

GOLETA WATER DISTRICT

GOLETA, CALIFORNIA

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015





Mission

To provide an adequate supply of quality water at the most reasonable cost to the present and future customers within the Goleta Water District

GOLETA WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

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**GOLETA WATER DISTRICT
BOARD OF DIRECTORS
AS OF JUNE 30, 2016**

| <u>Name</u> | <u>Title</u> | <u>Elected/Appointed</u> | <u>Current Term</u> |
|-----------------|----------------|--------------------------|---------------------|
| Lauren Hanson | President | Elected | 12/12 - 12/16 |
| Rick Merrifield | Vice President | Elected | 12/12 - 12/16 |
| Bill Rosen | Director | Elected | 12/12 - 12/16 |
| Jack Cunningham | Director | Elected | 12/14 - 12/18 |
| Meg West | Director | Elected | 12/14 - 12/18 |

John McInnes, General Manager

David Matson, Assistant General Manager

Jonathan Wunderlich, Administrative Manager/CFO

Tom Bunosky, Operations Manager

Ryan Drake, Water Supply and Conservation Manager

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**GOLETA WATER DISTRICT
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

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INTRODUCTORY SECTION

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November 2, 2016

The Honorable Board of Directors and Customers of Goleta Water District:

The Comprehensive Annual Financial Report (CAFR) of the Goleta Water District (District) for the fiscal year (FY) ended June 30, 2016 provides the Board of Directors, customers, and the investment community with detailed information about the financial condition and operating results of the District. District staff worked collectively and followed guidelines set forth by the Governmental Accounting Standards Board to prepare this report. This CAFR is presented in conformity with generally accepted accounting principles (GAAP).

Management assumes full responsibility for the completeness and reliability of the information contained in this report. The District has established a comprehensive framework of internal controls and these controls have been designed to provide appropriate assurance that the basic financial statements will be free from material misstatements.

The objective of the independent audit was to provide reasonable assurance and not absolute assurance that the financial statements of the District were free of material misstatements. Brown Armstrong Accountancy Corporation, independent auditors, has issued an unmodified ("clean") opinion that the District's financial statements for the fiscal years ended June 30, 2016 and 2015 are presented fairly in conformity with GAAP.

The Management Discussion and Analysis (MD&A) immediately follows the Independent Auditor's Report and provides a narrative introduction, overview, and analysis of the financial statements. The MD&A should be read in conjunction with the financial statements.

Overview

During FY 2015-16, the District strengthened its financial condition through continued implementation of the Board-adopted 5-year Financial Plan. The revenue environment has remained stable and is supported by rate adjustments needed to address the costs of providing ongoing water service to District customers.

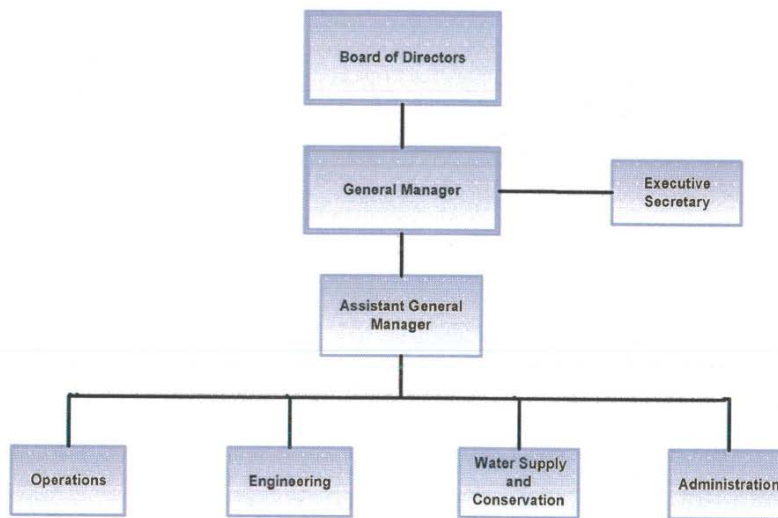
The State of California is in a multi-year drought and in April 2015, Governor Jerry Brown issued an unprecedented mandate for Californians to reduce water consumption by 25%. The Goleta/Santa Barbara region is experiencing an "exceptional drought" and the District's customers have significantly reduced water usage, meeting local targets and exceeding state conservation requirements. As part of the District's plan to address the exceptional drought environment and the related financial impact, the District's Board of Directors reviewed, held public hearings, tabulated protest letters, and adopted an Ordinance to enact new rates and temporary drought surcharges effective July 1, 2015.

As the District and its customers collectively work towards reducing water usage during the drought, the District continues to manage costs and meet its commitment to build a cash reserve, while simultaneously investing in critical capital assets to increase the sustainability of District operations and seek alternative solutions to meet its customers ongoing demands.

District Profile

Established November 17, 1944, the Goleta Water District encompasses an area extending along the south coast of Santa Barbara County west from the Santa Barbara city limits to El Capitan. The District, which spans approximately 29,000 acres (45 square miles), is bound on the south by the ocean and on the north by the foothills of the Santa Ynez Mountains. The District provides water service to approximately 87,000 people through 270 miles of pipeline via 16,474 individual customer accounts. The District manages a complex set of treatment and distribution systems, along with a water supply portfolio that includes Lake Cachuma, an adjudicated ground water basin, recycled water, and the State Water Project.

The District operates under the general direction of an elected five-member Board, who serve four-year terms. Elections for two or three directors are held every two years. The Board employs a General Manager to oversee approximately 60 employees. Staffing is organized into four departments including operations, engineering, water supply and conservation, and administration.



Economic Conditions

The local economy in the Goleta area is stable and diverse, where large employers include the University of California Santa Barbara (UCSB), regional health providers, Goleta Unified School District, and providers in the hospitality industry. The District's service area is also home to a diverse business sector including space age research firms, telecommunications, medical research, national security, light manufacturing, retail and wholesale trade, and corporate offices of multinational companies. The agricultural sector is another significant water user, with local production focusing primarily on avocados and lemons.

The Goleta economy showed continued signs of improvement during FY 2015-16, evidenced by better retail/office vacancy rates, along with the addition of new service accounts resulting from the completion of development projects and property improvements. Goleta's June 2016 unemployment rate was 2.9% which continues to be below that of Santa Barbara County, California and National levels. Overall revenue is influenced by these economic conditions, particularly since the District receives no taxes and collects the majority of its operating revenue through user charges.

Climate Conditions

Goleta has a mild climate, with high temperatures normally within ten degrees of 70° year-round and low temperatures that rarely fall below 40°. Annual rainfall typically averages 18 inches, though it varies from year to year. Such weather variability influences District revenue as conservation-minded customers are

quick to reduce water use when cool and wet weather conditions occur. In FY 2015-16, Goleta precipitation levels were below typical weather patterns, with a cumulative rainfall of 12.07 inches, or 67% of normal levels. The District declared a Stage II Water Shortage Emergency with a 25% conservation target on September 9, 2014. Due to the prolonged and exceptional drought conditions, the District declared a Stage III Water Shortage Emergency on May 12, 2015, which targets a 35% district-wide reduction in water usage. The District continues to operate under a Stage III Water Shortage Emergency. Achieving the target water reduction is necessary to preserve water supplies; however, it will be challenging to do so unless weather patterns change and drought conditions begin to abate. The Santa Barbara Region recorded the second warmest year on record for the 12 months ended June 30, 2016 (warmest being 2015), according to the National Oceanic and Atmospheric Administration's Climatological Rankings Report.

Financial Planning

The District operates under an annual Budget that is adopted by its Board of Directors in accordance with its established short and long term financial plans. Actual financial results are reviewed throughout the year to ensure the District's goals are met, and revenues and expenditures are balanced. Together, these foundational documents and oversight activities help ensure reliable and cost-effective service delivery for District customers, and support the financial achievements described in this CAFR. Some of the notable accomplishments for FY 2015-16 included:

- Continued rehabilitation and augmentation of the District's ground water production facilities to further expand capacity and improve distribution and operating efficiencies as identified in the Infrastructure Improvement Plan and District Budget.
- Drought preparedness – adopted and implemented a comprehensive public outreach program in response to the drought emergency, including targeted rebate incentive programs, water budgets and surveys, water saving incentive programs, and other drought planning and water conservation programs.
- Secured 2,500 acre feet of supplemental water supply through an exchange agreement that enabled the District to avoid declaring a Stage IV Water Shortage Emergency.

Looking ahead, the District will continue implementing projects and programs to ensure reliable and sustainable water service for all District customers.

Thank you to the Board of Directors for its leadership and support of our efforts to plan and implement the financial management practices needed to fulfill the policy goals set each year.

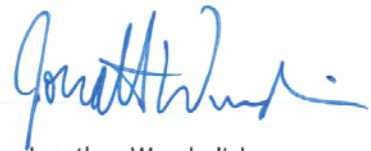
Respectfully submitted,



John McInnes
General Manager



David Matson
Assistant General Manager

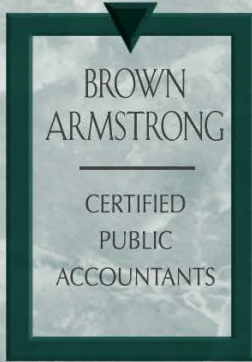


Jonathan Wunderlich
Chief Financial Officer

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FINANCIAL SECTION

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Goleta Water District
Goleta, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Goleta Water District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the District's 2015 financial statements and, in our report dated October 23, 2015, we expressed an unmodified opinion on the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 of 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2016, the respective changes in financial position, and cash flows thereof for the 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, schedule of the District's proportionate share of the net pension liability, schedule of contributions, and schedule of funding status - other post employment benefits obligation 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Implementation of New Accounting Standards

As disclosed in Note 1 of the financial statements, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68*, and *Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* during the fiscal year ended June 30, 2016. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 2, 2016

**GOLETA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

This annual report consists of a series of financial statements, including the *Statement of Net Position*, the *Statement of Revenues, Expenses and Changes in Net Position*, and the *Statement of Cash Flows*. These statements were completed using the accrual basis of accounting, which recognizes a full year of revenues and expenses regardless of when cash is received or paid. Each statement provides information about the activities and performance of the District using the best practice of governmental accounting methods similar to those used by private sector companies.

- *The Statement of Net Position* summarizes District investments (assets), deferred outflows of resources and deferred inflows of resources, as well as its obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing liquidity and financial flexibility.
- *The Statement of Revenues, Expenses and Changes in Net Position* is a record of District revenue and expenses. Providing a measure of the District's financial performance over the year, this statement can also be used to determine District cost recovery through its rates and other charges, illustrating overall resource management efficacy and credit worthiness.
- *The Statement of Cash Flows* provides information about the District's cash receipts and cash payments. The statement reflects net changes in cash resulting from operations, investments, debt service, and non-operating income.

Summary Analysis

The District's net position, or the difference between assets, deferred outflows of resources, deferred inflows of resources, and liabilities, measures the financial health of the organization. Over time, increases or decreases in District net position also indicate the relative fiscal sustainability of the policy choices that govern administrative operations. It is important to keep these indicators in context with other non-financial factors such as changes in economic conditions, population growth, climate, zoning, or the regulatory environment. Since financial statements include a year-over-year comparison, this MD&A presents 3 years of financial information. Specific attention is placed on comparing fiscal year (FY) 2016 to FY 2015; however, analysis is provided comparing FY 2015 to FY 2014 when significant.

Overall during FY 2016 and FY 2015, the District continued to improve its financial stability. Expenditures were managed to ensure the cash flow goals established in its 5-year financial plan were achieved. Coupled with the result of these actions, the District was able to invest in a number of critical infrastructure projects outlined in the Infrastructure Improvement Plan (IIP). Unrestricted cash as of June 30, 2016, was \$12,026,409 compared to \$10,688,569 as of June 30, 2015, and \$7,611,896 as of June 30, 2014.

Financial Highlights

- During FY 2016, the District's Net Position increased \$4,156,072 (8.7%) to \$52,063,872 from \$47,907,800, the Net Position at the end of FY 2015. Operating Revenues increased by \$8,992,869; Operating Expenses increased by \$3,923,305; and Unrestricted Cash and Cash Equivalents increased by \$1,337,840 when compared to FY 2015. The FY 2016 increase in Net Position is an indicator of the District's improving financial stability. FY 2015 Operating Revenues decreased by \$3,984,568, Operating Expenses decreased by \$311,860 and the District increased Unrestricted Cash and Cash equivalents by \$3,076,673 when compared to FY 2014.
- Water Sales increased by \$9,783,034 (48.9%) in FY 2016 and decreased by \$4,017,699 (16.7%) in FY 2015. The increase in FY 2016 Water Sales was primarily the result of the District's Board of Directors (the Board) adoption of a rate increase and the implementation of a water surcharge as a direct result of the ongoing severe drought. The District declared a Stage

2 Water Shortage Emergency with a 25% conservation target on September 9, 2014, followed by the District's Stage 3 Water Shortage Emergency declaration on May 5, 2015, with a 35% conservation target. Each water shortage emergency stage has associated water use restrictions to achieve the conservation target. The decrease in FY 2015 was primarily the result of customer reactions to the Statewide drought and the District's Water Shortage declarations mentioned above.

- Monthly Service Charge decreased by \$985,045 (10.4%) in FY 2016 and increased by \$97,047 (1.0%) in FY 2015. For FY 2016, the District Board adopted a new rate structure that charged customers a tiered monthly service rate based on individual monthly usage instead of a 12-month rolling average. The decrease in FY 2016 was primarily due to customers qualifying for a lower tier rate as they conserve and consume less water. The increase in FY 2015 was primarily due to a 3% rate increase effective July 1, 2014, that was partially offset by some customers qualifying for a lower tier rate.
- New Water Supply Charge Revenue decreased by \$2,289,154 (93.8%) in FY 2016 compared to FY 2015. This contrasts significantly with FY 2015, when New Water Supply Charge Revenue increased by \$2,199,326 (914.4%) as compared to FY 2014. In FY 2016, the revenue was derived solely from new recycled water accounts. In FY 2015, the increase was primarily related to the acceleration of new water supply payments in response to the Board's September 9, 2014 Resolution directing the temporary denial of applications for new and additional service connections for potable water beginning October 1, 2014.
- Operating Expenses increased by \$3,923,305 (15.2%) in FY 2016 compared to FY 2015, while Operating Expenses decreased by \$311,860 (1.2%) in FY 2015 compared to FY 2014. The FY 2016 increase was attributable to higher water supply costs and legal expenses incurred to protect the District's water supply and defend rates litigation. For FY 2016, the water supply costs included a water exchange agreement for 2,500 acre feet of water as well as increased costs associated with well operations to produce groundwater.

Condensed Statement of Net Position – Analysis:

| | 2016 | 2015 | Current Year Increase/ (Decrease) | 2014* |
|----------------------------------------|----------------------|----------------------|-----------------------------------------|----------------------|
| Assets: | | | | |
| Current assets | \$ 28,769,546 | \$ 29,823,305 | \$ (1,053,759) | \$ 32,411,588 |
| Non-current assets | 3,606,570 | 3,633,366 | (26,796) | 3,685,227 |
| Capital assets, net | <u>92,790,125</u> | <u>86,877,670</u> | <u>5,912,455</u> | <u>83,461,916</u> |
| Total assets | 125,166,241 | 120,334,341 | 4,831,900 | 119,558,731 |
| Deferred outflows of resources: | 4,060,638 | 3,828,397 | 232,241 | 3,379,014 |
| Liabilities: | | | | |
| Current liabilities | 8,192,336 | 5,234,121 | 2,958,215 | 5,545,629 |
| Non-current liabilities | <u>68,452,670</u> | <u>68,447,457</u> | <u>5,213</u> | <u>71,874,343</u> |
| Total liabilities | 76,645,006 | 73,681,578 | 2,963,428 | 77,419,972 |
| Deferred inflows of resources: | 518,001 | 2,573,360 | (2,055,359) | - |
| Net position: | | | | |
| Net investment in capital assets | 41,777,503 | 34,662,860 | 7,114,643 | 30,052,804 |
| Restricted for debt service | 2,786,769 | 2,774,572 | 12,197 | 2,788,360 |
| Restricted cash and cash equivalents | 1,145,312 | 4,008,904 | (2,863,592) | 7,218,851 |
| Unrestricted | <u>6,354,288</u> | <u>6,461,464</u> | <u>(107,176)</u> | <u>5,457,758</u> |
| Total net position | <u>\$ 52,063,872</u> | <u>\$ 47,907,800</u> | <u>\$ 4,156,072</u> | <u>\$ 45,517,773</u> |

*Restated

- Current Assets decreased during FY 2015 by \$1,053,759 (3.5%) primarily due to a \$2,494,675 decrease in Cash and Investments and Prepaid Expenses to the Central Coast Water Authority (CCWA) offset by a \$1,232,081 increase in Accounts Receivable and a \$302,988 increase in Water Inventory. The decrease in Cash and Investment is attributable to increased levels of capital spending and legal expenditures. The increase in Accounts Receivable is primarily due to the implementation of a drought surcharge during FY 2016 and timing differences in billings compared to FY 2015. The balance in Water Inventory is related to the unused portion of the 2,500 acre feet water exchange agreement as the FY 2015 Water Inventory balance was exhausted during FY 2016.
- Non-current Assets decreased by \$26,796 (0.7%) during FY 2016 primarily as a result of recurring amortization of deferred charges.
- Net Capital Assets increased \$5,912,455 (6.8%) during FY 2016 primarily due to the completion of several water treatment plant assets, and the rehabilitation and re-launch of seven District wells that enabled the District to produce ground water during FY 2016. The District also replaced and upgraded over 900 meters (meter sizes less than 2 inch) and initiated projects that will further improve efficiency and increase capacity of ground water production. Net Capital Assets increased \$3,415,754 (4.1%) during FY 2015 primarily due to completions of several water production and treatment assets along with replacing over 750 large meters (meter size 2 inch or greater).
- Deferred Outflows of Resources increased \$232,241 (6.1%) during FY 2016 and increased \$449,383 (13.3%) during FY 2015 due to the increase in deferred outflows of resources relating to pensions offset against the amortization of debt costs.
- Current Liabilities increased \$2,958,215 (56.5%) during FY 2016 primarily due to the receipt of two large contractor invoices for work related to rehabilitating the District's wells. These invoices represented services incurred during May and June 2016 (FY 2016) and they were paid in July 2016 (FY 2017). For FY 2015, Current Liabilities decreased \$311,508 (5.6%) primarily as a result of a \$783,554 decrease in Customer Advances and Deposits and Accrued Expenses offset by increases in accounts payables.
- Non-current Liabilities increased during FY 2016 by \$5,213 (0.1%) primarily due to \$1,402,822 in debt reduction offset by increases of \$450,168 in Unfunded Post-Employment Benefits and \$902,016 in Net Pension Liability. For FY 2015, Non-current Liabilities decreased by \$3,426,886 (4.8%) primarily due to \$1,065,000 in principal reductions and a \$2,622,600 decrease in Net Pension Liability offset against a \$105,873 increase in Long-term Compensated Absences and a \$463,212 increase in Unfunded Post-Employment Benefits.
- Deferred Inflows of Resources decreased \$2,055,359 (79.9%) during FY 2016 due to the decrease in deferred inflows of resources relating to pensions. FY 2015 increased \$2,573,360 (100%) as a result of the implementation of GASB Statement No. 68, which established the Deferred Inflow of Resources Pension balance.
- During FY 2016, Unrestricted Net Position decreased by \$107,176 (1.7%) when compared to the end of FY 2015.

Condensed Statement of Revenues, Expenses, and Changes in Net Position – Analysis:

| | 2016 | 2015 | Current Year Increase/ (Decrease) | 2014* |
|----------------------------------------------|----------------------|----------------------|-----------------------------------------|----------------------|
| Revenues: | | | | |
| Operating revenues | \$ 38,876,872 | \$ 29,884,003 | \$ 8,992,869 | \$ 33,868,571 |
| Non-operating revenues | 297,247 | 2,567,957 | (2,270,710) | 319,841 |
| Total revenues | <u>39,174,119</u> | <u>32,451,960</u> | <u>6,722,159</u> | <u>34,188,412</u> |
| Expenses: | | | | |
| Operating expenses | 29,820,487 | 25,897,182 | 3,923,305 | 26,209,042 |
| Depreciation | 4,384,529 | 4,154,508 | 230,021 | 4,387,462 |
| Non-operating expenses | 2,014,595 | 2,161,792 | (147,197) | 2,527,846 |
| Total expenses | <u>36,219,611</u> | <u>32,213,482</u> | <u>4,006,129</u> | <u>33,124,350</u> |
| Net income before capital contributions | 2,954,508 | 238,478 | 2,716,030 | 1,064,062 |
| Capital contributions | <u>1,201,564</u> | <u>2,151,549</u> | <u>(949,985)</u> | <u>304,512</u> |
| Change in net position | 4,156,072 | 2,390,027 | 1,766,045 | 1,368,574 |
| Net position, beginning of year, as restated | <u>47,907,800</u> | <u>45,517,773</u> | <u>2,390,027</u> | <u>44,149,199</u> |
| Net position, end of year | <u>\$ 52,063,872</u> | <u>\$ 47,907,800</u> | <u>\$ 4,156,072</u> | <u>\$ 45,517,773</u> |

*Restated

- District Total Operating Revenues in FY 2016 increased \$8,992,869 (30.1%) with a \$9,873,035 increase in Water Sales and a \$155,037 increase in Other Charges and Services offset by a \$985,045 decrease in Monthly Service Charge.
 - The \$9,873,035 (48.9%) increase in Water Sales was primarily the result of District Board's adoption of a rate increase and the implementation of a water surcharge as a direct result of the ongoing severe drought. The District declared a Stage 2 Water Shortage Emergency with a 25% conservation target on September 9, 2014, followed by the District's Stage 3 Water Shortage Emergency declaration on May 5, 2015, with a 35% conservation target. Each water shortage emergency stage has associated water use restrictions to achieve the conservation target.
 - Monthly Service Charge decreased by \$985,045 (10.4%) in FY 2016. As part of the Board's adoption of a new rate structure to encourage conservation, the Monthly Service Charge is determined based on a tiered monthly service rate on individual monthly usage instead of a 12-month rolling average. The decrease in FY 2016 was primarily due to customers qualifying for a lower tier rate as they conserve and consume less water.
 - District Total Operating Revenues in FY 2015 decreased \$3,984,568 (11.8%) from FY 2014 primarily due to the result of customer reactions to the Statewide drought and the District's Water Shortage declarations mentioned above.
- District non-operating revenues in FY 2016 decreased \$2,270,710 (88.4%) from FY 2015 and increased \$2,248,116 (702.9%) in FY 2015 from FY 2014 primarily due to fluctuations in New Water Supplies Charges which require one-time payments to obtain new water service. In FY 2015, the increase is primarily related to the acceleration of payments to ensure water entitlements in response to the Board's September 9, 2014 Resolution directing the temporary denial of applications for new and additional service connections for potable water beginning on October 1, 2014. In FY 2016, the revenue was derived solely from new recycled water accounts.

Condensed Statement of Revenues, Expenses and Changes in Net Position – Analysis

(continued):

- District Operating Expenses increased \$3,923,305 (15.2%) in FY 2016 when compared to FY 2015 primarily due to the following:
 - Source of Supply costs which include amounts paid to the Cachuma Operation and Maintenance Board (COMB); Cachuma Conservation Release Board (CCRB); Goleta Sanitary District (GSD) for recycled water; well operations and maintenance project costs; and the Central Coast Water Authority (CCWA). The \$2,463,082 (16.5%) increase was primarily due to \$1,154,832 in higher COMB and CCRB costs; \$821,459 in higher CCWA and State Water Project costs (included the consumed portion of the 2,500 acre feet water exchange program); and \$126,193 higher in Recycled Water processing.
 - Water treatment costs increased \$405,144 (20.5%) primarily related to \$231,093 higher personnel related costs; \$122,922 higher chemical and filtering costs and water quality testing; and a \$100,675 increase in facilities and security expenses.
 - Transmission and distribution costs decreased \$108,908 (3.1%) as a result of decreased water system-related repair and maintenance activities deriving from a \$86,427 decrease in Operations and Maintenance purchases and a \$49,289 decrease in personnel related costs.
 - Customer accounts costs increased by \$103,805 (7.7%) primarily as a result of increased billing service fees and higher provision for uncollectible customer accounts.
 - General and administration costs increased by \$1,060,182 (26.0%) due to increased legal fees of \$1,675,832 and a \$211,231 increase in Engineering Department expenses offset against \$888,528 reduction in pension expense as a result of GASB Statement No. 68 provisions. The increase in legal fees is attributable to actions by the District to protect the District's water supply and defend rates litigation.
- District Operating Expenses decreased \$311,860 (1.2%) in FY 2015 when compared to FY 2014 primarily due to the following:
 - Source of Supply costs include amounts paid to the COMB; CCRB; GSD for recycled water; well operations and maintenance project costs; and the CCWA. The \$622,240 (4.3%) increase in Source of Supply costs was primarily due to \$1,035,307 in higher CCWA and State Water Project costs; \$538,010 in increased well operations and maintenance; \$203,450 in increased water conservation programs expenses. These increases were partially offset by lower COMB and CCRB costs of \$1,055,655.
 - Water treatment costs decreased \$392,593 (16.6%) primarily related to a \$236,907 reduction in personnel related costs; a \$128,075 reduction in chemical and filtering costs and water quality testing; and a \$27,609 decrease in other costs including contracted services and professional and consulting fees.
 - Transmission and distribution costs decreased \$46,985 (1.3%) as a result of decreased water system-related repair and maintenance activities, a \$98,244 decrease in personnel related costs, and a \$77,635 decrease in professional and consulting fees offset by a \$128,891 increase in other general costs categories.
 - Customer accounts costs increased by \$80,432 (6.4%) primarily as a result of increased postage and mailings to customers related to the drought declarations and rate change notifications.
 - General and administration costs decreased in FY 2015 by \$574,954 (12.3%) due to increased personnel costs of \$232,351; increased legal fees of \$352,852; partially offset by \$489,575 in an impairment charge in the Engineering Department in FY 2014 that did not reoccur in FY 2015; and a \$657,692 reduction in pension expense as a result of implementing GASB Statement No. 68 in FY 2015.

Condensed Statement of Revenues, Expenses and Changes in Net Position – Analysis
(continued):

- District capital contributions in FY 2016 decreased \$949,985 (44.2%) primarily due to lower customer/developer contributed assets to the District and a non-recurring State of California (State) grant of \$500,000 that was reflected in FY 2015 to help offset the construction and operational costs associated with the Lake Cachuma Emergency Pump Facility Project.

Capital Assets – Analysis:

| | Balance 2015 | Additions | Transfer/ Deletions | Balance 2016 |
|---------------------------|----------------------|----------------------|------------------------|----------------------|
| Capital assets: | | | | |
| Non-depreciable assets | \$ 9,976,006 | \$ 10,278,542 | \$ (8,362,505) | \$ 11,892,043 |
| Depreciable assets | 146,157,714 | 8,431,528 | (1,950,267) | 152,638,975 |
| Accumulated depreciation | (69,256,050) | (4,384,529) | 1,899,686 | (71,740,893) |
| Total capital assets, net | <u>\$ 86,877,670</u> | <u>\$ 14,325,541</u> | <u>\$ (8,413,086)</u> | <u>\$ 92,790,125</u> |
| | Balance 2014 | Additions | Transfer/ Deletions | Balance 2015 |
| Capital assets: | | | | |
| Non-depreciable assets | \$ 5,238,394 | \$ 7,641,968 | \$ (2,904,356) | \$ 9,976,006 |
| Depreciable assets | 151,269,230 | 2,904,356 | (8,015,872) | 146,157,714 |
| Accumulated depreciation | (73,045,708) | (4,154,508) | 7,944,166 | (69,256,050) |
| Total capital assets, net | <u>\$ 83,461,916</u> | <u>\$ 6,391,816</u> | <u>\$ (2,976,062)</u> | <u>\$ 86,877,670</u> |

At June 30, 2016 and June 30, 2015, the District's capital investment, net of accumulated depreciation, totaled \$92,790,125 and \$86,877,670, respectively, increasing from \$83,461,916 at June 30, 2014. Capital asset investments include: Non-depreciable assets (land, land rights, and construction-in-process projects) and Depreciable assets (water treatment plant, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, and vehicles). Throughout FY 2016 and FY 2015, the District continued to fund capital improvements to the existing distribution system, as well as other property, plant and equipment. Some of the larger capital additions during the two-year period were rehabilitations and restarting ground water production for seven of the District wells, replacing over 1,700 large and small meters and initiating a pilot program for advance metering infrastructure, and completing several developer/customer initiated development projects.

Debt – Analysis:

| | Balance 2015 | Adjustments/ Additions | Principal Payments/ Deletions | Balance 2016 |
|------------------------------------|----------------------|---------------------------|-------------------------------------|----------------------|
| Debt: | | | | |
| Certificates of Participation, Net | <u>\$ 53,641,081</u> | <u>\$ -</u> | <u>\$ (1,362,823)</u> | <u>\$ 52,278,258</u> |
| | Balance 2014 | Adjustments/ Additions | Principal Payments/ Deletions | Balance 2015 |
| Debt: | | | | |
| Certificates of Participation, Net | <u>\$ 54,994,452</u> | <u>\$ -</u> | <u>\$ (1,353,371)</u> | <u>\$ 53,641,081</u> |

Debt – Analysis (Continued):

During FY 2016 and FY 2015, net long-term debt decreased by \$1,362,823 and \$1,353,371 due to scheduled principal repayments of \$1,065,000 and \$1,045,000, respectively, and the amortization of the related debts (see Note 9: Long-Term Debt for additional detail).

Conditions Affecting Current Financial Position

Management has noted certain items as potential issues that may affect its current financial position in the footnotes to the financial statements (see Note 14: Commitments and Contingencies for additional detail).

Notes to the Basic Financial Statements

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

Requests for Information

This financial report is designed to provide District officers, investors, customers, stakeholders, and other interested parties with an overview of the District's financial condition, as well as insight into current fiscal practices and overall management oversight. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District Administrative Manager/CFO at 4699 Hollister Avenue, Goleta, CA 93110-1999.

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BASIC FINANCIAL STATEMENTS

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**GOLETA WATER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

| | 2016 | 2015 |
|-----------------------------------------------------------|---------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 12,026,409 | \$ 10,688,569 |
| Restricted - cash and cash equivalents | 1,145,312 | 4,008,904 |
| Accrued interest receivable | 20,303 | 7,173 |
| Accounts receivable - water sales and services, net | 5,258,095 | 4,026,014 |
| Accounts receivable - other | 552,803 | 838,786 |
| Water-in-storage inventory | 923,976 | 620,988 |
| Materials and supplies inventory | 824,720 | 656,698 |
| Prepaid source of supply costs | 7,825,159 | 8,794,082 |
| Prepaid expenses and other deposits | 192,769 | 182,091 |
| Total Current Assets | 28,769,546 | 29,823,305 |
| NON-CURRENT ASSETS | | |
| Restricted - investments | 3,405,386 | 3,395,851 |
| Prepaid water supply renegotiation costs, net | 153,079 | 183,695 |
| Prepaid bond insurance premiums, net | 48,105 | 53,820 |
| Capital assets, not being depreciated | 11,892,043 | 9,976,006 |
| Depreciable capital assets, net | 80,898,082 | 76,901,664 |
| Total Non-Current Assets | 96,396,695 | 90,511,036 |
| Total Assets | 125,166,241 | 120,334,341 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred loss on refunding | 1,265,636 | 1,426,272 |
| Deferred pension cost | 2,795,002 | 2,402,125 |
| Total Deferred Outflows of Resources | 4,060,638 | 3,828,397 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | 4,321,641 | 1,705,467 |
| Accrued wages and related payables | 354,631 | 241,485 |
| Customer advances and deposits | 1,453,700 | 1,281,823 |
| Accrued interest payable on certificates of participation | 618,617 | 621,279 |
| Long-term liabilities - due within one year: | | |
| Compensated absences | 338,747 | 319,067 |
| Certificates of participation payable | 1,105,000 | 1,065,000 |
| Total Current Liabilities | 8,192,336 | 5,234,121 |
| NON-CURRENT LIABILITIES | | |
| Long-term liabilities - due in more than one year: | | |
| Compensated absences | 950,251 | 894,400 |
| Other post employment benefits payable | 5,307,183 | 4,857,015 |
| Net pension liability | 11,021,977 | 10,119,961 |
| Certificates of participation payable | 51,173,259 | 52,576,081 |
| Total Non-Current Liabilities | 68,452,670 | 68,447,457 |
| Total Liabilities | 76,645,006 | 73,681,578 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred pension cost | 518,001 | 2,573,360 |
| NET POSITION | | |
| Net investment in capital assets | 41,777,503 | 34,662,860 |
| Restricted for debt service | 2,786,769 | 2,774,572 |
| Restricted cash and cash equivalents | 1,145,312 | 4,008,904 |
| Unrestricted | 6,354,288 | 6,461,464 |
| Total Net Position | \$ 52,063,872 | \$ 47,907,800 |

See accompanying notes to the basic financial statements.

**GOLETA WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

| | 2016 | 2015 |
|-------------------------------------------------|----------------------|----------------------|
| OPERATING REVENUES | | |
| Water consumption sales | \$ 29,771,141 | \$ 19,988,107 |
| Monthly service charges | 8,523,948 | 9,508,993 |
| Conveyance charges | 122,860 | 83,018 |
| Other charges and services | 458,923 | 303,885 |
| | 38,876,872 | 29,884,003 |
| OPERATING EXPENSES | | |
| Source of supply | 17,389,791 | 14,926,709 |
| Water treatment | 2,384,031 | 1,978,887 |
| Transmission and distribution | 3,458,880 | 3,567,788 |
| Customer accounts | 1,446,817 | 1,343,012 |
| General and administrative | 5,140,968 | 4,080,786 |
| | 29,820,487 | 25,897,182 |
| Operating income before depreciation | 9,056,385 | 3,986,821 |
| Depreciation expense | (4,384,529) | (4,154,508) |
| | 4,671,856 | (167,687) |
| NON-OPERATING REVENUE (EXPENSE) | | |
| Interest and investment earnings | 105,392 | 58,322 |
| New water supply charges | 150,681 | 2,439,835 |
| Interest expense - long-term debt | (1,978,264) | (2,053,755) |
| Amortization expense | (36,331) | (36,331) |
| Loss on sale/disposition of capital assets, net | - | (71,706) |
| Other non-operating revenues, net | 41,174 | 69,800 |
| | (1,717,348) | 406,165 |
| Net income before capital contributions | 2,954,508 | 238,478 |
| CAPITAL CONTRIBUTIONS | | |
| State capital grant | - | 500,000 |
| Capital contributions | 1,201,564 | 1,651,549 |
| | 1,201,564 | 2,151,549 |
| INCREASE IN NET POSITION | 4,156,072 | 2,390,027 |
| NET POSITION, BEGINNING OF YEAR | 47,907,800 | 45,517,773 |
| NET POSITION, END OF YEAR | \$ 52,063,872 | \$ 47,907,800 |

See accompanying notes to the basic financial statements.

**GOLETA WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------------------------------------------|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers for water sales and services | \$ 38,908,491 | \$ 34,193,879 |
| Cash paid to employees for salaries and wages | (11,220,954) | (10,380,248) |
| Cash paid to vendors and suppliers for materials and services | <u>(16,362,325)</u> | <u>(16,072,876)</u> |
| Net cash provided by operating activities | <u>11,325,212</u> | <u>7,740,755</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (9,528,063) | (6,747,560) |
| Proceeds from new water supply charges | 150,681 | 2,439,835 |
| Principal paid on long-term debt | (1,065,000) | (1,045,000) |
| Interest paid on long-term debt | (2,491,309) | (2,519,777) |
| Disposition of capital assets | <u>-</u> | <u>(71,706)</u> |
| Net cash used in capital and related financing activities | <u>(12,933,691)</u> | <u>(7,944,208)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (9,535) | 15,530 |
| Interest and investment earnings | <u>92,262</u> | <u>54,650</u> |
| Net cash provided by investing activities | <u>82,727</u> | <u>70,180</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | <u>(1,525,752)</u> | <u>(133,273)</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>14,697,473</u> | <u>14,830,746</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 13,171,721</u> | <u>\$ 14,697,473</u> |
| Reconciliation of cash and cash equivalents to statement of net position: | | |
| Cash and cash equivalents | \$ 12,026,409 | \$ 10,688,569 |
| Restricted assets - cash and cash equivalents | <u>1,145,312</u> | <u>4,008,904</u> |
| Total Cash and Cash Equivalents | <u>\$ 13,171,721</u> | <u>\$ 14,697,473</u> |

See accompanying notes to the basic financial statements.

**GOLETA WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

| | 2016 | 2015 |
|------------------------------------------------------------------------------------------------|---------------|--------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income (loss) | \$ 4,671,856 | \$ (167,687) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 4,384,529 | 4,154,507 |
| Other non-operating revenue | 41,174 | 69,800 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accounts receivables - water sales and services, net | (1,232,081) | 3,915,475 |
| Accounts receivable - other | 285,983 | 34,128 |
| Water-in-storage inventory | (302,988) | (179,008) |
| Materials and supplies inventory | (168,022) | (187,576) |
| Prepaid Central Coast Water Authority source of supply costs | 968,923 | (625,302) |
| Prepaid expenses and other deposits | (10,678) | 965 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 2,616,174 | 467,816 |
| Accrued wages and related payables | 113,146 | (46,282) |
| Customer advances and deposits | 977,717 | 360,275 |
| Compensated absences | 75,531 | 138,124 |
| Post employment retirement benefits | 450,168 | 463,212 |
| Net Pension | (1,546,220) | (657,692) |
| Total adjustments | 6,653,356 | 7,908,442 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 11,325,212 | \$ 7,740,755 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES | | |
| Capital Contributions | \$ 395,724 | \$ 1,143,827 |
| Disposition of Assets | \$ - | \$ 71,706 |
| Capitalized Interest on Capital Asset Additions | \$ 373,197 | \$ 314,828 |

See accompanying notes to the basic financial statements.

**GOLETA WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Reporting Entity

Established on November 17, 1944, the Goleta Water District (the District) encompasses an area extending along the south coast of Santa Barbara County west from the Santa Barbara city limits to El Capitan. The District is governed by a five-member Board of Directors who serve overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board (GASB) Statement 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 governmental units are financially accountable. The District is financially accountable if it appoints a voting majority of the component unit's governing body and: 1) it is able to impose its will on that component unit, or 2) there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Goleta Water District Financing Corporation (the Corporation) was incorporated in May 1993. The Corporation is a California nonprofit public benefit corporation formed to assist the District by acquiring, constructing, operating, and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District and as such has no employees or other operations. Although the Corporation is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations. No separate financial statements are prepared for the Corporation.

Basis of Accounting and Measurement Focus

The District operates as a utility enterprise and the accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under full accrual accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of the related cash flows.

The District is accounted for as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are water sales and related services. Operating expenses for the District include water purchases, water production, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses consist of new water supply charges, grant funding, investment income, interest expense, and other miscellaneous revenues.

Basic Financial Statements

The basic financial statements are comprised of the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; the Statements of Cash Flows; and the Notes to the Basic Financial Statements.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Net Position

In the Statements of Net Position, net position is classified in the following categories:

- *Net investment in capital assets* – This amount is the District's net investment in its various capital assets and includes capital assets net of accumulated depreciation and capital-related deferred outflows of resources and reduced by capital-related borrowings and deferred inflows of resources.
- *Restricted for debt service* – This amount is restricted for various bond issues and is not available for the general needs of the District. These funds must be maintained at specific levels and are restricted by certain bond covenants.
- *Restricted cash and cash equivalents* – This amount is restricted for custodial costs due to third parties for customer funded capital projects and specific capital projects, which are eligible for funding from restricted bond proceeds.
- *Unrestricted* – This amount of net position consists of net position that does not meet the definition of net investment in capital assets or restricted.

New Accounting Pronouncements

The following GASB Statements were implemented in the current financial statements:

GASB Statement No. 72 – *Fair Value Measurement and Application*. The provisions of GASB Statement No. 72 are effective for financial statements beginning after June 15, 2015. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 73 – *Accounting and Financial Reporting for Pension and Related Assets that are not within the scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68*. The provisions of GASB Statement No. 73 are effective for financial statements beginning after June 15, 2015. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of GASB Statement No. 76 are effective for financial statements beginning after June 15, 2015, and should be applied retroactively. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

Assets, Liabilities, and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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

Cash and Cash Equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. Substantially all of the District's cash is invested in interest bearing accounts.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Assets, Liabilities, and Net Position (Continued)

3. Investments and Investment Policy

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

In accordance with the District's investment policy, the Board of Directors delegates the investment authority of the District to the General Manager. In accordance with the Government Code sections, collateral established as security for District funds will be those securities specified by law as eligible for collateral for deposits of local public agencies. Investment of District moneys not required for immediate expenditure will be made in securities or other certificates of indebtedness as provided for by law for the investment of public funds.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the provision for doubtful accounts and the write-off of those accounts.

5. Federal and State Capital and Operating Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the statement of net position and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net position.

6. Water-in-Storage Inventory

On October 1 of each year, the District is entitled to 9,322 acre-feet of water as a result of District participation in the Cachuma Lake Project. The actual annual allocation is subject to availability. If all of the available allocation is not used in the current year, it is stored for use in the following year. In addition, the District may purchase water from other agencies to meet its customers' demand. The amount of unused purchased water is also stored. The District has its own facilities for storing water in which stored water carries no cost. This stored water is subject to loss through evaporation, natural disasters, dam ruptures, excess rainfall, and dam spillage at the various facilities. The losses are not covered by insurance.

7. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipe fittings for construction and repair of District water transmission and distribution systems. Inventory is valued at cost using the weighted average method. Inventory items are charged to expense at the time that individual items are consumed or capitalized when individual items are used in internally constructed projects.

8. Prepaid Expenses

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

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Assets, Liabilities, and Net Position (Continued)

9. Restricted Assets

Certain assets of the District are restricted in use by ordinance or debt covenant, and accordingly are shown as restricted assets on the accompanying statement of net position. Certificates of Participation (COP) reserve funds and construction funds set aside from COP proceeds are restricted for future debt service payments and construction projects. 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.

10. 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. Interest and indirect costs incurred during the construction phase of capital assets are reflected in the capitalized value of the asset constructed. Contributed capital assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|--------------------------------------|--------------|
| Transmission and distribution system | 20-50 years |
| Recycled water system | 33 1/3 years |
| Water treatment plant/equipment | 10-30 years |
| Wells | 25 years |
| Pumping equipment | 25 years |
| Structures and improvements | 15-50 years |
| Other plant and equipment | 5-25 years |
| Capitalized interest | 50 years |

11. Prepaid Water Supply Renovation Costs

Renegotiation costs represent the capital portion of expenses incurred by the Cachuma Project Authority (CPA) on behalf of the District and others in order to renegotiate the Lake Cachuma water supply contract with the U.S. Bureau of Reclamation. A new agreement was developed in April 1996, and renegotiation costs are amortized over the term of the new contract, which is 25 years.

12. Prepaid Bond Insurance Premiums

Prepaid bond insurance premium issuance costs will be amortized using the straight-line method over the remaining life of the respective debt service.

13. Deferred Outflows of Resources and Deferred Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows or 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 District that is applicable to a future reporting period. The District has two items that qualify for reporting in this category. It is the deferred charge on the deferred financing and deferred pension reported in the District's Statement of Net Position. See Notes 7 and 12 for a detailed listing.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Assets, Liabilities, and Net Position (Continued)

13. Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

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 the net position by the District that is applicable to a future reporting period. The District has one item – deferred pension that is reported in the District's Statement of Net Position. See Notes 7 and 12 for further description of the deferred inflows of resources recognized.

14. Compensated Absences

District personnel policies provide for accumulation of vacation, sick leave, and compensated time-off. Liabilities for vacation, sick leave, and compensated time-off are recorded when benefits are earned to the extent it is probable that benefits will result in termination payments. Cash payment of unused vacation, a percentage of earned sick time, and compensated time-off is available to qualified employees when retired or terminated.

15. Customer Advances and Deposits

Customer advances represent deposits received in aid of construction, which are refundable if the applicable construction costs are less or do not take place. Customer advances are reclassified to Contributed capital when the applicable construction project is completed.

16. Water Sales

Water sales are normally billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

17. New Water Supply Charges

New water supply charge revenue was described in previous years as capacity charges. All new water service connections are subject to the new water supply charge, a one-time charge; currently \$45,361 per acre foot for potable water. The purpose is to recover a portion of the costs that developed additional new water supplies necessary to provide such additional service. The conditions letter issued by the District to the applicant pursuant to District Code Section 5.08.20 (F) includes the amount of the new water supply charge for the new service. The new water supply charge must be paid prior to issuance of a Can and Will Serve Letter or application of approval at the date of this reporting period. The formula for determining this charge, described in the District's Code at Appendix A (12), is based on the type of project and required service size. Project types include single-family residential, multiple-family residential, landscape and recreation irrigation, agricultural irrigation, commercial and other nonresidential uses, and expanded service to existing structures or uses. This charge varies for potable, non-potable, and recycled water service.

18. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or by real estate developers desiring services that require capital expenditures to connect to the District's transmission and distribution system.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Assets, Liabilities, and Net Position (Continued)

19. Budgetary Policies

The District adopts an annual 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.

20. Reclassifications

Certain prior year balances have been reclassified in order to conform to current year presentation. These reclassifications had no effect upon reported net position.

21. Future GASB Statements

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

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The provisions in GASB Statement No. 74 are effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions in GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 77 – *Tax Abatement Disclosures*. The requirements of GASB Statement No. 77 are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The requirements of GASB Statement No. 78 are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. The requirements of GASB Statement No. 79 are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The requirements of GASB Statement No. 80 are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*. The requirements of GASB Statement No. 81 are effective for periods beginning after December 15, 2016.

GASB Statement No. 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The requirements of GASB Statement No. 82 are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

The above future GASB statements are not expected to have a material effect on the fiscal year 2015-16 financial statements.

NOTE 2 – CASH AND INVESTMENTS

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

| | <u>2016</u> | <u>2015</u> |
|----------------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 12,026,407 | \$ 10,688,569 |
| Restricted - cash and cash equivalents | 1,145,312 | 4,008,904 |
| Restricted - investments | <u>3,405,386</u> | <u>3,395,851</u> |
| Total Cash and Investments | <u>\$ 16,577,105</u> | <u>\$ 18,093,324</u> |

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

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|----------------------|----------------------|
| Cash on hand | \$ 800 | \$ 800 |
| Deposits with financial institutions | 13,170,919 | 14,696,673 |
| Investments | <u>3,405,386</u> | <u>3,395,851</u> |
| Total Cash and Investments | <u>\$ 16,577,105</u> | <u>\$ 18,093,324</u> |

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

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

| <u>Authorized Investment Types*</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|-----------------------------------------------------------------|-------------------------|----------------------------------------|-----------------------------------------|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Obligations | 5 years | None | None |
| Time Deposits, Non-negotiable | 5 years | None | None |
| Money Market Mutual Funds | N/A | 20% | None |
| Santa Barbara County Pooled Investment Fund | N/A | None | None |
| State of California’s Local Agency Investment Fund (LAIF) | N/A | None | None |
| Local Government Investment Pools (Joint Power Authority Pools) | N/A | None | None |

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

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

| <u>Authorized Investment Types</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|-----------------------------------------------|-------------------------|----------------------------------------|-----------------------------------------|
| U.S. Treasury Obligations | None | None | None |
| U.S. Agency Obligations | None | None | None |
| Bankers Acceptances | None | None | None |
| Commercial Paper | 180 days | 30% | 10% |
| Corporate Bonds, Debentures, and Notes | None | None | None |
| Interest Bearing Accounts - State or National | | | |
| Banks or State or National Savings and Loans | None | None | None |
| LAIF | None | None | None |
| Money Market Mutual Funds | None | None | None |
| Investment Contracts | None | None | None |

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District's deposits may not be returned to it. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District has deposits with various banks with various bank balances as of June 30, 2016 and 2015. Of the bank balances, up to \$250,000 are federally insured. The remaining \$2,220,082 and \$2,209,475 on deposit in excess of the federally insured amount was collateralized with securities held by the pledging financial institutions agent at June 30, 2016 and 2015, respectively.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Fair Value of Investments

The District measures and records its investments using fair value measurement guidelines established by GAAP. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At June 30, 2016, the District had no investments that are required to be disclosed in the three-tiered fair value hierarchy.

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 are to changes in market interest rates. During fiscal year (FY) 2016 and FY 2015, the District managed its liquidity needs by investing only in short-term securities. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

Restricted Investments at June 30, 2016, consisted of the following:

| | Remaining Maturity (in Months) | | | | | |
|---------------------------------------------|--------------------------------|---------------------|-----------------|-----------------|-----------------|---------------------|
| | Amount | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | 25 to 60 Months | More than 60 Months |
| Held by Bond Trustee: | | | | | | |
| California State Treasurer - LAIF | \$ 3,405,386 | \$ 3,405,386 | \$ - | \$ - | \$ - | \$ - |
| Dreyfus Treasury and Agency Cash Management | - | - | - | - | - | - |
| Total | <u>\$ 3,405,386</u> | <u>\$ 3,405,386</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

| | Remaining Maturity (in Months) | | | | | |
|---------------------------------------------|--------------------------------|---------------------|-----------------|-----------------|-----------------|---------------------|
| | Amount | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | 25 to 60 Months | More than 60 Months |
| Held by Bond Trustee: | | | | | | |
| California State Treasurer - LAIF | \$ 3,393,177 | \$ 3,393,177 | \$ - | \$ - | \$ - | \$ - |
| Dreyfus Treasury and Agency Cash Management | 2,674 | 2,674 | - | - | - | - |
| Total | <u>\$ 3,395,851</u> | <u>\$ 3,395,851</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Credit Risk

Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings were obtained from Standard and Poor's (S&P) Ratings Services. Presented below is the minimum legal rating required, where applicable, by the California Government Code or debt agreements, and the actual rating as of year-end for each investment type.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

Credit ratings at June 30, 2016, consisted of the following:

| Investment Type | Amount | Minimum Legal Rating | Exempt from Disclosure | S&P Rating | | |
|---------------------------------------------|---------------------|----------------------|------------------------|-------------|-------------|-------------|
| | | | | AAA | AA- | BB- |
| Held by Bond Trustee: | | | | | | |
| California State Treasurer - LAIF | \$ 3,405,386 | Not rated | \$ 3,405,386 | \$ - | \$ - | \$ - |
| Dreyfus Treasury and Agency Cash Management | - | AAA | - | - | - | - |
| Total | \$ 3,405,386 | | \$ 3,405,386 | \$ - | \$ - | \$ - |

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

| Investment Type | Amount | Minimum Legal Rating | Exempt from Disclosure | S&P Rating | | |
|---------------------------------------------|---------------------|----------------------|------------------------|-----------------|-------------|-------------|
| | | | | AAA | AA- | BB- |
| Held by Bond Trustee: | | | | | | |
| California State Treasurer - LAIF | \$ 3,393,177 | Not rated | \$ 3,393,177 | \$ - | \$ - | \$ - |
| Dreyfus Treasury and Agency Cash Management | 2,674 | AAA | - | 2,674 | - | - |
| Total | \$ 3,395,851 | | \$ 3,393,177 | \$ 2,674 | \$ - | \$ - |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code other than money market funds which are limited to 20% of the District's portfolio at the time of initial purchase. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

| Issuer | Investment Type | Reported Amounts | |
|-----------------------------------|---------------------------|------------------|--------------|
| | | 2016 | 2015 |
| Held by Bond Trustee: | | | |
| California State Treasurer - LAIF | LAIF | \$ 3,405,386 | \$ 3,393,177 |
| Dreyfus Treasury and Agency | U.S. Treasury Obligations | - | 2,674 |

NOTE 3 – ACCOUNTS RECEIVABLE – WATER SALES AND SERVICES, NET

The balance at June 30 consists of the following:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------------------|---------------------|---------------------|
| Accounts receivable - water sales and services | \$ 5,355,465 | \$ 4,155,246 |
| Allowance for uncollectable accounts | <u>(97,370)</u> | <u>(129,232)</u> |
| Accounts Receivable - Water Sales, Net | <u>\$ 5,258,095</u> | <u>\$ 4,026,014</u> |

Customer bills are generated and mailed-out in cycles. As a result of the monthly billing cut-offs, an accrual of \$543,524 and \$404,977 for the FY 2016 and FY 2015, respectively, were recorded to accrue revenues for bills not recorded and mailed-out by the fiscal year end. These amounts were produced and mailed-out subsequent to the fiscal year end.

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the provision for doubtful accounts and the write-off of those accounts.

NOTE 4 – PREPAID CENTRAL COAST WATER AUTHORITY SOURCE OF SUPPLY COSTS

In 1991, the voters of the District elected to participate in the State Water Project (SWP). As a result, the District joined in the formation of the Central Coast Water Authority (CCWA) in August 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 project participant, including the District, has entered into a Water Supply Agreement to provide for the development, financing, construction, operation and maintenance of the CCWA Project. The purpose of the Water Supply Agreement 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 Project participants to buy, a specified amount of water from CCWA (“take or pay”); and (2) assigning the project participant’s entitlement rights in the SWP to CCWA. Although the District does have an ongoing financial interest pursuant to the Water Supply Agreement between the District and CCWA, the District does not have an equity interest in the CCWA Project.

Each project participant is required to pay to CCWA an amount equal to its share of the total “fixed project costs” and certain other costs in the proportion established in the Water Supply Agreement. This includes the 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 operation and administrative costs.

CCWA is composed of eight voting members, all of which are public agencies. CCWA was organized and exists under a joint exercise of power agreement among the various participating public agencies. The Board of Directors of CCWA is made up of one representative from each participating entity. Votes on the Board of Directors of CCWA are approximately apportioned between the entities based upon each entity’s allocation of State water entitlement. The District’s share of the project, based upon number of acre-feet of water, is 17.2%.

NOTE 4 – PREPAID CENTRAL COAST WATER AUTHORITY SOURCE OF SUPPLY COSTS

(Continued)

Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

Each project participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. Each project 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 payment required pursuant to the Water Supply Agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

Per CCWA, the District's estimated payments for State Water infrastructure for the next ten fiscal years are summarized below:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|----------------------|
| 2017 | \$ 8,311,551 |
| 2018 | 8,977,666 |
| 2019 | 8,809,107 |
| 2020 | 9,300,081 |
| 2021 | 9,532,863 |
| 2022-2026 | <u>40,509,090</u> |
| Total | <u>\$ 85,440,358</u> |

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

NOTE 5 – CAPITAL ASSETS

Changes in capital assets for the current year were as follows:

| | <u>Balance 2015</u> | <u>Additions/ Transfers</u> | <u>Deletions/ Transfers</u> | <u>Balance 2016</u> |
|---------------------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Capital Assets, not being depreciated: | | | | |
| Land and land rights | \$ 549,325 | \$ - | \$ - | \$ 549,325 |
| Construction-in-process | <u>9,426,681</u> | <u>10,278,542</u> | <u>(8,362,505)</u> | <u>11,342,718</u> |
| Total Capital Assets, not being depreciated | <u>9,976,006</u> | <u>10,278,542</u> | <u>(8,362,505)</u> | <u>11,892,043</u> |
| Depreciable Capital Assets: | | | | |
| Transmission and distribution system | 61,517,021 | 2,674,700 | - | 64,191,721 |
| Recycled water system | 24,930,517 | - | - | 24,930,517 |
| Water treatment plan/equipment | 36,595,710 | 1,634,597 | (54,337) | 38,175,970 |
| Wells | 10,325,519 | 2,435,621 | (973,803) | 11,787,337 |
| Pumping equipment | 2,067,705 | 690,322 | (426,638) | 2,331,389 |
| Structures and improvements | 3,081,085 | 660,698 | (3,250) | 3,738,533 |
| Other plant and equipment | 5,369,301 | 335,590 | (492,239) | 5,212,652 |
| Capitalized interest | <u>2,270,856</u> | <u>-</u> | <u>-</u> | <u>2,270,856</u> |
| Total Depreciable Capital Assets | 146,157,714 | 8,431,528 | (1,950,267) | 152,638,975 |
| Accumulated Depreciation: | | | | |
| Transmission and distribution system | (29,447,397) | (1,499,011) | - | (30,946,408) |
| Recycled water system | (16,462,552) | (807,346) | - | (17,269,898) |
| Water treatment plan/equipment | (11,656,571) | (1,202,541) | 54,337 | (12,804,775) |
| Wells | (4,283,457) | (427,888) | 971,812 | (3,739,533) |
| Pumping equipment | (1,038,274) | (77,244) | 426,638 | (688,880) |
| Structures and improvements | (1,637,794) | (126,774) | 3,250 | (1,761,318) |
| Other plant and equipment | (4,496,483) | (198,308) | 443,649 | (4,251,142) |
| Capitalized interest | <u>(233,522)</u> | <u>(45,417)</u> | <u>-</u> | <u>(278,939)</u> |
| Total Accumulated Depreciation | <u>(69,256,050)</u> | <u>(4,384,529)</u> | <u>1,899,686</u> | <u>(71,740,893)</u> |
| Total Depreciable Capital Assets, Net | <u>76,901,664</u> | <u>4,046,999</u> | <u>(50,581)</u> | <u>80,898,082</u> |
| Total Capital, Net | <u>\$ 86,877,670</u> | <u>\$ 14,325,541</u> | <u>\$ (8,413,086)</u> | <u>\$ 92,790,125</u> |

NOTE 5 – CAPITAL ASSETS (Continued)

Changes in capital assets for the prior year were as follows:

| | Balance 2014 | Additions/ Transfers | Deletions/ Transfers | Balance 2015 |
|----------------------------------------------------|----------------------|-------------------------|-------------------------|----------------------|
| Capital Assets, not being depreciated: | | | | |
| Land and land rights | \$ 549,325 | \$ - | \$ - | \$ 549,325 |
| Construction-in-process | 4,689,069 | 7,641,968 | (2,904,356) | 9,426,681 |
| Total Capital Assets, not being depreciated | 5,238,394 | 7,641,968 | (2,904,356) | 9,976,006 |
| Depreciable Capital Assets: | | | | |
| Transmission and distribution system | 58,961,410 | 2,629,150 | (73,539) | 61,517,021 |
| Recycled water system | 24,993,007 | - | (62,490) | 24,930,517 |
| Water treatment plan/equipment | 40,499,807 | 128,663 | (4,032,760) | 36,595,710 |
| Wells | 10,325,519 | - | - | 10,325,519 |
| Pumping equipment | 2,923,651 | 23,011 | (878,957) | 2,067,705 |
| Structures and improvements | 3,206,589 | - | (125,504) | 3,081,085 |
| Other plant and equipment | 8,088,391 | 123,532 | (2,842,622) | 5,369,301 |
| Capitalized interest | 2,270,856 | - | - | 2,270,856 |
| Total Depreciable Capital Assets | 151,269,230 | 2,904,356 | (8,015,872) | 146,157,714 |
| Accumulated Depreciation: | | | | |
| Transmission and distribution system | (28,085,806) | (1,425,073) | 63,482 | (29,447,397) |
| Recycled water system | (15,697,388) | (808,907) | 43,743 | (16,462,552) |
| Water treatment plan/equipment | (14,574,633) | (1,114,698) | 4,032,760 | (11,656,571) |
| Wells | (3,890,545) | (392,912) | - | (4,283,457) |
| Pumping equipment | (1,856,806) | (60,425) | 878,957 | (1,038,274) |
| Structures and improvements | (1,622,907) | (118,571) | 103,684 | (1,637,794) |
| Other plant and equipment | (7,129,518) | (188,505) | 2,821,540 | (4,496,483) |
| Capitalized interest | (188,105) | (45,417) | - | (233,522) |
| Total Accumulated Depreciation | (73,045,708) | (4,154,508) | 7,944,166 | (69,256,050) |
| Total Depreciable Capital Assets, Net | 78,223,522 | (1,250,152) | (71,706) | 76,901,664 |
| Total Capital, Net | \$ 83,461,916 | \$ 6,391,816 | (2,976,062) | \$ 86,877,670 |

In FY 2016, major capital asset additions during the year included various projects and upgrades to District transmission and distribution systems as well as upgrades to increase water production from the District's wells. The District also replaced over 900 meters that were less than 2 inches during the fiscal year. A portion of these additions were transferred out of construction-in-process upon completion of these various projects.

In FY 2015, major capital asset additions during the year included various projects and upgrades to District transmission and distribution systems, other plant equipment and related capital interest. The District also replaced over 700 meters that were 2 inches and greater in meter size during the fiscal year. A portion of these additions were constructed by the District and transferred out of construction-in-process upon completion of these various projects.

The amount of interest costs capitalized in FY 2016 and FY 2015 were \$373,197 and \$314,979, respectively. Total interest costs incurred before capitalized interest during FY 2016 and FY 2015 were \$2,351,461 and \$2,368,734, respectively.

NOTE 5 – CAPITAL ASSETS (Continued)**Construction-In-Process**

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

| | <u>2016</u> | <u>2015</u> |
|------------------------------------------------------|----------------------|---------------------|
| General Wells Upgrade and Management | \$ 3,106,841 | \$ - |
| Corona Del Mar – Sludge Bed Construction | 1,644,696 | 1,210,379 |
| Smart Meter Pilot Program | 1,153,862 | - |
| Villages at Los Carneros | 431,842 | - |
| 7000 Hollister Mixed Use (Westar) | 367,082 | 324,078 |
| Berkeley Well Project Upgrade | 338,025 | - |
| Shirrel Well Upgrade | 301,056 | - |
| SBD #2 Sand Replacement | 289,837 | - |
| DEV-Haskells Landing (Residences at Sandpiper) | 255,320 | 221,750 |
| University of California, Santa Barbara Sierra Madre | 254,879 | 239,434 |
| Airport Well Upgrade | 212,989 | 246,478 |
| Sherpa Data Warehouse | 194,698 | 182,298 |
| Santa Barbara Corp Well Upgrade | 170,217 | - |
| San Ricardo Booster Pump | 166,470 | - |
| San Marcos Well Upgrade | 160,536 | - |
| Anita Well Upgrade | 150,898 | - |
| Corona Del Mar – Process Improvements | - | 1,417,478 |
| Anita & San Ricardo Pipeline | - | 705,839 |
| University Well Project | - | 659,523 |
| San Ricardo Well Project | - | 591,953 |
| Architectural Improvements | - | 552,914 |
| Van Horne Generator Replacement and Study | - | 528,345 |
| Santa Antonio Well Project | - | 221,680 |
| Copper service line replacements | - | 131,926 |
| USBR Title Transfer | - | 130,712 |
| Various other minor projects | 2,143,470 | 2,061,894 |
| | <u>2,143,470</u> | <u>2,061,894</u> |
| Construction-in-Process | <u>\$ 11,342,718</u> | <u>\$ 9,426,681</u> |

NOTE 6 – PREPAID BOND INSURANCE PREMIUMS

The prepaid balance relates to the bond insurance issuance costs for the 2014 Series A COP. The prepaid charges are being amortized over a 10 year period, consistent with the terms of the COP. The prepaid charges net balances are as follows.

The balance at June 30 consists of the following:

| | <u>2016</u> | <u>2015</u> |
|--------------------------|------------------|------------------|
| Prepaid charges | \$ 53,820 | \$ 59,535 |
| Accumulated amortization | <u>(5,715)</u> | <u>(5,715)</u> |
| Prepaid Charges, Net | <u>\$ 48,105</u> | <u>\$ 53,820</u> |

NOTE 7 – DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

The deferred outflows of resources balance at June 30, 2016, consists of:

| | Balance 2015 | Additions | Amortization | Balance 2016 |
|-----------------------------------------------------------------------|---------------------|---------------------|-----------------------|---------------------|
| Deferred charge from 2010 refunding | \$ 1,377,550 | \$ - | \$ (163,971) | \$ 1,213,579 |
| Deferred charge from 2014 refunding | 48,721 | - | 3,336 | 52,057 |
| Deferred pension - contributions | 1,816,670 | 2,050,356 | (1,816,670) | 2,050,356 |
| Deferred pension - differences between actual and expected experience | - | 74,671 | (19,650) | 55,021 |
| Deferred pension - change in actual vs. proportional contributions | 585,456 | 425,139 | (320,970) | 689,625 |
| Deferred Outflows of Resources | <u>\$ 3,828,397</u> | <u>\$ 2,550,166</u> | <u>\$ (2,317,925)</u> | <u>\$ 4,060,638</u> |

The deferred inflows of resources balance at June 30, 2016, consists of:

| | Balance 2015 | Additions | Amortization | Balance 2016 |
|------------------------------------------------------------------|---------------------|-----------------------|---------------------|-------------------|
| Deferred pension - proportionate share of investment return | \$ 2,537,893 | \$ (2,183,736) | \$ (197,726) | \$ 156,431 |
| Deferred pension - change in assumptions | - | 706,459 | (185,910) | 520,549 |
| Deferred pension - adjustments due to differences in proportions | 35,467 | (246,700) | 52,254 | (158,979) |
| Deferred Inflows of Resources | <u>\$ 2,573,360</u> | <u>\$ (1,723,977)</u> | <u>\$ (331,382)</u> | <u>\$ 518,001</u> |

NOTE 8 – COMPENSATED ABSENCES

Changes to compensated absences for 2016 were as follows:

| Balance 2015 | Earned | Taken | Balance 2016 | Current Portion | Long-Term Portion |
|---------------------|-------------------|---------------------|---------------------|--------------------|----------------------|
| <u>\$ 1,213,467</u> | <u>\$ 955,268</u> | <u>\$ (879,737)</u> | <u>\$ 1,288,998</u> | <u>\$ 338,747</u> | <u>\$ 950,251</u> |

Changes to compensated absences for 2015, were as follows:

| Balance 2014 | Earned | Taken | Balance 2015 | Current Portion | Long-Term Portion |
|---------------------|-------------------|---------------------|---------------------|--------------------|----------------------|
| <u>\$ 1,075,343</u> | <u>\$ 891,214</u> | <u>\$ (753,090)</u> | <u>\$ 1,213,467</u> | <u>\$ 319,067</u> | <u>\$ 894,400</u> |

NOTE 9 – LONG-TERM DEBT INCLUDED IN NON-CURRENT LIABILITIES

Changes in long-term debt amounts for the current year were as follows:

| | Balance 2015 | Additions/ (Deletions) | Principal Payments/ Amortization | Balance 2016 |
|-------------------------------------|----------------------|---------------------------|----------------------------------------|----------------------|
| Debt: | | | | |
| 2010A Certificates of participation | \$ 33,915,000 | \$ - | \$ - | \$ 33,915,000 |
| 2014A Certificates of participation | 18,005,000 | - | (1,065,000) | 16,940,000 |
| Total Debt | 51,920,000 | - | (1,065,000) | 50,855,000 |
| Unamortized premium, net | 1,721,081 | - | (297,822) | 1,423,259 |
| Total Net Debt | 53,641,081 | - | (1,362,822) | 52,278,259 |
| Less Current Portion | (1,065,000) | (1,105,000) | 1,065,000 | (1,105,000) |
| Net Long-Term Debt | <u>\$ 52,576,081</u> | <u>\$ (1,105,000)</u> | <u>\$ (297,822)</u> | <u>\$ 51,173,259</u> |

2003 Refunding Certificates of Participation Payable

The 2003 COP in the amount of \$47,000,000 were executed on October 16, 2003. The funds were used to refund the 1993 Goleta Water District Refunding Revenue COP and to finance certain improvements to the District's water supply, treatment and distribution systems.

The 2003 COP has been fully refunded with the issuance of the \$33,915,000 2010 Series A Revenue COP followed by the issuance of the \$19,050,000 2014 Series A Revenue COP. For financial reporting purposes, the refunded portion of 2003 COP is considered defeased and not reported in these financial statements.

Following are the three capital improvement projects financed from the COP proceeds:

- Upgrades and improvements to the District's Corona del Mar Treatment Plant, which were needed to meet state and federal water quality standards;
- Replacement and enlargement of the Patterson Reservoir, which were needed to add additional water storage capacity; and
- Rehabilitation of six Aquifer Storage and Recovery (ASR) wells, which were necessary to meet demand during droughts, peak use periods, and emergencies.

2010 Series A Certificates of Participation Payable

On August 26, 2010, the District issued the \$33,915,000 2010 Series A Revenue COP to (i) refund a portion of the 2003 COP; (ii) refund outstanding bank loans and related financing costs; (iii) refund outstanding amounts under a loan contract with the State Water Resources Control Board; (iv) fund \$5,000,000 of improvements to the water system; (v) fund a reserve; and (vi) pay related costs of execution and delivery of the 2010 Series A COP.

The advanced refund of the 2003 COP resulted in an economic loss of approximately \$1.7 million and a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1.6 million. The difference, reported in the accompanying financial statements as Deferred Outflows of Resources, is being charged to interest through the fiscal year ended June 30, 2025, using the straight line method.

Interest is payable semi-annually on March 1st and September 1st of each year commencing March 1, 2012, with interest rates ranging from 4.25% to 5.00%. Principal payments are scheduled to commence on September 1, 2025, and continue through September 1, 2035. The revenue COP is secured by a pledge of the District's revenues.

NOTE 9 – LONG-TERM DEBT INCLUDED IN NON-CURRENT LIABILITIES (Continued)

2010 Series A Certificates of Participation Payable (Continued)

The capital improvement projects financed from \$5,000,000 of the COP proceeds include:

- Cathedral Oaks Highway 101 overcrossing;
- Old Town Goleta waterline replacement;
- Santa Barbara County El Embarcadero system improvements;
- San Antonio well purchase;
- Anita Wellhead treatment plant;
- Relocation of the Goleta Beach recycled waterline;
- Recycled water booster pump controls rebuild; and
- Other plant and infrastructure replacements.

Annual debt service payments are as follows:

| <u>Fiscal Year(s)</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|----------------------|----------------------|----------------------|
| 2017 | \$ - | \$ 1,649,738 | \$ 1,649,738 |
| 2018 | - | 1,649,738 | 1,649,738 |
| 2019 | - | 1,649,738 | 1,649,738 |
| 2020 | - | 1,649,738 | 1,649,738 |
| 2021 | - | 1,649,738 | 1,649,738 |
| 2022-2026 | 2,400,000 | 8,197,688 | 10,597,688 |
| 2027-2031 | 13,840,000 | 6,134,719 | 19,974,719 |
| 2032-2036 | <u>17,675,000</u> | <u>2,296,375</u> | <u>19,971,375</u> |
| Total | <u>33,915,000</u> | <u>\$ 24,877,472</u> | <u>\$ 58,792,472</u> |
| Total Non-Current | <u>\$ 33,915,000</u> | | |

2014 Series A Certificates of Participation Payable

On January 22, 2014, the District issued the \$19,050,000 2014 Series A Revenue COP to (i) refund a portion of the 2003 Revenue Certificates of Participation; (ii) fund \$5,540,575 of improvements to the water system; and (iii) pay related costs of execution and delivery of the 2014 Series A COP.

The advanced refund resulted in an economic loss of approximately \$199,495 and a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$40,865. The difference, reported in the accompanying financial statements as Deferred Outflows of Resources, is being charged to interest through the fiscal year ended June 30, 2025, using the straight line method.

Interest is payable semi-annually on June 1st and December 1st of each year commencing June 1, 2014, with interest rates ranging from 2.00% to 5.00%. Principal payments are scheduled to commence on December 1, 2014, and continue through December 1, 2024. The revenue COP is secured by a pledge of District revenues.

The capital improvement projects intended to be financed from \$5,540,575 of the COP proceeds include:

- Improvements to the Corona del Mar Water Treatment Plant for process enhancements;
- Distribution system reliability improvements, including booster systems upgrades, new valves, system interconnection improvements and mainline replacements;
- Meter replacements;
- Well augmentations to support groundwater pumping and injections capabilities;
- Renewable energy generating projects; and
- Other plant and infrastructure replacements.

NOTE 9 – LONG-TERM DEBT INCLUDED IN NON-CURRENT LIABILITIES (Continued)

Annual debt service payments are as follows:

| <u>Fiscal Year(s)</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|----------------------|---------------------|----------------------|
| 2017 | \$ 1,105,000 | \$ 802,350 | \$ 1,907,350 |
| 2018 | 1,150,000 | 757,250 | 1,907,250 |
| 2019 | 1,200,000 | 704,250 | 1,904,250 |
| 2020 | 1,260,000 | 642,750 | 1,902,750 |
| 2021 | 1,315,000 | 578,375 | 1,893,375 |
| 2022-2025 | <u>10,910,000</u> | <u>1,242,000</u> | <u>12,152,000</u> |
| Total | 16,940,000 | <u>\$ 4,726,975</u> | <u>\$ 21,666,975</u> |
| Less current portion | <u>(1,105,000)</u> | | |
| Total Non-Current | <u>\$ 15,835,000</u> | | |

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (OPEB)

In addition to the pension benefits described in Note 12, the District provides other OPEB.

Plan Description – Eligibility

The District administers its post employment benefits plan (Plan), a single-employer defined benefit plan. The following requirements must be satisfied for employees hired on or before August 12, 2014, in order to be eligible for lifetime post employment medical benefits: (1) Attainment of age 50, 5 years of consecutive full-time service, and (2) Retirement from the California Public Employees' Retirement System (CalPERS) and from the District (the District must be the last employer prior to retirement). Employees hired after August 12, 2014, have the same eligibility criteria except they must be at least 52 years of age, and have 10 years of service.

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

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|-----------------------------------------------|-------------|-------------|-------------|
| Active plan members | 64 | 61 | 59 |
| Retirees and beneficiaries receiving benefits | <u>49</u> | <u>48</u> | <u>47</u> |
| Total Plan Membership | <u>113</u> | <u>109</u> | <u>106</u> |

Plan Description – Benefits

The District offers post employment health care, dental care, and vision care benefits to retired employees who satisfy the eligibility rules. Retirees hired on or before August 12, 2014, may enroll in any plan available through the District and Association of California Water Agencies Joint Powers Insurance Authority (JPIA), but are not eligible to change plans. Retirees hired after August 12, 2014, who satisfy the eligibility criteria will receive \$20 per month for each year of service toward the purchase of their own health care benefits until reaching age 65. The benefit provisions and the contribution requirements of Plan members and the District are established and may be amended by the Board of Directors and the Service Employees International Union Local 620 (SEIU).

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (OPEB) (Continued)

Funding Policy

The District is required to contribute the Annual Required Contribution (ARC) of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The District has elected to calculate the ARC and related information using the alternative measurement method permitted by 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 current ARC rate is 13.3% of the annual covered payroll.

The District contributes a fixed amount for health care benefits, a fixed amount for dental care, and 100% of the premium for vision. 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 records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual OPEB Cost and Net OPEB Obligation

The balance at June 30 consists of the following:

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---------------------------------------------|---------------------|---------------------|---------------------|
| Annual OPEB expense: | | | |
| ARC | \$ 850,507 | \$ 850,507 | \$ 850,507 |
| Interest on net OPEB obligation | 218,566 | 197,721 | 176,255 |
| Adjustment to annual required contribution | <u>(225,908)</u> | <u>(204,363)</u> | <u>(182,176)</u> |
| Total Annual OPEB Expense | 843,165 | 843,865 | 844,586 |
| Change in net OPEB payable obligation: | | | |
| Age adjusted contributions made | <u>(392,997)</u> | <u>(380,653)</u> | <u>(367,559)</u> |
| Total Change in Net OPEB Payable Obligation | 450,168 | 463,212 | 477,027 |
| OPEB Payable - Beginning of Year | <u>4,857,015</u> | <u>4,393,803</u> | <u>3,916,776</u> |
| OPEB Payable - Fiscal Year End | <u>\$ 5,307,183</u> | <u>\$ 4,857,015</u> | <u>\$ 4,393,803</u> |

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for FY 2016 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Age Adjusted Contribution</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation Payable</u> |
|--------------------------|-------------------------|----------------------------------|---------------------------------------------------|------------------------------------|
| 2016 | \$ 843,165 | \$ 392,997 | 46.6% | \$ 5,307,183 |
| 2015 | 843,865 | 380,653 | 45.1% | 4,857,015 |
| 2014 | 844,586 | 367,559 | 43.5% | 4,393,803 |

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (OPEB) (Continued)

Funded Status and Funding Progress of the Plan

Using the most recent actuarial valuation dated July 1, 2014, the following is the funded status of the Plan:

| Actuarial Valuation Date | Actuarial Liability (AAL) (a) | Actuarial Value of Plan Assets (b) | Unfunded Actuarial Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percent of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|------------------------------------|-------------------------------------------|--------------------|---------------------|------------------------------------------------|
| 7/1/2014 | \$ 9,964,857 | \$ - | \$ 9,964,857 | 0% | \$ 6,387,131 | 156.02% |

Actuarial Methods and Assumptions

In FY 2015, the District retained a professional actuary to independently assess the District's OPEB liability. The actuarial methods and assumptions were updated, including techniques designed to reduce short-term volatility in AAL and the actuarial value of assets, consistent with the long-term perspective of the calculations. The required supplemental schedule of funding progress immediately following the notes presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

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.

Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 60. At retirement, 80% of retirees are assumed to be married, and marital status is adjusted to reflect mortality. Life expectancy was based on the CalPERS mortality for miscellaneous employees. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using the CalPERS turnover rate of miscellaneous employees for other employees.

Based on the number of Plan participants, GASB Statement No. 45 requires the District to examine the existing liability for retiree benefits as well as future annual expected premium costs triennially. The District's Actuarial Study of Retiree Health Liabilities was last prepared on August 28, 2014, and a revaluation is not required until July 1, 2017, unless a major Plan change is likely to cause a material change in accrual costs and/or liabilities.

The following is a summary of the actuarial assumptions and methods used by a certified actuary when determining District OPEB obligations:

| | |
|-------------------------------|---------------------------------------|
| Valuation date | July 1, 2014 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll amortization |
| Remaining amortization period | 26 years as of the valuation date |
| Actuarial assumptions: | |
| Investment rate of return | 4.50% |
| Projected salary increase | 2.75% |
| Inflation - discount rate | 2.75% |
| Individual salary growth | 2.75% |
| Trend | 4.00% |

NOTE 11 – 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. Actual employee contributions for FY 2016 and 2015 were \$237,234 and \$195,117, respectively. Market value of all Plan assets held in trust by the District's three deferred compensation plans at June 30, 2016 and 2015 amounted to \$3,347,377 and \$3,159,832, respectively.

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

NOTE 12 – DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous (all other) Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

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

On August 9, 2011, as a result of negotiations with SEIU, a two-tiered retirement program was introduced similar to programs instituted by other agencies participating in the CalPERS. On January 1, 2013, the State of California implemented legislation setting a new maximum benefit, a lower-cost pension formula with requirements to work longer in order to reach full retirement age and a cap on the amount used to calculate a pension for new members hired on or after January 1, 2013, creating a three-tier retirement program for the District. On August 27, 2014, as a result of negotiations with SEIU, the District initiated a three-year process to require employees to pay their full normal share of pension costs with employee cost increases effective January 1, 2015, January 1, 2016, and January 1, 2017.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

- All employees hired prior to January 1, 2012, are members of the CalPERS 2.7% at 55 Risk Pool Retirement Plan for which the employee contribution rate is 8% of their annual covered salaries. Effective June 30, 2016, employees in this retirement plan pay 5.66% of their annual covered salaries and the District makes the remaining required employee contribution;

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

A. General Information about the Pension Plan (Continued)

- Employees hired during calendar year 2012 or employees hired on or after January 1, 2013, who have been in the CalPERS systems are members of the CalPERS 2.0% at 55 Risk Pool Retirement Plan for which the employee contribution rate is 7% of their annual covered salaries. Effective June 30, 2016, employees in this retirement plan pay 5% of their annual covered salaries and the District makes the remaining required employee contribution;
- Employees hired on or after January 1, 2013, who have not previously participated in the CalPERS system or who have been out of the CalPERS system for more than six months are members of the CalPERS 2.0% at 62 Risk Pool Retirement Plan for which the employee contribution rate is 6.25% of their annual covered salaries. Employees in this plan pay the full employee contribution;
- Effective January 1, 2017, all other employees are required to pay up to 50% of the normal costs of their pension benefit; up to a maximum 8% of the contribution rate.

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 both Plans are 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.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

| | <u>Miscellaneous</u> |
|---------------------------------------------|----------------------|
| Contributions - Employer | \$ 1,553,858 |
| Contributions - Employee (Paid by Employer) | \$ 188,619 |

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of \$11,021,977.

The District’s net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District’s proportionate share of the net pension liability as of June 30, 2014 and 2015, was as follows:

| | <u>Miscellaneous</u> |
|----------------------------|----------------------|
| Proportion - June 30, 2014 | 0.41% |
| Proportion - June 30, 2015 | 0.40% |
| Change - Decrease | -0.01% |

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended June 30, 2016, the District recognized a pension expense of \$504,135. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Pension Contributions Subsequent to Measurement Date | \$ 2,050,356 | \$ - |
| Differences between Actual and Expected Experience | 55,021 | - |
| Changes in Assumptions | - | 520,549 |
| Change in Proportion | - | (158,979) |
| Change in Differences between the Employer's Contributions and the Employer's Proportionate Share of Contributions | 689,625 | - |
| Net Differences between Projected and Actual Earnings on Plan Investments | - | 156,431 |
| | <u>-</u> | <u>156,431</u> |
| Total | <u>\$ 2,795,002</u> | <u>\$ 518,001</u> |

\$2,050,356 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Year Ended June 30,</u> | |
|--------------------------------|---------------------|
| 2017 | \$ (9,237) |
| 2018 | 30,049 |
| 2019 | 189,293 |
| 2020 | (436,750) |
| 2021 | - |
| Thereafter | <u>-</u> |
| Total | <u>\$ (226,645)</u> |

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

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

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

| | <u>Miscellaneous</u> | |
|---------------------------|---------------------------------------------------------------------------------------------|-----|
| Valuation Date | June 30, 2014 | |
| Measurement Date | June 30, 2015 | |
| Actuarial Cost Method | Entry Age Normal | |
| Actuarial Assumptions: | | |
| Discount Rate | 7.65% | |
| Inflation | 2.75% | |
| Salary Increases | Varies | (1) |
| Investment Rate of Return | 7.50% | (2) |
| Mortality | Derived using CalPERS' Membership Data | |
| Port Retirement Benefit | Contract COLA up to 2.75% until Purchasing Power Purchasing Power applies, 2.75% thereafter | |
| Increase | | |

(1) Depending on age, service, and type of employment.

(2) Net of pension plan investment expenses, including inflation.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require the District's Board of Directors action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements 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 it has changed its methodology.

NOTE 12 – DEFINED BENEFIT 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 of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were 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 was 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 | 47.00% | 5.25% | 5.71% |
| Global Fixed Income | 19.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 12.00% | 6.83% | 6.95% |
| Real Estate | 11.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | -0.55% | -1.05% |
| Total | <u>100.00%</u> | | |

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, 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 one percentage point lower or one percentage point higher than the current rate:

| | <u>Miscellaneous</u> |
|------------------------------------------------|----------------------|
| 1% Decrease Net Pension Liability | \$ 18,484,624 |
| Current Discount Rate Net Pension Liability | \$ 11,021,977 |
| 1% Increase Net Pension Liability | \$ 4,860,695 |

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 13 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/JPIA (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 excess insurance coverage. At June 30, 2016, the District participated in the liability and property programs and Worker's Compensation Program of the ACWA/JPIA as follows:

General and auto liability, and public officials and employees' errors and omissions: Total risk financing pooled self-insurance limits of \$2,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers in the amount of \$58 million which increases the limits on the insurance coverage noted above.

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

Employee dishonesty coverage up to \$100,000 per occurrence includes public employee dishonesty, forgery or alteration and computer fraud coverage; and Excess Crime Coverage for up to \$1,000,000 per occurrence.

Property loss coverage: Total risk financing pooled self-insurance limits of \$100,000 subject to a \$10,000 deductible per occurrence. ACWA/JPIA has purchased coverage for its members with a total policy limit (all members) of \$100 million.

Boiler and machinery coverage: Total risk financing pooled self-insurance limits of \$100,000 per occurrence, subject to various deductibles depending on the type of equipment.

Workers' compensation insurance up to California statutory limits for all work related injuries and illnesses covered by California law. The ACWA/JPIA liability limit is \$2 million per accident/disease. ACWA/JPIA has purchased excess coverage for its members with a total policy limit (all members) from \$2 million to Statutory Limits.

After a sustained period of low claims by the District, ACWA/JPIA refunded approximately \$6,000 in April 2014 as part of a rate stabilization program that is designed to calibrate premiums versus claims for each pooled insurance program. Settled claims have not exceeded any of the coverage amounts in any of the last two fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 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). IBNR claims payable as of June 30, 2016 and 2015, were \$132,523 and \$74,010, respectively.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Goleta West Conduit Project

The California State Health Department requires that all surface water supplied to customers be filtered and meet certain requirements as part of the treatment process. Currently, the District supplies treated surface water to customers on its Goleta West Conduit. The water is not filtered, does not meet the Health Department's requirements and therefore, cannot be used for domestic consumption. In order to provide potable water to these customers for domestic consumption the District currently provides bottled water. A pipeline, booster pump station, and reservoir might be built in the future depending on regulations and requirements of the Environmental Protection Agency (EPA) and State Health Department. The District has completed an analysis of treatment alternatives for necessary system improvements to provide filtered potable water to these customers which could be used for domestic consumption. The cost was found to be prohibitive for the limited number of customers.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

The Cachuma Lake Project – Seismic Safety of Bradbury Dam

On December 19, 1994, the U.S. Bureau of Reclamation (Bureau), the owner of Bradbury Dam, issued a letter indicating that as part of the ongoing Safety of Dams evaluation of Bradbury Dam, the Bureau determined that dam failure would likely occur during a large earthquake. The Bureau further determined that there was a risk to the downstream public should failure occur when the reservoir is above Elevation 750 feet. Immediate actions were needed to reduce this risk. Foundation modifications have been completed, and the reservoir can now be operated safely at Elevation 750 feet, which is the design capacity of the reservoir.

The total cost of the seismic modification project as proposed by the Bureau was \$45.3 million. The Member Units are required to collectively contribute 15% of the project's total cost for a total obligation of \$6.8 million. The amount and manner in which costs are apportioned among Member Units is according to the following: the obligation is split 48.7% municipal and industrial and 51.3% irrigation with a fifty year total repayment period beginning October 2002. The District's share is based on the same 36.25% which is applied to the Cachuma entitlement. The District is required to make annual payments of \$59,765 through October 2015, \$94,847 commencing October 2016 through 2026, and \$35,082 commencing October 2027 through 2051 to finance the project. The District's future obligations are as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|---------------------|
| 2017 | \$ 94,847 |
| 2018 | 94,847 |
| 2019 | 94,847 |
| 2020 | 94,847 |
| 2021 | 94,847 |
| Thereafter | <u>1,446,755</u> |
| Total | <u>\$ 1,920,990</u> |

The Cachuma Lake Project – Seismic Safety of Lauro Dam

On December 19, 1994, the U.S. Bureau of Reclamation (Bureau), the owner of Lauro Dam, issued a letter indicating that as part of the ongoing Safety of Dams evaluation of Lauro Dam, the Bureau determined that dam failure would likely occur during a large earthquake. The Bureau further determined that there was a risk to the downstream public, including potential loss of life and reduction of the available water supply. Immediate actions were needed to reduce this risk. Modifications have been completed, and the reservoir can now be operated safely at a crest height of 137 feet.

The total cost of the seismic modification project as proposed by the Bureau was \$6.0 million. The Member Units are required to collectively contribute 15% of the project's total cost for a total obligation of \$896,000. The amount and manner in which costs are apportioned among Member Units is according to the following: the obligation is split 49.3% municipal and industrial and 50.7% irrigation with a fifty-year total repayment period beginning October 2008. The District's share is based on the same 40.42% which is applied to the Cachuma entitlement. The District is required to make annual payments of \$17,345 through October 2057 to finance the project. The District's future obligations are as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|-------------------|
| 2017 | \$ 17,345 |
| 2018 | 17,345 |
| 2019 | 17,345 |
| 2020 | 17,345 |
| 2021 | 17,345 |
| Thereafter | <u>317,503</u> |
| Total | <u>\$ 404,228</u> |

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from advances for construction. At June 30, 2016, the District held \$371,456 related to such agreements.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would be insignificant.

Goleta Sanitary District Recycled Water Facility

Since 1995, as an environmental sustainability effort, the District has delivered recycled water to certain users in the community. This is done under the Agreement for Construction and Operation of the Goleta Sanitary District/Goleta Water District Wastewater Reclamation Project, by and between the District and the Goleta Sanitary District, dated October 15, 1990, and as amended by Amendment No. 1, Amendment No. 2, and Amendment No. 3 thereto. The Recycled Water Project has a capacity of approximately 3,000 acre-feet per year and the District is currently delivering approximately 1,000 acre-feet per year to the University of California at Santa Barbara, several golf courses, and other users previously using potable water for irrigation purposes. Per the agreement, the distribution system is owned and operated by the District, separate from the reclamation plant which is owned and operated by the Goleta Sanitary District. While the District has capitalized the assets associated with the distribution and recognizes the associated depreciation in these financial statements, the financial statements have not included any liability associated with replacing the reclamation plant.

Non-Exchange Financial Guarantee

On July 25, 2014, the District guaranteed \$2,016,000 of the seven year \$3,200,000 line of credit of the Cachuma Operations and Maintenance Board (COMB), a legally separate entity in which the District is a member agency. On July 25, 2014, COMB secured two loans: (1) \$2,000,000 non-revolving line-of-credit and (2) \$1,200,000 revolving line-of-credit to finance an emergency pumping project to cause and allow the pumping of water through installation of a floating platform mounted system to the existing lake inlet tower as the water levels at Lake Cachuma continue to diminish due to the current severe drought conditions. Both lines-of-credit mature on July 25, 2021, with quarterly interest payments. In the event that COMB is unable to make a payment, the District will be required to make that payment up to its guarantee amount of \$2,016,000.

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 statements.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 2, 2016, which is the date the financial statements were issued. There are no reportable events through this date.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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**GOLETA WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

**A COST SHARING DEFINED BENEFIT PENSION PLAN
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2016
LAST 10 YEARS***

| | <u>2016</u> | <u>2015</u> |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|
| Proportion of the Net Pension Liability | 0.40% | 0.41% |
| Proportionate Share of the Net Position Liability | \$ 11,021,977 | \$ 10,119,961 |
| Covered-Employee Payroll | \$ 6,435,748 | \$ 5,917,488 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll | 171.26% | 171.02% |
| Plan's Fiduciary Net Position | \$ 10,896,036,068 | \$ 10,639,461,174 |
| Plan's Total Pension Liability | \$ 13,639,503,084 | \$ 13,110,948,452 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 79.89% | 81.15% |

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

Notes to Schedule:

Benefit changes: In 2016 and 2015, there were no benefit changes.

Changes in assumptions: In 2016 and 2015, there were no changes in assumptions.

**GOLETA WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

**A COST SHARE PLAN DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2016
LAST 10 YEARS***

| | 2016 | 2015 |
|--------------------------------------------------------------------------|--------------|--------------|
| Contractually Required Contribution (Actuarially Determined) | \$ 1,584,725 | \$ 1,319,331 |
| Contributions in Relation to the Actuarially Determined Contributions | 2,050,356 | 1,319,331 |
| Contribution Deficiency (Excess) | \$ (465,631) | \$ - |
| Covered-Employee Payroll | \$ 6,435,748 | \$ 5,917,488 |
| Contributions as a Percentage of Covered- Employee Payroll | 31.86% | 22.30% |

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

Notes to Schedule:

Valuation date: June 30, 2014

Methods and assumptions used to determine contribution rates:

| | |
|---------------------------|------------------------------------------------------|
| Actuarial cost method | Entry Age Normal Cost Method |
| Amortization method | Level percent of payroll |
| Asset valuation method | Market Value |
| Inflation | 2.75% |
| Salary increases | 3.0%, average, including inflation of 2.75% |
| Investment rate of return | 7.5%, net of administrative expense |
| Retirement age | 55 - 62 yrs. |
| Mortality | Derived using CalPERS' Membership Data for all Funds |

**GOLETA WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

SCHEDULE OF FUNDING STATUS – OTHER POST EMPLOYMENT BENEFITS OBLIGATION

| Actuarial Valuation Date | Actuarial Accrued Liability (AAL) (a) | Actuarial Value of Plan Assets (b) | Unfunded Actuarial Accrued Liability (UAAL) (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percent of Covered Payroll ((b-a)/c) |
|--------------------------------|---------------------------------------------------|---------------------------------------------|------------------------------------------------------------------|--------------------------|---------------------------|------------------------------------------------------------|
| 7/1/2014 | \$ 9,964,857 | \$ - | \$ 9,964,857 | 0.00% | \$ 6,387,131 | 156.02% |
| 7/1/2011 | 9,964,857 | - | 8,151,680 | 0.00% | 5,104,324 | 159.70% |
| 6/30/2010 | 16,079,140 | - | 16,079,140 | 0.00% | 5,051,116 | 318.33% |
| 6/30/2009 | 15,530,050 | - | 15,530,050 | 0.00% | 4,623,141 | 335.92% |

Note:

This Schedule of Funding Status is presented for the years that an actuarial study has been prepared from the effective date of GASB Statement No. 45. Actuarial review and analysis of the post employment benefits liability and funding status is performed every three years or more often if there are significant changes to the plan. The next scheduled actuarial review and analysis of the post employment benefits liability and funding status will be performed based on the year ending June 30, 2017.

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STATISTICAL INFORMATION SECTION

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**GOLETA WATER DISTRICT
STATISTICAL SECTION
UNAUDITED**

The statistical section of the Comprehensive Annual Financial Report presents detailed information for context, and to better understand the information contained in the financial statements, note disclosures, and required supplementary information.

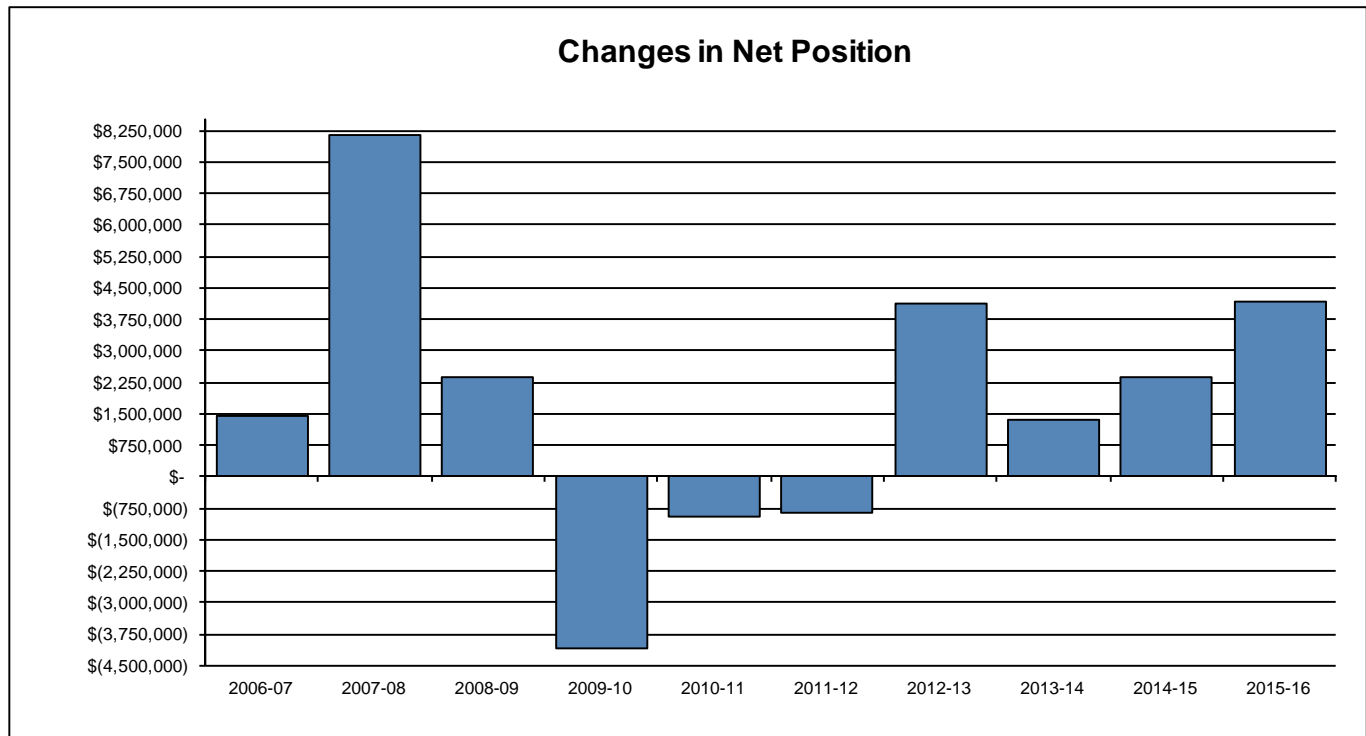
Table of Contents

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|--------------------------------------------------------------------------------------------------------------------------|-------|
| Financial Trends | 50-54 |
| Provides historical context to help the reader understand how District financial performance has changed over time. | |
| Revenue Capacity | 55-58 |
| Helps the reader assess the District's most significant sources of revenue. | |
| Debt Capacity | 59-60 |
| Informs the reader regarding the affordability of District debt and its ability to assume additional debt in the future. | |
| Demographic Information | 61 |
| Offers indicators to help the reader understand the community environment within which the District operates. | |
| Operating Information | 62 |
| Contains staffing levels and infrastructure data to help the reader understand how the District provides its services. | |

**GOLETA WATER DISTRICT
CHANGES IN NET POSITION BY COMPONENT
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 1

| Description | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 ⁽³⁾ |
|-------------------------------------------------------|----------------------|----------------------|----------------------|-----------------------|-------------------------------|
| Changes in net position: | | | | | |
| Operating revenues (see schedule 2) | \$ 23,275,841 | \$ 26,147,078 | \$ 25,245,709 | \$ 23,875,390 | \$ 22,975,387 |
| Operating expenses (see schedule 3) | (19,099,548) | (20,806,256) | (22,717,232) | (22,829,750) | (19,107,945) |
| Depreciation and amortization | (3,148,347) | (1,620,145) | (3,951,664) | (4,639,138) | (4,640,497) |
| Operating income | 1,027,946 | 3,720,677 | (1,423,187) | (3,593,498) | (773,055) |
| Net non-operating revenue(expense) (see schedule 4) | (392,509) | 3,541,627 | 3,510,204 | (1,734,390) | (481,665) |
| Net income (loss) before capital contributions | 635,437 | 7,262,304 | 2,087,017 | (5,327,888) | (1,254,720) |
| Capital contributions | 822,157 | 875,732 | 277,963 | 1,246,321 | 287,292 |
| Changes in net position | \$ 1,457,594 | \$ 8,138,036 | \$ 2,364,980 | \$ (4,081,567) | \$ (967,428) |
| Net position by component: | | | | | |
| Net investment in capital assets ⁽¹⁾ | \$ 35,613,775 | \$ 41,625,111 | \$ 42,404,294 | \$ 41,984,446 | \$ 31,738,373 |
| Restricted | 6,419,910 | 3,459,351 | 3,670,054 | 3,389,233 | 11,580,096 |
| Unrestricted | 2,855,045 | 7,942,304 | 9,317,398 | 5,936,500 | 8,551,029 |
| Total net position | \$ 44,888,730 | \$ 53,026,766 | \$ 55,391,746 | \$ 51,310,179 | \$ 51,869,498 |



Notes:

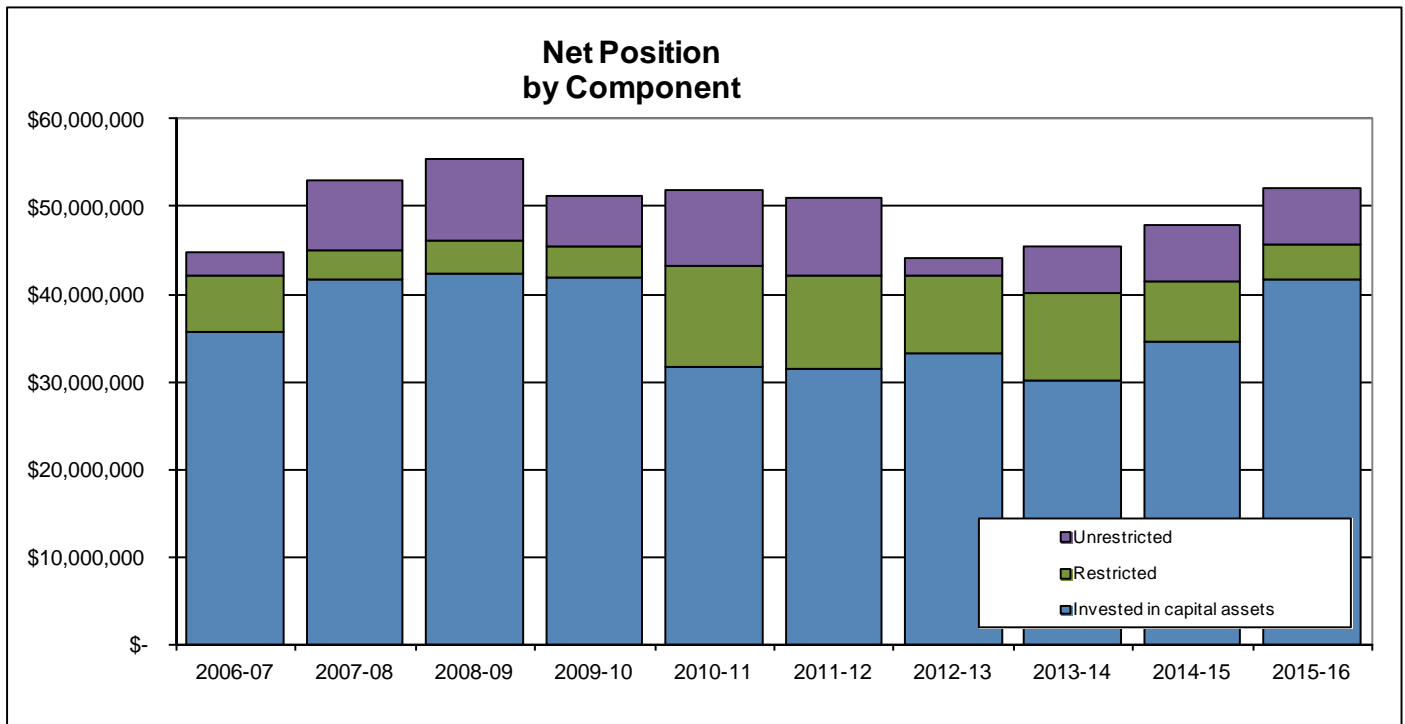
- (1) Net of related debt.
- (2) Restated.
- (3) In fiscal year 2012-13, the District recorded a prior period adjustment to properly capitalize interest costs incurred during the construction phase of capital assets for the fiscal years 2005-06 through 2012-13. This schedule has not been revised to reflect the restated amounts for fiscal years 2005-06 through 2009-10. Instead, the cumulative effect of the restatement on net position for these years of \$1,526,747 is included in the FY 2010-11 net position balance.
- (4) The District implemented GASB Statement No. 68, and No. 71 and as a result, there was Prior Period Adjustment to establish the Net Pension Liability of \$10,948,888 that was reflected in FY 12-13 since it is included in the Management's Discussion and Analysis section.

Source: Goleta Water District Audited Financial Statements.

**GOLETA WATER DISTRICT
CHANGES IN NET POSITION BY COMPONENT
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

**Schedule 1
(Continued)**

| Description | 2011-12 ⁽²⁾ | 2012-13 ^{(2) (4)} | 2013-14 ⁽⁴⁾ | 2014-15 | 2015-16 |
|-------------------------------------------------------|------------------------|----------------------------|------------------------|----------------------|----------------------|
| Changes in net position: | | | | | |
| Operating revenues (see schedule 2) | \$ 27,136,533 | \$ 31,475,922 | \$ 33,868,570 | \$ 29,884,003 | \$ 38,876,872 |
| Operating expenses (see schedule 3) | (21,051,673) | (22,431,761) | (26,209,042) | (25,897,182) | (29,820,487) |
| Depreciation and amortization | (4,230,480) | (4,291,712) | (4,387,462) | (4,154,508) | (4,384,529) |
| Operating income | 1,854,380 | 4,752,449 | 3,272,066 | (167,687) | 4,671,856 |
| Net non-operating revenue (expense) (see schedule 4) | (3,085,787) | (1,690,426) | (2,208,005) | 406,165 | (1,717,348) |
| Net income (loss) before capital contributions | (1,231,407) | 3,062,023 | 1,064,061 | 238,478 | 2,954,508 |
| Capital contributions | 348,495 | 1,049,478 | 304,512 | 2,151,549 | 1,201,564 |
| Changes in net position | \$ (882,912) | \$ 4,111,501 | \$ 1,368,573 | \$ 2,390,027 | \$ 4,156,072 |
| Net position by component: | | | | | |
| Net investment in capital assets ⁽¹⁾ | \$ 31,456,427 | \$ 33,186,044 | \$ 30,052,804 | \$ 34,662,860 | \$ 41,777,503 |
| Restricted | 10,765,472 | 9,038,018 | 10,007,211 | 6,783,476 | 3,932,081 |
| Unrestricted | 8,764,687 | 1,925,137 | 5,457,758 | 6,461,464 | 6,354,288 |
| Total net position | \$ 50,986,586 | \$ 44,149,199 | \$ 45,517,773 | \$ 47,907,800 | \$ 52,063,872 |



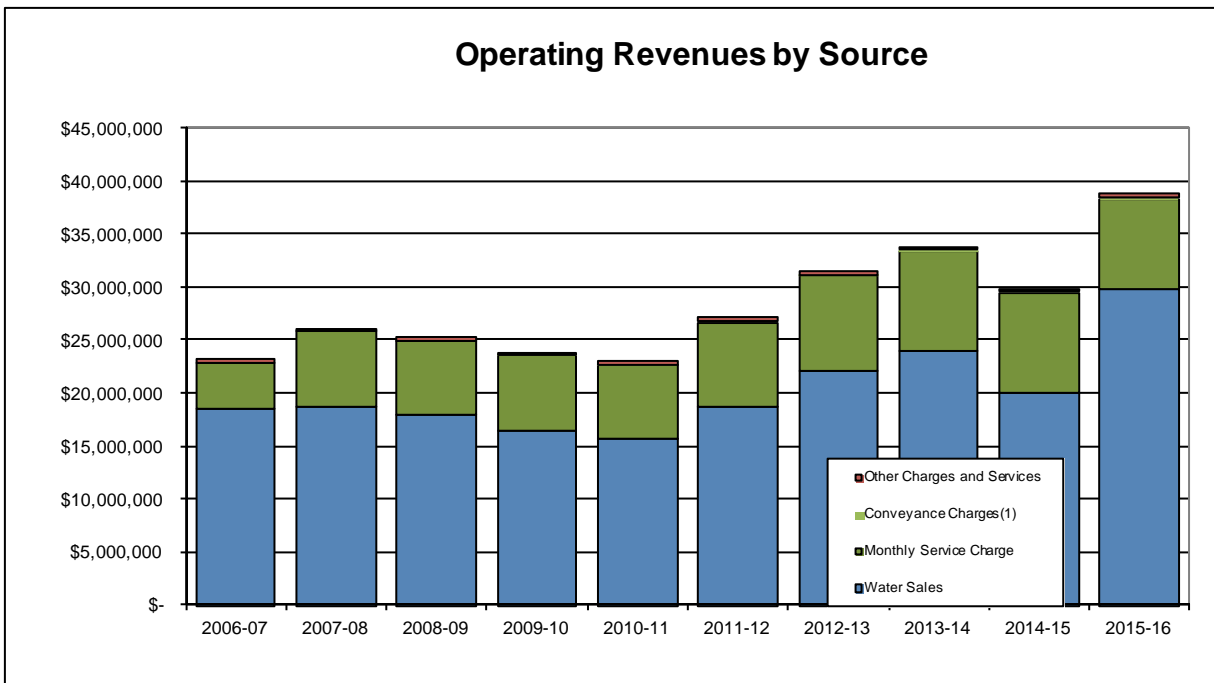
Notes:

- (1) Net of related debt.
- (2) Restated.
- (3) In fiscal year 2012-13, the District recorded a prior period adjustment to properly capitalize interest costs incurred during the construction phase of capital assets for the fiscal years 2005-06 through 2012-13. This schedule has not been revised to reflect the restated amounts for fiscal years 2005-06 through 2009-10. Instead, the cumulative effect of the restatement on net position for these years of \$1,526,747 is included in the FY 2010-11 net position balance.
- (4) The District implemented GASB Statements No. 68 and No. 71 and as a result, there was Prior Period Adjustment to establish the Net Pension Liability of \$10,948,888 that was reflected in fiscal year 2012-13 since it is included in the Management's Discussion and Analysis section.

**GOLETA WATER DISTRICT
OPERATING REVENUES BY SOURCE
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 2

| Fiscal Year | Water Sales | Monthly Service Charge | Conveyance Charges ⁽¹⁾ | Other Charges and Services | Total Operating Revenue |
|-------------|---------------|------------------------|-----------------------------------|----------------------------|-------------------------|
| 2006-07 | \$ 18,582,563 | \$ 4,380,462 | \$ - | \$ 312,816 | \$ 23,275,841 |
| 2007-08 | 18,750,446 | 7,073,409 | - | 323,223 | 26,147,078 |
| 2008-09 | 17,891,753 | 7,086,522 | - | 267,434 | 25,245,709 |
| 2009-10 | 16,493,699 | 7,052,721 | 60,951 | 268,019 | 23,875,390 |
| 2010-11 | 15,672,687 | 6,987,420 | 49,225 | 266,055 | 22,975,387 |
| 2011-12 | 18,668,008 | 7,998,014 | 193,749 | 276,762 | 27,136,533 |
| 2012-13 | 22,171,254 | 8,906,789 | 133,961 | 263,918 | 31,475,922 |
| 2013-14 | 24,005,806 | 9,411,946 | 147,635 | 303,184 | 33,868,571 |
| 2014-15 | 19,988,107 | 9,508,993 | 83,018 | 303,885 | 29,884,003 |
| 2015-16 | 29,771,141 | 8,523,948 | 122,860 | 458,923 | 38,876,872 |



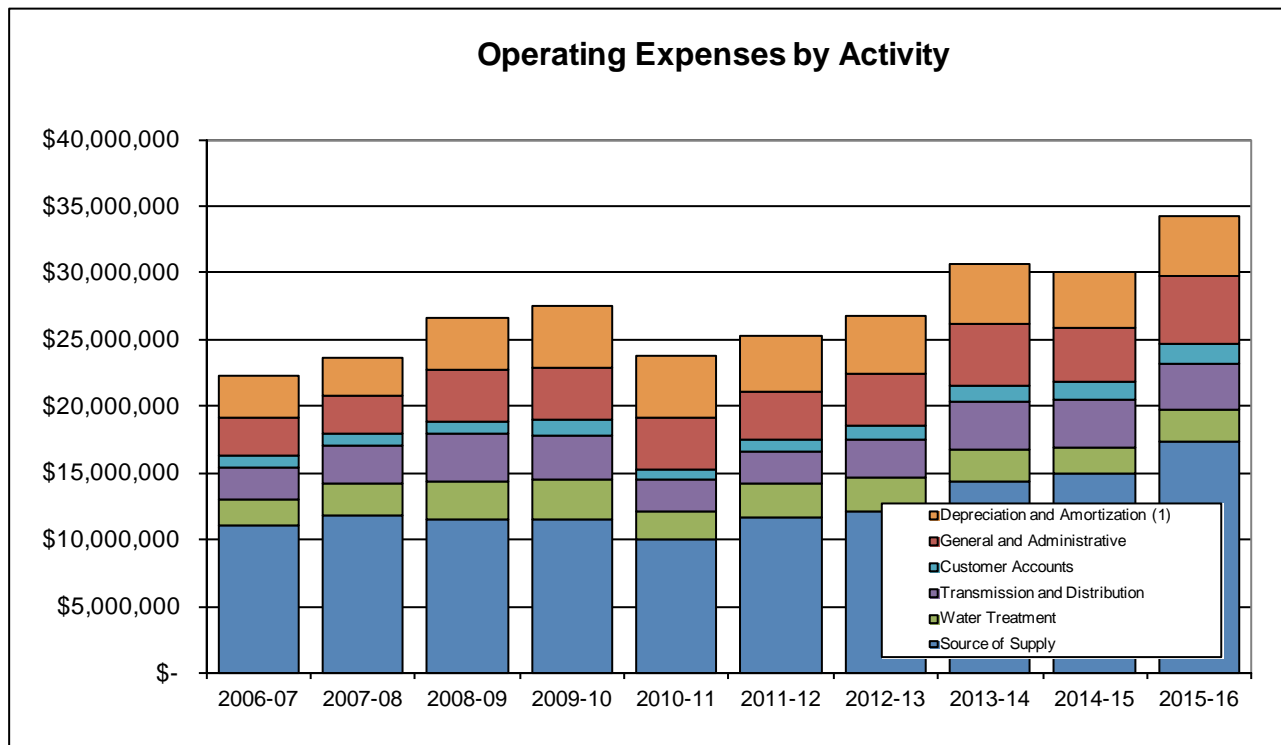
Note: (1) Conveyance Charges were classified as Water Consumption Revenue in fiscal years 2005-09.

Source: Goleta Water District Audited Financial Statements.

**GOLETA WATER DISTRICT
OPERATING EXPENSES BY ACTIVITY
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 3

| Fiscal Year | Source of Supply | Water Treatment | Transmission and Distribution | Customer Accounts | General and Administrative | Depreciation and Amortization ⁽¹⁾ | Total Operating Expenses |
|-------------|------------------|-----------------|-------------------------------|-------------------|----------------------------|----------------------------------------------|--------------------------|
| 2006-07 | \$ 11,069,528 | \$ 1,946,499 | \$ 2,339,804 | \$ 882,476 | \$ 2,861,241 | \$ 3,148,347 | \$ 22,247,895 |
| 2007-08 | 11,777,844 | 2,437,979 | 2,773,177 | 891,142 | 2,926,114 | 2,845,876 | 23,652,132 |
| 2008-09 | 11,556,246 | 2,824,069 | 3,486,767 | 973,101 | 3,877,049 | 3,951,664 | 26,668,896 |
| 2009-10 | 11,522,500 | 2,958,871 | 3,293,092 | 1,146,336 | 3,908,951 | 4,639,138 | 27,468,888 |
| 2010-11 | 9,968,271 | 2,190,570 | 2,280,486 | 846,299 | 3,822,319 | 4,640,497 | 23,748,442 |
| 2011-12 | 11,699,420 | 2,426,226 | 2,489,968 | 935,180 | 3,500,879 | 4,230,480 | 25,282,153 |
| 2012-13 | 12,048,975 | 2,527,904 | 2,941,150 | 1,053,854 | 3,859,878 | 4,291,712 | 26,723,473 |
| 2013-14 | 14,304,469 | 2,371,480 | 3,614,773 | 1,262,580 | 4,655,740 | 4,387,462 | 30,596,504 |
| 2014-15 | 14,926,709 | 1,978,887 | 3,567,788 | 1,343,012 | 4,080,786 | 4,154,508 | 30,051,690 |
| 2015-16 | 17,389,791 | 2,384,031 | 3,458,880 | 1,446,817 | 5,140,968 | 4,384,529 | 34,205,016 |



Note:

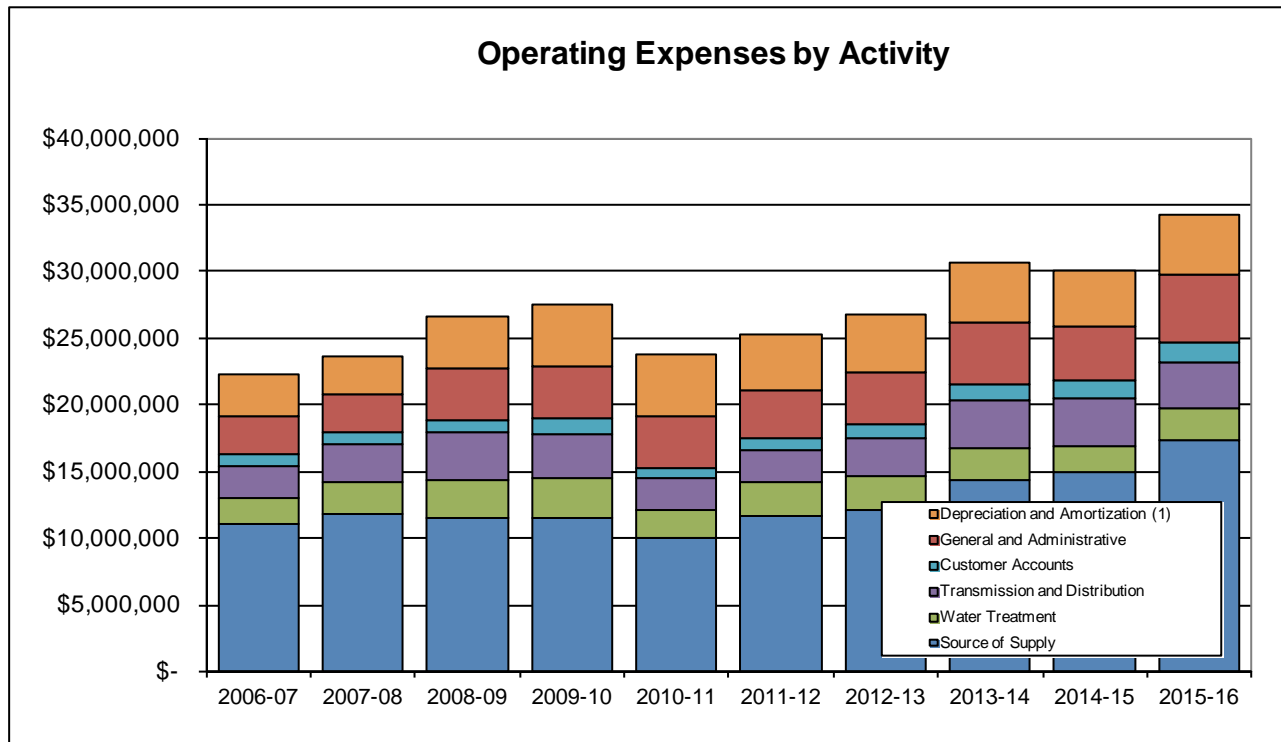
(1) Fiscal year 2012-13, the District recorded a prior adjustment to properly capitalize interest costs incurred during the construction phase of capital assets for the fiscal years 2005-06 through 2012-13. Additional depreciation expense of \$58,360 recorded for fiscal years 2005-06 through 2009-10 as a result of the restatement is not reflected in this schedule.

Source: Goleta Water District Audited Financial Statements.

**GOLETA WATER DISTRICT
NON-OPERATING REVENUES AND EXPENSES
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 4

| Fiscal Year | Investment Income ⁽¹⁾ | New Water Supply Charge | Gain/(Loss) on Sale of Assets | Interest Expense ⁽³⁾ | Other Income and Expense, net | Net Non-Operating Revenues/(Expenses) |
|--------------------|-----------------------------------------|--------------------------------|--------------------------------------|----------------------------------------|--------------------------------------|----------------------------------------------|
| 2006-07 | \$ 898,501 | \$ 515,955 | \$ - | \$ (1,985,205) | \$ 178,240 | \$ (392,509) |
| 2007-08 | 803,891 | 2,058,188 | 456,725 | (2,098,927) | 2,321,750 ⁽²⁾ | 3,541,627 |
| 2008-09 | 338,908 | 4,846,624 | 402,230 | (2,017,803) | (59,755) | 3,510,204 |
| 2009-10 | (43,888) | 310,949 | 12,929 | (1,958,678) | (55,702) | (1,734,390) |
| 2010-11 | 67,164 | 2,069,370 | - | (2,683,811) | 65,611 | (481,666) |
| 2011-12 | 71,525 | 182,905 | - | (2,582,323) | (19,530) | (2,347,423) |
| 2012-13 | 61,671 | 839,841 | (44,927) | (2,547,976) | 965 | (1,690,426) |
| 2013-14 | 44,002 | 240,509 | - | (2,295,542) | (196,974) | (2,208,005) |
| 2014-15 | 58,322 | 2,439,835 | (71,706) | (2,053,755) | 33,469 | 406,165 |
| 2015-16 | 105,392 | 150,681 | - | (1,978,264) | 4,843 | (1,717,348) |



Notes:

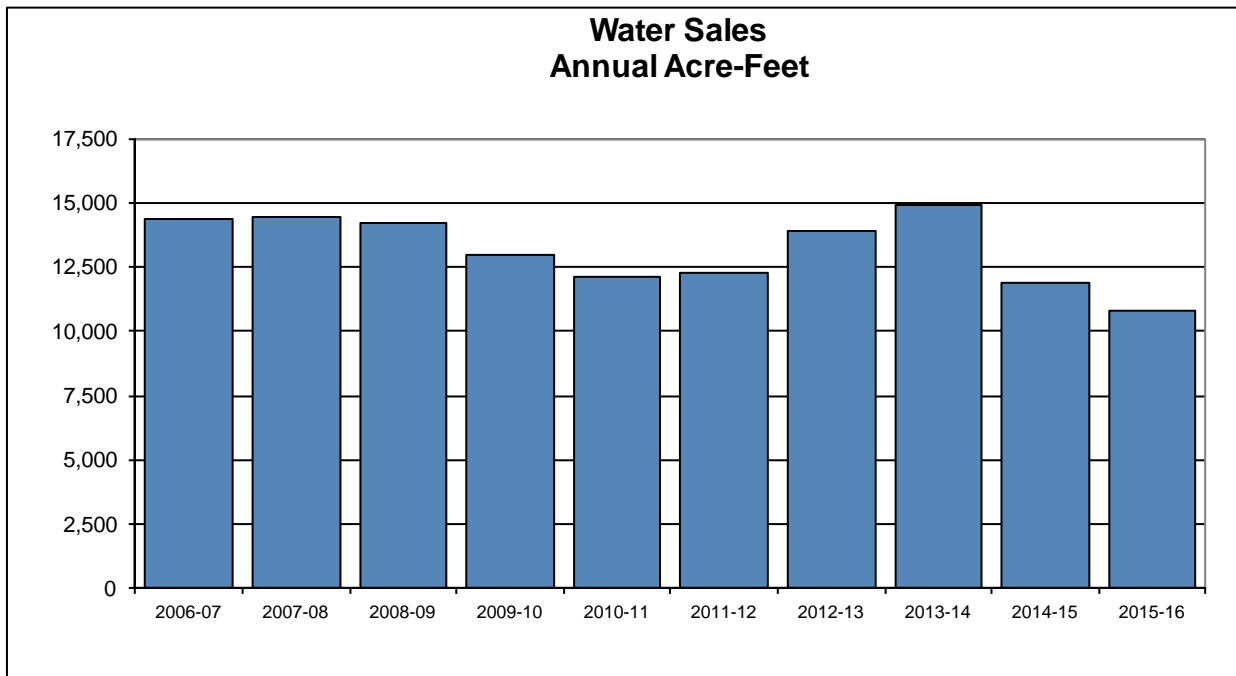
- (1) Includes interest income and realized and unrealized gains and losses on investments.
- (2) Includes one-time accrual reversal of \$2,184,000 for post employment benefits.
- (3) In fiscal year 2012-13, the District recorded a prior period adjustment to properly capitalize interest costs incurred during the construction phase of capital assets for the fiscal years 2005-06 through 2012-13. Interest incurred of \$1,585,409 that was previously reported as expense during fiscal years 2005-06 through 2009-10 and was capitalized as a result of the restatement is not reduced from the interest expense amounts presented in this schedule.

Source: Goleta Water District Audited Financial Statements.

**GOLETA WATER DISTRICT
REVENUE BASE
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 5

| Fiscal Year | Water Sales (acre-feet) |
|----------------|-------------------------------|
| 2006-07 | 14,406 |
| 2007-08 | 14,415 |
| 2008-09 | 14,198 |
| 2009-10 | 12,971 |
| 2010-11 | 12,161 |
| 2011-12 | 12,275 |
| 2012-13 | 13,923 |
| 2013-14 | 14,884 |
| 2014-15 | 11,883 |
| 2015-16 | 10,773 |



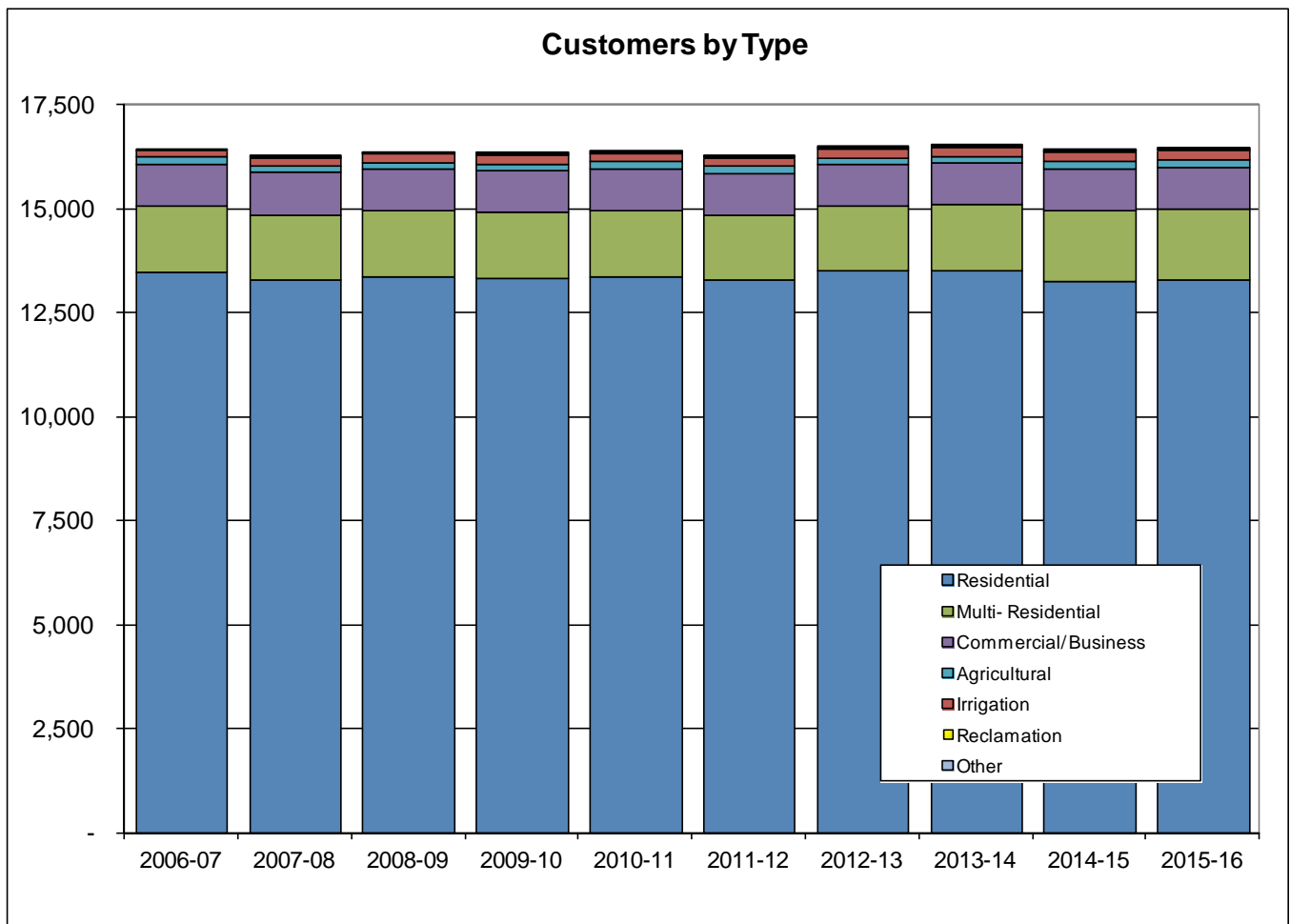
Note: See Schedule 2 "Revenue by Source" for information regarding water sales.

Source: Goleta Water District Annual Continuing Disclosure Annual Report.

**GOLETA WATER DISTRICT
CUSTOMERS BY TYPE
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 6

| Fiscal Year | Residential | Multi-Residential | Commercial/ Business | Agricultural | Recreation Irrigation | Reclamation | Other | Total |
|--------------------|--------------------|--------------------------|---------------------------------|---------------------|----------------------------------|--------------------|--------------|--------------|
| 2006-07 | 13,497 | 1,574 | 1,028 | 168 | 162 | 30 | - | 16,459 |
| 2007-08 | 13,317 | 1,558 | 1,016 | 164 | 180 | 32 | 8 | 16,275 |
| 2008-09 | 13,386 | 1,582 | 1,002 | 165 | 199 | 32 | 7 | 16,373 |
| 2009-10 | 13,348 | 1,579 | 1,010 | 165 | 205 | 32 | 7 | 16,346 |
| 2010-11 | 13,386 | 1,591 | 1,009 | 164 | 212 | 32 | 7 | 16,401 |
| 2011-12 | 13,294 | 1,587 | 997 | 165 | 213 | 32 | 7 | 16,295 |
| 2012-13 | 13,528 | 1,572 | 989 | 165 | 221 | 36 | 7 | 16,518 |
| 2013-14 | 13,537 | 1,587 | 993 | 167 | 222 | 35 | 1 | 16,542 |
| 2014-15 | 13,284 | 1,694 | 1,018 | 159 | 237 | 42 | 7 | 16,441 |
| 2015-16 | 13,300 | 1,710 | 1,014 | 163 | 240 | 42 | 5 | 16,474 |



Source: Goleta Water District.

**GOLETA WATER DISTRICT
REVENUE RATES
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 7

| | Fiscal Year | | | | | | | | | |
|----------------------------------------------------------|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Monthly Service Charges⁽¹⁾ | | | | | | | | | | |
| <u>Meter Size</u> | | | | | | | | | | |
| 5/8" & 3/4" ⁽²⁾ | \$ 18.42 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Ultra low flow ⁽²⁾ | - | 9.21 | 9.21 | 9.21 | 9.21 | 10.68 | 11.87 | 12.70 | 13.08 | 14.14 |
| Low flow ⁽²⁾ | - | 18.42 | 18.42 | 18.42 | 18.42 | 21.37 | 23.74 | 25.40 | 26.16 | 29.20 |
| All other ⁽²⁾ | - | 27.63 | 27.63 | 27.63 | 27.63 | 32.05 | 35.61 | 38.10 | 39.24 | 44.40 |
| 1" | 24.96 | 46.06 | 46.06 | 46.06 | 46.06 | 53.43 | 59.36 | 63.52 | 65.42 | 68.16 |
| 1 1/2" | 40.88 | 92.10 | 92.10 | 92.10 | 92.10 | 106.84 | 118.69 | 127.00 | 130.81 | 127.57 |
| 2" | 58.09 | 147.38 | 147.38 | 147.38 | 147.38 | 170.96 | 189.94 | 203.23 | 209.33 | 198.85 |
| 3" | 97.04 | 276.33 | 276.33 | 276.33 | 276.33 | 320.54 | 356.12 | 381.05 | 392.48 | 424.58 |
| 4" | 144.57 | 460.55 | 460.55 | 460.55 | 460.55 | 534.24 | 593.54 | 635.09 | 654.14 | 757.23 |
| 6" | 269.23 | 921.09 | 921.09 | 921.09 | 921.09 | 1,068.46 | 1,187.06 | 1,270.16 | 1,308.26 | 1,672.04 |
| 8" | 396.51 | 1,473.76 | 1,473.76 | 1,473.76 | 1,473.76 | 1,709.56 | 1,899.32 | 2,032.28 | 2,093.24 | 2,860.09 |
| 10" | 523.79 | 3,500.72 | 3,500.72 | 3,500.72 | 3,500.72 | 4,060.84 | 4,511.59 | 4,827.40 | 4,972.22 | 4,523.38 |
| Fire Line Charge | - | - | - | - | - | - | - | - | - | 9.44 |
| Water Usage Charges (per HCF)⁽¹⁾ | | | | | | | | | | |
| <u>User Type</u> | | | | | | | | | | |
| Single Family Residential Ultra Low Flow (0-6 HCF) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4.52 |
| Single Family Residential Low Flow (7-16 HCF) | - | - | - | - | - | - | - | - | - | 5.57 |
| Single Family Residential Low Flow (Greater than 17 HCF) | - | - | - | - | - | - | - | - | - | 6.12 |
| Urban Conservation | 3.55 | 3.55 | 3.55 | 3.55 | 3.55 | 4.12 | 4.58 | 4.90 | 5.04 | - |
| Urban ⁽³⁾ | 3.71 | 3.71 | 3.71 | 3.71 | 3.71 | 4.30 | 4.78 | 5.12 | 5.27 | 5.25 |
| Urban Agriculture | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.16 | 1.29 | 1.38 | 1.42 | 1.80 |
| Goleta West Conduit Agriculture | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.06 | 1.18 | 1.26 | 1.30 | 1.35 |
| Recreation Irrigation | 2.68 | 2.68 | 2.68 | 2.68 | 2.68 | 3.11 | 3.45 | 3.70 | 3.81 | 5.25 |
| Reclaimed | 2.17 | 2.17 | 2.17 | 2.17 | 2.17 | 2.49 | 2.76 | 2.96 | 3.05 | 3.26 |
| Drought Surcharges Per HCF⁽⁴⁾ | | | | | | | | | | |
| Stage 1 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Stage 2 | - | - | - | - | - | - | - | - | - | 1.57 |
| Stage 3 | - | - | - | - | - | - | - | - | - | 2.60 |
| Stage 4 | - | - | - | - | - | - | - | - | - | 3.92 |
| Stage 5 | - | - | - | - | - | - | - | - | - | 5.73 |

Notes:

- (1) Rates as of June 30 of each fiscal year.
- (2) Monthly service charges converted to a tiered structure effective July 1, 2007. 5/8" & 3/4" Meters are based on average 12 month water use. Ultra low flow (4 or less HCF), Low flow (greater than 4 but less than 8 HCF), and All other 5/8" & 3/4" meter rates (greater than 8 HCF) Through June 30, 2015. Monthly service charge tier structure changed July 1, 2015. Based on individual monthly use, the new tiers are: Ultra low flow (6 or less HCF), Low flow (greater than 6 but less than 17 HCF), and All other 5/8" & 3/4" meter rates (greater than 16 HCF).
- (3) Agricultural customers are charged at Urban rate unless usage exceeds 11 HCF per dwelling for any given month.
- (4) Drought Surcharges apply uniformly to all customers except for use of recycled water.

Source: Goleta Water District Board of Directors-approved rate ordinances.

**GOLETA WATER DISTRICT
TEN LARGEST WATER USERS
CURRENT FISCAL YEAR VERSUS FISCAL YEAR 2005-06
UNAUDITED**

Schedule 8

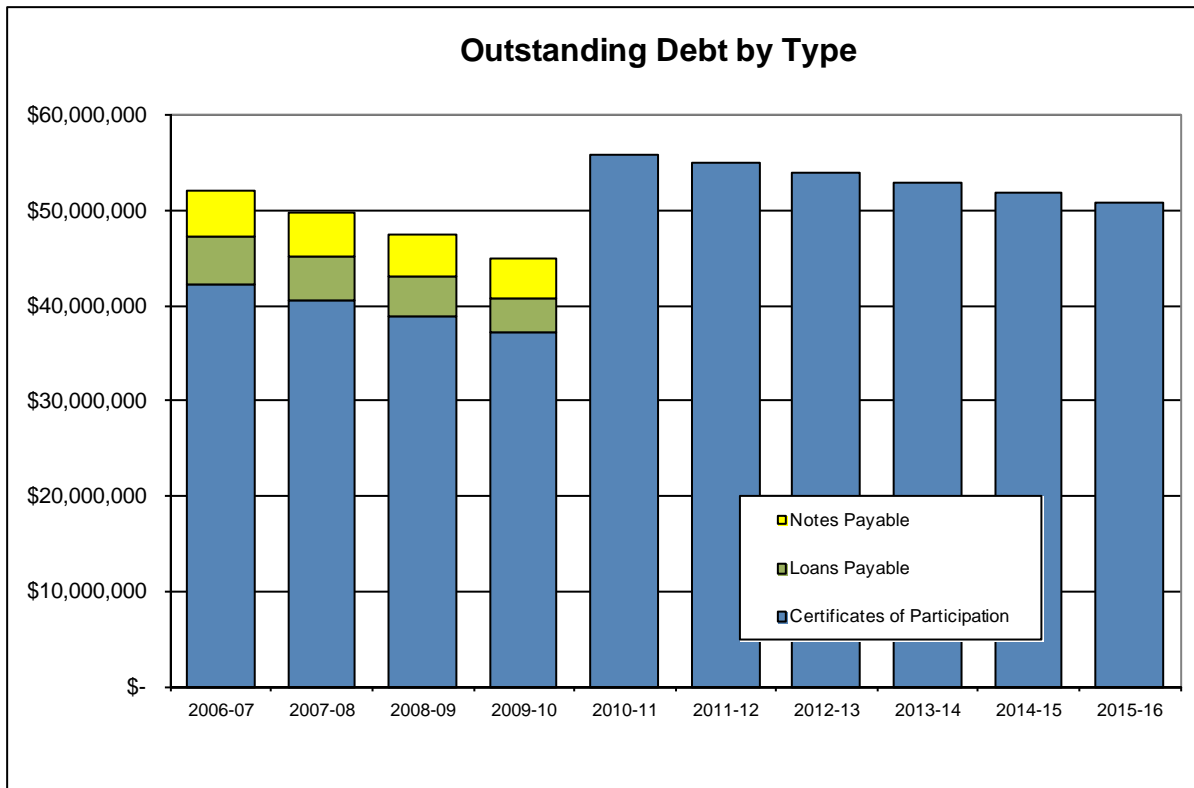
| FY 2015-16 | | | FY 2005-06 | | |
|------------------------------------------------|----------------------------|-------------------------------------------|--------------------|----------------------------|-------------------------------------------|
| Name | Water Sales (Acre-Feet) | Percentage of Total Water Purchased | Name | Water Sales (Acre-Feet) | Percentage of Total Water Purchased |
| Public institution | 863 | 8.01% | Public institution | 975 | 6.77% |
| Private grower | 515 | 4.78% | Private grower | 312 | 2.17% |
| Private business | 284 | 2.64% | Private business | 223 | 1.55% |
| Private business | 252 | 2.34% | Private grower | 215 | 1.49% |
| Public agency | 189 | 1.75% | Private grower | 166 | 1.15% |
| Private grower | 177 | 1.64% | Private business | 146 | 1.01% |
| Private business | 169 | 1.57% | Private business | 145 | 1.01% |
| Private business | 158 | 1.47% | Public agency | 143 | 0.99% |
| Private grower | 147 | 1.36% | Private business | 142 | 0.99% |
| Private grower | 109 | 1.01% | Private grower | 131 | 0.91% |
| Total attributable to ten largest water users: | <u>2,863</u> | <u>26.57%</u> | | <u>2,598</u> | <u>18.03%</u> |
| Total water sales (acre-feet) | <u>10,773</u> | <u>100.00%</u> | | <u>14,406</u> | <u>100.00%</u> |

Sources: Goleta Water District
CCWA FY 2005/2006 Continuing Disclosure Annual Report.

**GOLETA WATER DISTRICT
RATIO OF OUTSTANDING DEBT BY TYPE
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 9

| Fiscal Year | Notes Payable | Certificates of Participation | Loans Payable | Total | | |
|-------------|---------------|-------------------------------|---------------|--------------|------------|-------------------------------|
| | | | | Debt | Per Capita | As a Share of Personal Income |
| 2006-07 | \$4,941,625 | \$ 42,395,000 | \$ 4,860,321 | \$52,196,946 | \$ 1,730 | 0.063% |
| 2007-08 | 4,705,415 | 40,715,000 | 4,476,921 | 49,897,336 | 1,663 | 0.064% |
| 2008-09 | 4,457,920 | 39,005,000 | 4,082,786 | 47,545,706 | 1,560 | 0.059% |
| 2009-10 | 4,197,810 | 37,225,000 | 3,677,615 | 45,100,425 | 1,450 | 0.060% |
| 2010-11 | - | 55,945,000 | - | 55,945,000 | 1,863 | 0.063% |
| 2011-12 | - | 55,020,000 | - | 55,020,000 | 1,842 | 0.064% |
| 2012-13 | - | 54,060,000 | - | 54,060,000 | 1,804 | 0.064% |
| 2013-14 | - | 52,965,000 | - | 52,965,000 | 1,754 | 0.068% |
| 2014-15 | - | 51,920,000 | - | 51,920,000 | 1,688 | 0.071% |
| 2015-16 | - | 50,855,000 | - | 50,855,000 | 1,628 | 0.071% |



Source: Goleta Water District Audited Financial Statements.

**GOLETA WATER DISTRICT
PLEGDED-REVENUE COVERAGE
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 10

| Fiscal Year | Operating Revenues | Operating Expenses⁽¹⁾ | Net Available Revenues | Debt Service | | | Coverage Ratio |
|--------------------|---------------------------|-----------------------------------------|-------------------------------|--------------------------------|-----------------|--------------|-----------------------|
| | | | | Principal⁽²⁾ | Interest | Total | |
| 2006-07 | \$ 23,275,841 | \$(19,099,548) | \$ 4,176,293 | \$ 2,076,332 | \$ 1,985,205 | \$4,061,537 | 1.03 |
| 2007-08 | 26,147,078 | (20,806,256) | 5,340,822 | 2,299,610 | 2,109,143 | 4,408,753 | 1.21 |
| 2008-09 | 25,245,709 | (22,717,232) | 2,528,477 | 2,351,630 | 2,031,131 | 4,382,761 | 0.58 |
| 2009-10 | 23,833,852 | (22,829,750) | 1,004,102 | 2,445,281 | 1,970,974 | 4,416,255 | 0.23 |
| 2010-11 | 22,975,387 | (19,107,945) | 3,867,442 | 885,000 | 1,933,861 | 2,818,861 | 1.37 |
| 2011-12 | 27,136,533 | (21,051,673) | 6,084,860 | 925,000 | 2,351,948 | 3,276,948 | 1.86 |
| 2012-13 | 31,475,922 | (22,431,761) | 9,044,161 | 960,000 | 2,369,145 | 3,329,145 | 2.72 |
| 2013-14 | 33,868,571 | (26,209,042) | 7,659,529 | 995,000 | 2,432,866 | 3,427,866 | 2.23 |
| 2014-15 | 29,884,003 | (25,897,182) | 3,986,821 | 1,045,000 | 2,516,588 | 3,561,588 | 1.12 |
| 2015-16 | 38,876,872 | (29,820,487) | 9,056,385 | 1,065,000 | 2,490,163 | 3,555,163 | 2.55 |

Notes:

(1) Excludes depreciation expense.

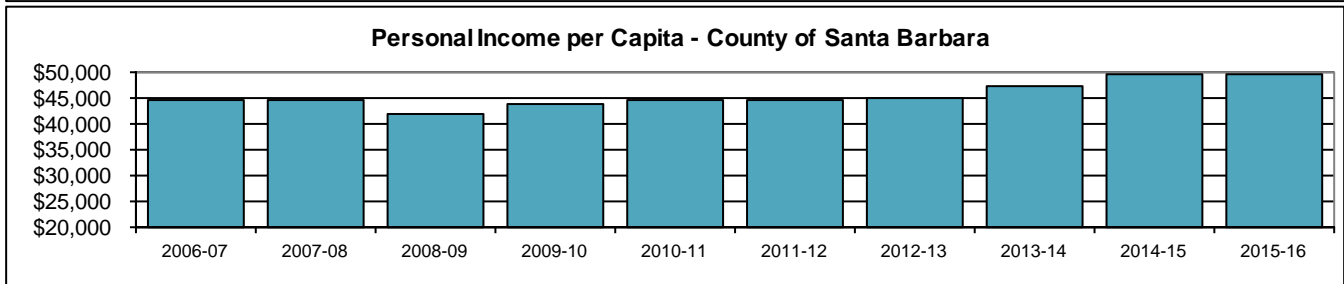
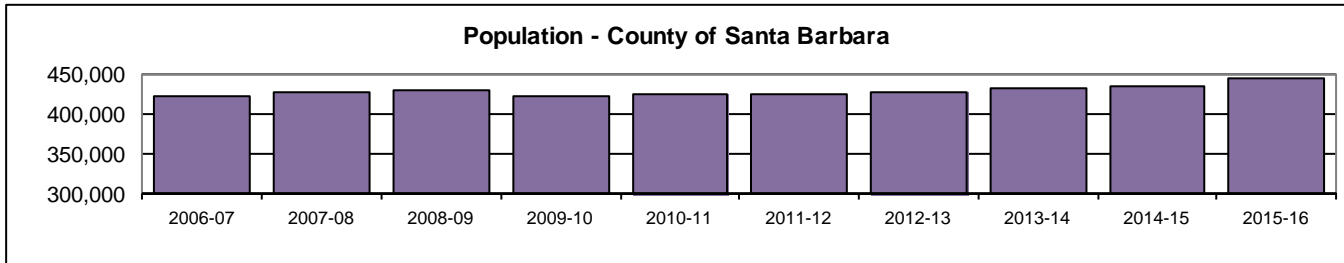
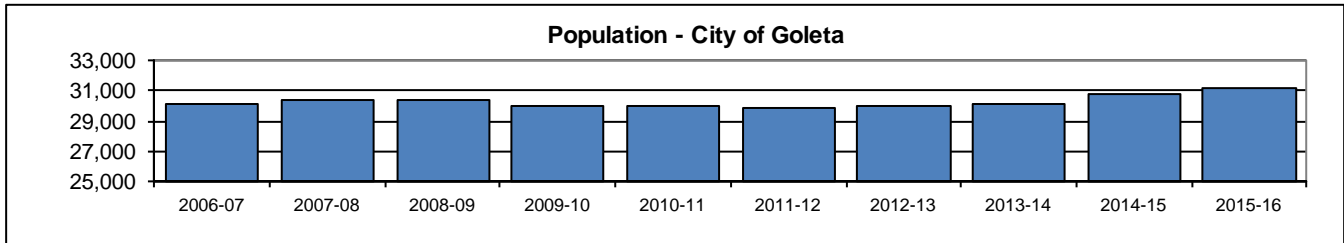
(2) Excludes payments associated with refinancing.

Source: Goleta Water District Audited Financial Statements.

**GOLETA WATER DISTRICT
DEMOGRAPHICS AND ECONOMICS STATISTICS
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 11

| Fiscal Year | Goleta ⁽¹⁾ | County of Santa Barbara ⁽³⁾ | | | |
|-------------|---------------------------|----------------------------------------|---------------------------|-------------------------------|----------------------------|
| | Population ⁽²⁾ | Unemployment Rate | Population ⁽²⁾ | Personal Income (\$ billions) | Personal Income per Capita |
| 2006-07 | 30,096 | 3.80% | 423,540 | 18.9 | 44,600 |
| 2007-08 | 30,400 | 5.20% | 428,655 | 19.1 | 44,600 |
| 2008-09 | 30,404 | 8.20% | 430,333 | 18.1 | 42,100 |
| 2009-10 | 30,001 | 8.80% | 423,740 | 18.6 | 43,900 |
| 2010-11 | 30,032 | 8.90% | 426,189 | 19.0 | 44,600 |
| 2011-12 | 29,863 | 7.90% | 426,351 | 19.0 | 44,600 |
| 2012-13 | 29,962 ⁽⁴⁾ | 6.30% | 429,200 ⁽⁴⁾ | 19.3 | 45,000 |
| 2013-14 | 30,202 ⁽⁴⁾ | 5.40% | 433,000 ⁽⁴⁾ | 20.6 | 47,600 |
| 2014-15 | 30,765 | 4.70% | 435,697 | 21.7 | 49,700 |
| 2015-16 | 31,235 | 4.90% | 446,717 | 22.3 | 49,900 |



Notes:

- (1) A substantial portion of the District lies within the City of Goleta and is therefore a reasonable basis for determining District demographic and economic statistics.
- (2) Population as of January 1.
- (3) County of Santa Barbara data is updated annually, and is representative of District conditions and experience.
- (4) Estimated amounts per California Department of Finance.

Source: California Department of Finance and California Labor Market Info.

**GOLETA WATER DISTRICT
OPERATING AND CAPACITY INDICATORS
PREVIOUS TEN FISCAL YEARS
UNAUDITED**

Schedule 12

District Employees by Department (Actual on Payroll at June 30)

| Department | Fiscal Year | | | | | | | | | |
|------------------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| General Management | 3 | 4 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Operations Management | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Water Treatment | 12 | 14 | 10 | 10 | 10 | 12 | 11 | 10 | 11 | 10 |
| Distribution | 9 | 9 | 16 | 16 | 14 | 16 | 14 | 14 | 16 | 17 |
| Water Supply | 1 | 2 | 2 | 2 | 2 | 6 | 8 | 8 | 9 | 9 |
| Warehouse | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Meter Services | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Engineering Services | 11 | 12 | 11 | 10 | 7 | 4 | 4 | 5 | 5 | 5 |
| Customer Service | 3 | 3 | 3 | 2 | 1 | 1 | 1 | 1 | 2 | 2 |
| Accounting and Finance | 3 | 3 | 4 | 5 | 4 | 7 | 8 | 8 | 8 | 8 |
| Payroll | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Human Resources | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| | <u>52</u> | <u>57</u> | <u>58</u> | <u>58</u> | <u>51</u> | <u>59</u> | <u>59</u> | <u>59</u> | <u>64</u> | <u>64</u> |

Other Operating and Capacity Indicators

| Fiscal Year | District Area (Square Miles) | Miles of Water Mains | Number of Wells | Number of Fire Hydrants | System Capacity (MGD) |
|-------------|------------------------------|----------------------|-----------------|-------------------------|-----------------------|
| 2006-07 | 45 | 265 | 9 | 1,410 | 29 |
| 2007-08 | 45 | 266 | 9 | 1,422 | 29 |
| 2008-09 | 45 | 266 | 9 | 1,437 | 29 |
| 2009-10 | 45 | 270 | 9 | 1,448 | 29 |
| 2010-11 | 45 | 270 | 9 | 1,455 | 29 |
| 2011-12 | 45 | 270 | 9 | 1,468 | 29 |
| 2012-13 | 45 | 270 | 9 | 1,466 | 29 |
| 2013-14 | 45 | 270 | 9 | 1,474 | 29 |
| 2014-15 | 45 | 270 | 9 | 1,480 | 29 |
| 2015-16 | 45 | 271 | 9 | 1,502 | 29 |

Source: Goleta Water District - Administrative Services and Engineering Departments.

LIST OF ACRONYMS

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LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---------|------------------------------------------------|
| ACWA | Association of California Water Agencies |
| AFY | Acre Feet per Year |
| APC | Annual Pension Cost |
| ARC | Annual Required Contribution |
| ASR | Aquifer Storage and Recovery |
| BUREAU | U.S. Bureau of Reclamation |
| CAFR | Comprehensive Annual Financial Report |
| CalPERS | California Public Employees' Retirement System |
| CCRB | Cachuma Conservation and Release Board |
| CCWA | Central Coast Water Authority |
| CIP | Capital Improvement Projects |
| COMB | Cachuma Operation and Maintenance Board |
| COP | Certificates of Participation |
| CPA | Cachuma Project Authority |
| CSDA | California Special Districts Association |
| CUWCC | California Urban Water Conservation Council |
| DWR | Department of Water Resources |
| EPA | Environmental Protection Agency |
| FASB | Financial Accounting Standards Board |
| FTE | Full Time Equivalent |
| FY | Fiscal Year |
| GAAP | Generally Accepted Accounting Principles |
| GASB | Governmental Accounting Standards Board |
| GFOA | Government Finance Officers Association |
| GIS | Geographic Information System |
| GSD | Goleta Sanitary District |
| GWC | Goleta West Conduit |
| GWD | Goleta Water District |
| HCF | Hundred Cubic Feet |
| IBNR | Incurred But Not Reported |
| IIP | Infrastructure Improvement Plan |
| JPIA | Joint Power Insurance Authority |
| LAFCO | Local Agency Formation Commission |
| LAIF | Local Agency Investment Fund |
| MD&A | Management's Discussion and Analysis |
| MGD | Million Gallons Per Day |
| NWSC | New Water Supply Charge |
| OPEB | Other Post Employment Benefits |
| SEIU | Service Employees International Union |
| SLGS | State and Local Government Series |
| SWP | State Water Project |
| SWRCB | State Water Resources Control Board |
| UAAL | Unfunded Actuarial Accrued Liability |

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