water purveyors and users within Santa Barbara County, and certain local improvements to the water systems of some of the participating purveyors. The District's share of bonds issued for this project is \$27.1 million.

In November 1996, CCWA sold \$198.0 million of revenue bonds at a true interest cost of 5.55% to defease CCWA's \$177.1 million 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173.0 million and Series B of \$25.0 million. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction and Reserve Funds upon completion of the construction of CCWA facilities. On June 25, 1998, the project was deemed complete and the Series B bonds were redeemed in October 1998. The District's share of the Series A bonds issued is \$28.7 million.

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

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

<u>Fiscal Year</u>	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Debt Service</u>	<u>Total</u>
2018	\$ 2,952,727	\$ 910,972	\$ 2,030,290	\$ 5,893,989
2019	2,901,162	1,150,400	2,021,235	6,072,797
2020	2,898,900	1,191,162	2,019,625	6,109,687
2021	3,003,182	1,233,693	2,017,176	6,254,051
2022	3,093,277		2,014,572	5,107,849
Thereafter	41,731,036			41,731,036
	<u>\$ 56,580,284</u>	<u>\$ 4,486,227</u>	<u>\$ 10,102,898</u>	<u>\$ 71,169,409</u>

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

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

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

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

NOTE 11 – STATE WATER CONTRACT (Continued)

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

Fiscal Year	Total
2018	\$ 5,893,989
2019	6,072,797
2020	6,109,687
2021	6,254,051
2022	5,107,849
Thereafter	41,731,036
	<u>\$ 71,169,409</u>

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES CACHUMA PROJECT

The United States Department of the Interior, Bureau of Reclamation ("USBR") entered into an agreement on September 12, 1949 with the Santa Barbara County Water Agency (the "County") and constructed the Cachuma Project on the Santa Ynez River. The District entered into an agreement with the County to purchase water from those facilities. The agreement fixes charges for water furnished to repay the capital costs, and to pay the costs to operate and maintain works and facilities at Lake Cachuma and Bradbury Dam. Both these contracts were renewed in 1995.

Cater Water Filtration Plant

The District currently obtains approximately 50% of its water supplies from the Cachuma Project. These surface water supplies are treated at the City of Santa Barbara's Cater Water Filtration Plant. The District entered into a joint powers agreement with the City of Santa Barbara, effective November 1, 2003, in which the District agreed to participate in a California Drinking Water State Revolving Fund contract financing totaling \$19.2 million to fund improvements required at the Cater Treatment plant. The District's annual payments for its share of the debt service are \$225,416 per year.

Cater Ozone Project

The District currently obtains approximately 50% of its water supplies from the Cachuma Project. These surface water supplies are treated at the City of Santa Barbara's Cater Water Filtration Plant. The District entered into a joint powers agreement with the City of Santa Barbara, effective November 1, 2003, in which the District agreed to participate in a California Drinking Water State Revolving Fund contract to fund improvements required at the Cater Treatment Plant. The District's annual payments for its share of the debt service are \$172,997 per year.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes that there are no legal matters that will materially affect its financial condition other than the Class Action below.

Class Action

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

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES CACHUMA PROJECT (continued)

Class Action (continued)

The parties attended a mediation on December 22, 2015 and reached a tentative settlement, which the Court preliminary approved on July 7, 2016. The final approval hearing occurred on August 8, 2017. The Court granted final approval. 1) the District will set aside up to \$1,862,250 to provide refunds to eligible class members who submit timely claims; 2) the refunds will be provided to existing customers via credits against future invoices over a seven-month period and to former customers via check; 3) if less than \$1,862,250 in refunds are claimed, the remaining balance will revert back to the District with no restrictions; and 4) the District will pay \$475,000 in attorneys' fees to the opposing counsel and will also bear the costs of class administration and notice. Based on the claims submitted in the fiscal year ended June 30, 2017, the District revised the claims estimate to \$665,668 which was wired to the Claims Administrator on October 18, 2017 with an additional \$35,000 fee to the Administrator for processing, reconciling, and reporting on all claims. Legal fees for opposing counsel of \$475,000 were distributed in August 2017. The District concluded that it would be more cost effective to issue checks to claimants who submitted valid claims as opposed to the payment methodology in item 2 above. The Court and opposing counsel agreed to this change. Checks to claimants were mailed in November 2017.

NOTE 13 – SPECIAL ITEMS

As of June 30, 2017, the final impact of the class action detailed in Note 12 will be settlement payments of \$665,668, Claims Administrator's fee of \$35,000 and \$475,000 in attorney's fees, for a total impact of \$1,175,668 which was less than the original estimate of \$1,775,000 as reported as of June 30, 2016.

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REQUIRED SUPPLEMENTARY INFORMATION

MONTECITO WATER DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS
OTHER THAN PENSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

SCHEDULE OF FUNDING PROGRESS

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

MONTECITO WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2017

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.01537%	0.01135%	0.01091%
Proportionate share of the net pension liability	\$ 3,797,410	\$ 2,825,954	\$ 2,684,006
Covered- employee payroll	\$ 1,767,276	\$ 2,098,340	\$ 1,984,673
Proportionate share of the net pension liability as percentage of covered-employee payroll	214.87%	134.68%	135.24%
Plan's total pension liability	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631
Plan's fiduciary net position	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

Notes to Schedule:

Changes in assumptions

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

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

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

MONTECITO WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2017

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

	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 312,822	\$ 282,023	\$ 226,841
Contribution in relation to the actuarially determined contributions	(312,822)	(282,023)	(226,841)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered- employee payroll	\$ 2,064,143	\$ 1,767,276	\$ 2,098,340
Contributions as a percentage of covered-employee payroll	15.16%	15.96%	10.81%

Notes to Schedule

Valuation Date:	6/30/2015
Methods and assumptions used to determine contribution rates:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

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

November 29, 2017

To the Board of Directors
Montecito Water District,

We have audited the basic financial statements of the Montecito Water District as of and for the fiscal year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 29, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Montecito Water District are described in Note 2 to the financial statements. We noted no transactions entered into by the governmental unit during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting Montecito Water District's financial statements was:

Management's estimate of the useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the other postemployment benefits (OPEB) expense is based on the actuary's expertise and experience. We evaluated the key factors and assumptions used to develop the other postemployment benefits (OPEB) expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for bad debt is based on their past experience with the collectability of the billings to their customers. We evaluated the key factors and assumptions used to develop the allowance for bad debt in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability and deferred inflows and outflows related to pension are based on the CalPERS actuary's expertise experience. We evaluated the key factors and assumptions used to develop the net pension liability and deferred inflows and outflows related to pension in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements was:

The disclosure of the Pension Plan in Note 8 and the Special Items in Note 13 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 29, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Montecito Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Moss, Remy & Hartgraves LLP

November 29, 2017

Santa Maria, California



Moss, Levy & Hartzheim LLP

Certified Public Accountants

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 basic financial statements of the Montecito Water District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2017.

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) 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim LLP

Santa Maria, California
November 29, 2017