

**SANTA YNEZ RIVER WATER
CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
JUNE 30, 2019 AND 2018
FINANCIAL STATEMENTS**



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1**

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees
Santa Ynez River Water Conservation District,
Improvement District No. 1:**

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Ynez River Water Conservation District, Improvement District No. 1 (the "District") as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts; 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Ynez River Water Conservation District, Improvement District No. 1, as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 3 through 9, the California Public Employees' Retirement System - Schedule of Santa Ynez River Water Conservation District, Improvement District No. 1's Proportionate Share of the Net Pension Liability on page 40, California Public Employees' Retirement System - Schedule of Contributions on page 41, and Other Post-Employment Benefits (OPEB) Plan - Schedule of Changes in the Net OPEB Liability and Related Ratios on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The Supplemental Schedule of Revenues and Expenses - Actual and Budget on page 43 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Supplemental Schedule of Revenues and Expenses - Actual and Budget is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedule of Revenues and Expenses - Actual and Budget is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Bartlett, Pringh + Wolf, LLP

Santa Barbara, California
November 19, 2019

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS**

This section presents management’s analysis of the Santa Ynez River Water Conservation District, Improvement District No. 1's (“The District's”) financial condition and activities for the fiscal year ending June 30, 2019. This narrative overview and analysis should be read in conjunction with the accompanying financial statements.

Summary of Organization and Business

The District was formed on July 7, 1959 under the Water Conservation Law of 1931, Division 21, Section 74000 et seq. of the California Water Code (the “Act”), for the purposes of furnishing potable domestic and irrigation water within its boundaries. The District has operated continuously since 1959 and is located in the central portion of Santa Barbara County and includes the communities of Santa Ynez, Los Olivos, Ballard and the City of Solvang. Based on the U.S. Census Bureau, the population was modified to account for 2010 census data and updated to the year 2012, the District’s population is approximately 6,737 (excluding the City of Solvang) and currently provides water to approximately 2,594 municipal and industrial customers and approximately 115 agricultural customers.

The District obtains its water supplies from the Cachuma Project/State Water exchange, direct diversions from the Cachuma Project, deliveries from the State Water Project, produces water from the Santa Ynez Uplands Groundwater Basin, and diverts water from the Santa Ynez River alluvium. The District’s major activities include acquisition, construction, operation and maintenance of works and facilities for the development and use of water resources and water rights including without limitation, works and facilities to divert, store, pump, treat, deliver and sell water for beneficial uses to its domestic and agricultural accounts. The District has maintained a staff of fifteen full-time employees and two part-time employees to carry out this purpose in fiscal year 2018/2019.

The District is governed by a five-member Board of Trustees (the “Board”), the members of which are elected by the registered voters of the District to staggered four-year terms. Day-to-day management of the District is delegated to the General Manager.

Overview of Financial Statements

The District operates as an enterprise fund. The enterprise fund is accounted for on a flow of economic resources measurement basis. Under this measurement focus, all assets and liabilities associated with the operation of the District are included on the balance sheet. Enterprise fund operating statements present increases (revenues) and decreases (expenses) in total net position.

Enterprise funds utilize the accrual basis of accounting. Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized at the time the related liabilities are incurred, regardless of when paid.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Overview of Financial Statements (Continued)

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide.

The District's basic financial statements include four components.

- Balance Sheet
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The balance sheet includes all the District's assets, deferred inflows of resources, liabilities, and deferred outflows of resources. The difference between total assets/deferred outflows of resources and total liabilities/deferred inflows of resources is reported as net position. Net position may be displayed in the following categories:

- Net investment in capital assets
- Restricted
- Unrestricted

The balance sheet provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Noncapital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by Generally Accepted Accounting Principles (GAAP) that are not otherwise present in the financial statements.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Overview of Financial Statements (Continued)

The District's budget is prepared on the accrual basis and includes the District's water system. Prior to June 1 of each year, the General Manager of the District submits to the Board of Trustees a proposed budget for the fiscal year commencing the following July 1. The Board conducts public meetings to obtain comments from ratepayers. Subsequent to the public meetings, the Board approves the budget prior to July 1.

Financial Highlights

During the year ended June 30, 2019, the District's net position increased by a total of \$2,596,902 (11.34%). The District's operating revenues increased by \$488,821 (4.63%) and operating expenses increased by \$182,913 (2.17%). Non-operating income increased by \$305,566 (29.70%) and non-operating expenses increased in the current year by \$266,185 (29.60%).

Balance Sheet

The following table represents a summary of the District's Balance Sheet with corresponding analysis regarding significant variances:

	2019	2018	2017	2019-2018 Variance		2018-2017 Variance		
				Dollars	Percent	Dollars	Percent	
<u>Assets:</u>								
Current assets	\$ 20,664,841	\$ 17,879,992	\$ 15,138,409	\$ 2,784,849	15.58%	\$ 2,741,583	18.11%	
Noncurrent assets:								
Restricted assets	483,898	401,663	401,656	82,235	20.47%	7	0.00%	
Capital assets, net	13,949,343	13,943,643	14,184,341	5,700	0.04%	(240,698)	-1.70%	
Intangible assets, net	-	-	9,307	-	0.00%	(9,307)	-100.00%	
Total Assets	\$ 35,098,082	\$ 32,225,298	\$ 29,733,713	\$ 2,872,784	8.91%	\$ 2,491,585	8.38%	
<u>Deferred Outflows of Resources:</u>								
Deferred outflows	\$ 733,022	\$ 779,587	\$ 588,104	\$ (46,565)	-5.97%	\$ 191,483	32.56%	
Total Deferred Outflows of Resources	\$ 733,022	\$ 779,587	\$ 588,104	\$ (46,565)	-5.97%	\$ 191,483	32.56%	
<u>Liabilities:</u>								
Current liabilities	\$ 4,569,346	\$ 4,187,844	\$ 3,981,985	\$ 381,502	9.11%	\$ 205,859	5.17%	
Long term liabilities	5,281,141	5,403,656	4,323,447	(122,515)	-2.27%	1,080,209	24.98%	
Total Liabilities	\$ 9,850,487	\$ 9,591,500	\$ 8,305,432	\$ 258,987	2.70%	\$ 1,286,068	15.48%	
<u>Deferred Inflows of Resources:</u>								
Deferred inflows	\$ 488,811	\$ 518,481	\$ 75,294	\$ (29,670)	-5.72%	\$ 443,187	588.61%	
Total Deferred Inflows of Resources	\$ 488,811	\$ 518,481	\$ 75,294	\$ (29,670)	-5.72%	\$ 443,187	588.61%	
<u>Net Position:</u>								
Net investment in capital assets	\$ 12,985,928	\$ 12,722,569	\$ 12,710,608	\$ 263,359	2.07%	\$ 11,961	0.09%	
Restricted	483,898	401,663	401,656	82,235	20.47%	7	0.00%	
Unrestricted, reserved	8,415,029	7,366,723	5,626,031	1,048,306	14.23%	1,740,692	30.94%	
Unrestricted, unreserved	3,606,951	2,403,949	3,202,796	1,203,002	50.04%	(798,847)	-24.94%	
Total Net Position	\$ 25,491,806	\$ 22,894,904	\$ 21,941,091	\$ 2,596,902	11.34%	\$ 953,813	4.35%	

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Analysis of Balance Sheet

Net position may serve as an indicator of a public governmental agency's financial status. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$25,491,806 and \$22,894,904 as of June 30, 2019 and 2018, respectively.

The largest portion of the District's total net position is its net investment in capital assets, in the amount of \$12,985,928 at June 30, 2019 and \$12,722,569 at June 30, 2018. This balance reflects the District's investment in capital assets (which includes land, buildings, infrastructure and construction in progress,) less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide water service to its customers; consequently, these assets are not available for future spending. It should be noted that the funding sources needed to repay any debt must be provided from other financial sources because the capital assets cannot be used to liquidate liabilities.

Capital assets net of accumulated depreciation increased by \$5,700 as discussed further in the capital assets section of this analysis and Note 4 to the financial statements. This increase, plus the decrease in outstanding capital related debt (Series 2004 A COMB Bonds) of \$257,659 equates to the increase in total net position invested in capital assets of \$263,359 as noted in the table above.

Restricted net position represents assets which are required by external parties to be used for specific purposes, less any liabilities payable from those assets. The District's restricted net position was \$483,898 and \$401,663 at June 20, 2019 and 2018, respectively. See Note 3 for details regarding the specific restrictions.

Unrestricted net position consists of assets and liabilities that do not meet the definition of net investment in capital assets, or restricted net position. The Board of Trustees has designated certain portions of its unrestricted net position for specific uses, which are classified in the balance sheet as unrestricted, reserved. Note 7 provides detailed information regarding the nature of these reserves.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Statement of Revenues, Expenses and Changes in Net Position

The following table shows a summary of the District's Statement of Revenues, Expenses, and Changes in Net Position with corresponding analysis regarding significant variances:

	2019	2018	2017	2019-2018 Variance		2018-2017 Variance	
				Dollars	Percent	Dollars	Percent
Operating revenues	\$ 11,045,677	\$ 10,556,856	\$ 8,942,010	\$ 488,821	4.63%	\$ 1,614,846	18.06%
Operating expenses	8,617,702	8,434,789	8,191,509	182,913	2.17%	243,280	2.97%
Total Operating Income	2,427,975	2,122,067	750,501	305,908	14.42%	1,371,566	182.75%
Non-operating income	1,334,244	1,028,678	1,185,564	305,566	29.70%	(156,886)	-13.23%
Non-operating expense	1,165,317	899,132	910,715	266,185	29.60%	(11,583)	-1.27%
Total Non-operating Inc (Exp)	168,927	129,546	274,849	39,381	30.40%	(145,303)	-52.87%
Change in net position	2,596,902	2,251,613	1,025,350	345,289	15.34%	1,226,263	119.59%
Net Position at beginning of year, as originally presented	22,894,904	21,941,091	20,915,741	953,813	4.35%	1,025,350	4.90%
Prior period adjustment	-	(1,297,800)	-	1,297,800	-100.00%	(1,297,800)	100.00%
Net Position at beginning of year, as restated	22,894,904	20,643,291	20,915,741	2,251,613	10.91%	(272,450)	100.00%
Net Position at End of Year	\$ 25,491,806	\$ 22,894,904	\$ 21,941,091	\$ 2,596,902	11.34%	\$ 953,813	4.35%

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

The District reported a total increase in net position of \$2,596,902 for the year ended June 30, 2019, as compared to an increase in net position of \$953,813 (which included a prior period decrease of \$1,297,800) for the year ended June 30, 2018.

Operating revenues increased by \$488,821 during the fiscal year ended June 30, 2019, primarily due to an increase in water rates. The District implemented the third water rate increase of a five-year adopted water rate schedule effective January 1, 2019.

Operating expenses increased by \$182,913 during the fiscal year ended June 30, 2019 due to a combination of the following factors: Source of supply expenses decreased by \$276,775 overall, which was mainly driven by a decrease in state water expenses of \$458,161, offset by an increase in Cachuma water entitlement costs of \$76,315 and increased costs related to maintenance of wells, reservoirs and structures in the amount of \$132,230. State water contract expenses paid on behalf of the City of Solvang increased by \$308,767 which was fully offset by an increase in state water contract operating revenue. Pumping expense decreased by \$112,128 primarily due to the District being charged approximately \$125,000 in the prior year for billing in arrears related to a well which had erroneously never been set up by the electric utility. The District also had a \$200,240 increase in total program and study fees which was driven by a 2018 Settlement Agreement with the Cachuma Operation and Maintenance Board related to certain 2000 Biological Opinion expenses as obligations of the United States Bureau of Reclamation.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Analysis of Statement of Revenues, Expenses, and Changes in Net Position (Continued)

Non-operating revenues increased by \$305,566 from the prior year due to increases in capital facilities fees of \$107,720, investment income of \$164,354, and special assessments revenue of \$33,492.

Non-operating expenses increased in total by \$266,185 from the prior year due primarily to increases in unanticipated and special legal fees of \$139,428 and loss on disposal of assets which increased by \$114,766.

Capital Assets

The following table represents a summary of the District's Capital Assets with corresponding analysis regarding significant variances:

Capital Assets

	2019	2018	2017	2019-2018 Variance		2018-2017 Variance	
				Dollars	Percent	Dollars	Percent
Land and water rights	\$ 503,317	\$ 503,317	\$ 503,317	\$ -	0.00%	\$ -	0.00%
Utility plant	9,039,554	8,995,457	8,170,822	44,097	0.49%	824,635	10.09%
Wells and major repairs	18,008,704	18,128,729	17,968,959	(120,025)	-0.66%	159,770	0.89%
Office building	192,976	195,699	195,699	(2,723)	-1.39%	-	0.00%
Transportation equipment	748,263	683,301	653,143	64,962	9.51%	30,158	4.62%
Office equipment	155,518	156,552	145,916	(1,034)	-0.66%	10,636	7.29%
Other equipment	283,895	255,574	210,011	28,321	11.08%	45,563	21.70%
Total Capital Assets	\$ 28,932,227	\$ 28,918,629	\$ 27,847,867	\$ 13,598	0.05%	\$ 1,070,762	3.85%
Less accumulated depreciation	(15,481,880)	(15,020,358)	(14,349,792)	(461,522)	3.07%	(670,566)	4.67%
Subtotal	\$ 13,450,347	\$ 13,898,271	\$ 13,498,075	\$ (447,924)	-3.22%	\$ 400,196	2.96%
Construction in progress	498,996	45,372	686,266	453,624	999.79%	(640,894)	-93.39%
Net Capital Assets	\$ 13,949,343	\$ 13,943,643	\$ 14,184,341	\$ 5,700	0.04%	\$ (240,698)	-1.70%

Capital Assets Analysis

The District's net capital assets as of June 30, 2019 and 2018 including construction in progress were \$13,949,343 and \$13,943,643, respectively. Capital asset additions including construction in progress during 2018/2019 totaled \$873,137 which related primarily to Well #29 drilling and construction, valve installations, hydrant replacements and other equipment purchases. This increase was offset by depreciation expense of \$725,535 and disposals with a net book value of \$141,902. The resulting overall increase in net capital assets was \$5,700, as noted in the table above. See Note 4 for additions and disposals by asset category. Construction in progress expenditures were funded from the District reserve funds discussed in Note 7.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Long Term Debt

The following table represents a summary of the District's Revenue Bond Outstanding Debt:

Bonds Payable	2019	2018	2017	2019-2018 Variance		2018-2017 Variance	
				Dollars	Percent	Dollars	Percent
Revenue Bonds	\$ 955,000	\$ 1,210,000	\$ 1,460,000	\$ (255,000)	-21.07%	\$ (250,000)	-17.12%
Premium (Discount) on Bonds	8,415	11,074	13,733	(2,659)	-24.01%	(2,659)	-19.36%
Total Outstanding Bonds	\$ 963,415	\$ 1,221,074	\$ 1,473,733	\$ (257,659)	-21.10%	\$ (252,659)	-17.14%

Long Term Debt Analysis

As of June 30, 2019, the District had total outstanding debt of \$963,415 related to the issuance of the Series 2004 A Cachuma Operations and Maintenance Board (COMB) Bonds which were used to refinance the 1993 Cachuma Project Authority Revenue (CPA) Bonds. The CPA Bonds had been issued to refinance the State of California Department of Water Resources contract #E58028, the 1988 General Obligation Bond, and to finance the construction of the Zone 3 water storage reservoir. The debt term extends to fiscal year ending 2023. Additional information on the District's long-term debt is described in Note 5.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
BALANCE SHEET
June 30, 2019 and 2018**

ASSETS

	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash	\$ 2,089,247	\$ 2,785,340
Investments, cash equivalents	12,034,149	9,394,745
Accounts receivable	868,401	910,066
Interest receivable	82,087	39,055
Inventories	145,650	168,660
Prepaid CCWA expenses	4,207,487	3,367,671
Prepaid water	149,439	114,695
Prepaid expenses and deposits	1,088,381	1,099,760
Total current assets	<u>20,664,841</u>	<u>17,879,992</u>
Restricted Assets:		
Cash	374,686	292,451
Investments, cash equivalents	109,212	109,212
Total restricted assets	<u>483,898</u>	<u>401,663</u>
Capital Assets:		
Capital assets	28,932,227	28,918,629
Less: accumulated depreciation	(15,481,880)	(15,020,358)
Construction in progress	498,996	45,372
Net capital assets	<u>13,949,343</u>	<u>13,943,643</u>
Total assets	<u>35,098,082</u>	<u>32,225,298</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows related to pensions	608,359	711,646
Deferred outflows related to OPEB	124,663	67,941
Total deferred outflows of resources	<u>733,022</u>	<u>779,587</u>
Total assets and deferred outflows of resources	<u>\$ 35,831,104</u>	<u>\$ 33,004,885</u>

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
BALANCE SHEET
June 30, 2019 and 2018**

LIABILITIES

	2019	2018
Current Liabilities:		
Accounts payable	\$ 330,706	\$ 270,046
Accrued expenses	160,967	186,697
Interest payable	17,745	22,261
Current portion of revenue bonds payable	265,000	255,000
Advances payable	3,794,928	3,453,840
Total current liabilities	4,569,346	4,187,844
Long-term Liabilities:		
Net pension liability	1,828,856	1,905,629
Net OPEB liability	2,753,870	2,531,953
Revenue bonds payable, net of current portion	690,000	955,000
Premium on bonds	8,415	11,074
Total long-term liabilities	5,281,141	5,403,656
Total liabilities	9,850,487	9,591,500

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	79,445	71,900
Deferred inflows related to OPEB	409,366	446,581
Total deferred inflows of resources	488,811	518,481

NET POSITION

Net Position:		
Net investment in capital assets	12,985,928	12,722,569
Restricted	483,898	401,663
Unrestricted, reserved	8,415,029	7,366,723
Unrestricted, unreserved	3,606,951	2,403,949
Total net position	25,491,806	22,894,904
Total liabilities, deferred inflows of resources, and net position	\$ 35,831,104	\$ 33,004,885

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating Revenues:		
Water sales	\$ 7,972,394	\$ 7,798,410
State water contract revenue	2,917,426	2,608,659
Miscellaneous billings and fees	155,857	149,787
Total operating revenues	<u>11,045,677</u>	<u>10,556,856</u>
Operating Expenses:		
Source of supply	1,239,374	1,516,149
State water contract expense	2,917,426	2,608,659
Pumping expense	580,331	692,459
Water treatment	38,170	50,513
Transmission and distribution	982,535	648,921
Special programs and study fees	480,752	280,512
Administrative and general	2,379,114	2,637,576
Total operating expenses	<u>8,617,702</u>	<u>8,434,789</u>
Operating income	<u>2,427,975</u>	<u>2,122,067</u>
Other Income:		
Capital facilities fees	133,793	26,073
Investment income	271,954	107,600
Special assessment	928,497	895,005
Total other income	<u>1,334,244</u>	<u>1,028,678</u>
Other Expenses:		
Depreciation and amortization	725,535	702,161
Interest expense	40,216	51,599
Loss on disposal of assets	141,328	26,562
Unanticipated and special legal fees	258,238	118,810
Total other expenses	<u>1,165,317</u>	<u>899,132</u>
Change in net position	2,596,902	2,251,613
Net Position - beginning of year	<u>22,894,904</u>	<u>20,643,291</u>
Net Position - end of year	<u>\$ 25,491,806</u>	<u>\$ 22,894,904</u>

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 11,087,342	\$ 10,446,170
Cash payments to suppliers for goods and services	(6,265,135)	(5,181,950)
Cash payments for payroll taxes and employee benefits	(933,969)	(899,555)
Cash payments to employees for services	<u>(1,698,026)</u>	<u>(1,556,215)</u>
Net cash provided by operating activities	<u>2,190,212</u>	<u>2,808,450</u>
Cash Flows from Noncapital Financing Activities:		
Capital facilities fees	133,793	26,073
Special assessments	928,497	895,005
Non-operating unanticipated and special legal fees	<u>(258,238)</u>	<u>(118,810)</u>
Net cash provided by noncapital financing activities	<u>804,052</u>	<u>802,268</u>
Cash Flows from Capital and Related Financing Activities:		
Principal repayments of long-term debt	(255,000)	(250,000)
Interest payments	(47,391)	(58,424)
Proceeds from sale of capital assets	574	-
Capital assets purchased	<u>(895,823)</u>	<u>(425,646)</u>
Net cash used by capital and related financing activities	<u>(1,197,640)</u>	<u>(734,070)</u>
Cash Flows from Investing Activities:		
Interest received	<u>228,922</u>	<u>82,629</u>
Net cash provided by investing activities	<u>228,922</u>	<u>82,629</u>
Net increase in cash	2,025,546	2,959,277
Cash and cash equivalents, beginning of year	<u>12,581,748</u>	<u>9,622,471</u>
Cash and cash equivalents, end of year	<u><u>\$ 14,607,294</u></u>	<u><u>\$ 12,581,748</u></u>

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF CASH FLOWS (Continued)
For the years ended June 30, 2019 and 2018**

Cash and cash equivalents are reported in the balance sheet as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 2,089,247	\$ 2,785,340
Investments, cash equivalents	12,034,149	9,394,745
Restricted cash	374,686	292,451
Restricted investments, cash equivalents	109,212	109,212
	<u>\$ 14,607,294</u>	<u>\$ 12,581,748</u>

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

A) Reporting Entity

The Santa Ynez River Water Conservation District, Improvement District No. 1 (the District) was organized on July 7, 1959 under the Water Conservation Law of 1931, part of the California Water Code. The District has operated continuously since 1959 and is located in the central portion of Santa Barbara County and includes the communities of Santa Ynez, Los Olivos, Ballard and the City of Solvang. The District accounts for construction, maintenance and operations of facilities which are for the purpose of producing and furnishing potable domestic and irrigation water within its boundaries.

The Santa Ynez River Water Conservation District (Parent District) was organized in 1939. It is a separate and distinct district from the Santa Ynez River Water Conservation District, Improvement District No. 1. The Parent District has a separate purpose for existence, a separate board of directors, and separate accounting records. Its assets and liabilities, as well as its activities, are therefore not included in these financial statements.

B) Accounting Basis

The District reports its activities as an enterprise fund, which is used to account for operations where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis, as such, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. An enterprise fund is accounted for on the "flow of economic resources" measurement focus. This means that all assets and liabilities, whether current or long term, are included on the balance sheet.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and the producing and delivering of goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales. Operating expenses of the District include the cost of sales and services, as well as administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The District is responsible for funding all of its expenses, regardless of the operation or non-operating classification.

The financial statements of the District have been prepared in conformity with Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

C) Budgetary Procedures

The District prepares an annual budget which includes estimates of its principal sources of revenue to be received during the fiscal year, as well as estimated expenditures and reserves needed for operation of District facilities.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

D) Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity period, at purchase, of three months or less to be cash equivalents.

E) Basis for Recording Accounts Receivable

The District grants credit to its customers, substantially all of whom are residents and businesses within the unincorporated areas of the County in the District's service area boundaries, in the towns of Santa Ynez, Los Olivos, and Ballard. The City of Solvang is a customer of the District. Accounts receivable are considered to be fully collectible.

F) Capital Assets

Capital assets purchased by the District are recorded at cost. Contributed assets (water line extensions, water wells and modifications constructed by the District and reimbursed by the customer or developer) are recorded at estimated fair market value on the date donated. Capital assets, excluding land, are depreciated using the straight line method over their estimated useful lives, which range from 5 to 99 years.

G) Inventories

The District's inventories are recorded at the lower of cost on the first-in, first-out basis, or market.

H) Prepaid Water

Annually, a controlled quantity of water is purchased by the District and, if not used in the current year, is stored in the Lake Cachuma facility for use the following year. In addition, an amount of unused water carried over from prior years, if available, is also stored in the facility. This stored water at Lake Cachuma is subject to loss through evaporation, natural disasters, dam ruptures, and dam spillage due to excess rainfall. The losses are not covered by insurance. The District has its own facilities (various reservoirs) for storing delivered Lake Cachuma water and State Water Project water.

I) Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation and sick leave is available to those qualified employees when retired. Individuals terminating employment prior to retirement receive cash payment of any unused accrued vacation. Accrued compensated absences are included in accrued expenses on the balance sheet.

J) Advances Payable

Advances payable represents the prepayment by the City of Solvang to the District for its share of the Central Coast Water Authority costs for the coming fiscal year and its proportionate share of rate coverage reserve funds.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

K) Other Postemployment Benefits (OPEB)

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

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	July 01, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

L) Pension Plan

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

The following timeframes are used for pension reporting:

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

M) Net Position

Net position represents the difference between assets/deferred inflows and liabilities/deferred outflows and is classified into three components as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

Restricted – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

M) Net Position (Continued)

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted, reserved net position represents unrestricted assets which are segregated by the Board of Trustees for specific future uses.

When an expense is incurred for purposes for which both unrestricted and restricted resources are available for use, it is the District's policy to apply restricted assets first, then unrestricted resources.

N) Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Significant estimates used in preparing these financial statements include useful lives of capitalized assets, the net pension liability, and the liability for other postemployment benefits. It is at least reasonably possible that the significant estimates used will change within the next year.

O) Future Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board Statements listed below will be implemented in future financial statements. These statements will be evaluated by the District to determine if they will have a material impact to the financial statements once effective.

Statement No. 84	<i>"Fiduciary Activities"</i>	The requirements of this statement are effective for periods beginning after December 15, 2018. (FY 19/20)
Statement No. 87	<i>"Leases"</i>	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)
Statement No. 89	<i>"Accounting for Interest Cost Incurred Before the End of a Construction Period"</i>	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Cash and Investments

Cash and investments are comprised of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash in banks and on hand	\$ 2,177,639	\$ 2,796,078
Cash with fiscal agents	286,294	281,713
Local Agency Investment Fund	<u>12,143,361</u>	<u>9,503,957</u>
Total cash and investments	<u>\$ 14,607,294</u>	<u>\$ 12,581,748</u>

Investments Authorized by the District's Investment Policy

The District's investment policy authorizes the District to invest only in the Local Agency Investment Fund (LAIF), and FDIC insured accounts. This policy does not apply to funds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the District's investment policy.

Investment in Local Agency Investment Fund (LAIF)

LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. The amortized cost approximates fair value. LAIF invests some of its portfolio in derivatives. Detailed information on derivative investments held by this pool is not readily available. Investments in LAIF are not rated by a national rating agency.

Interest Rate Risk

The District did not have any investments with fair values that are considered to be highly sensitive to changes in interest rates.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

All cash deposits are entirely insured or collateralized. The California Government Code requires California banks and savings and loans associations to secure the District's deposits by pledging government securities, which equal at least 110% of the District's deposits. California law also permits financial institutions to secure the District's deposits by the pledging of first trust deed mortgage notes in excess of 150% of the District's deposits. The District may waive collateral requirements for deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC).

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Cash and Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Local Agency Investment Fund is not rated.

Note 3 – Restricted Cash and Investments

The Santa Ynez Band of Chumash Indians (Band) made an original deposit with the District of \$4,400 to be used as security against septic system repairs on the Indian Reservation to be paid by the Band. The balance at fiscal year ended June 30, 2019 includes the original deposit and the interest earned on the cash balance.

On June 30 each year, the District transfers funds to Bank of New York for the required principal and interest payment due on the Series 2004 A Cachuma Operations and Maintenance Bonds. These funds will be drawn from the Bank of New York account on August 1 of each subsequent fiscal year.

The District opened a separate checking account and deposited funds totaling the amount of certain disputed invoices from the Cachuma Operations and Maintenance Board.

Restricted main extension fees represent amounts received from customers which must be used for the construction of mains. Restricted development fees are charges paid by water service applicants which must be used for new, expanded or modified water service, to secure new water sources, recapture existing water resources, and develop necessary water supply recovery measures due to the drought and additional State Regulation impacts.

The District's restricted cash and investments as of June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Cash:		
Santa Ynez Indian Reservation	\$ 10,742	\$ 10,738
Series 2004 A COMB Bonds Debt Service	286,294	281,713
Separation agreement checking account	<u>77,650</u>	<u>-</u>
Total Restricted Cash	<u>\$ 374,686</u>	<u>\$ 292,451</u>
Investments, cash equivalents:		
Main extension fees	\$ 20,550	\$ 20,550
Development fees	<u>88,662</u>	<u>88,662</u>
Total Restricted Investments	<u>\$ 109,212</u>	<u>\$ 109,212</u>

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 4 – Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2019.

	Balance June 30, 2018	Additions	Disposals	Transfers	Balance June 30, 2019
Utility plant	\$ 8,995,457	\$ 45,530	\$ (5,433)	\$ 4,000	\$ 9,039,554
Wells and major repairs	18,128,729	19,974	(362,982)	222,983	18,008,704
Office building	195,699	3,459	(6,182)	-	192,976
Transportation equipment	683,301	87,292	(22,330)	-	748,263
Office equipment	156,552	7,191	(8,225)	-	155,518
Other equipment	255,574	29,084	(763)	-	283,895
Total depreciable assets	<u>28,415,312</u>	<u>192,530</u>	<u>(405,915)</u>	<u>226,983</u>	<u>28,428,910</u>
Land and land rights	<u>503,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>503,317</u>
Total capital assets	<u>28,918,629</u>	<u>192,530</u>	<u>(405,915)</u>	<u>226,983</u>	<u>28,932,227</u>
Accumulated depreciation	<u>(15,020,358)</u>	<u>(725,535)</u>	<u>264,013</u>	<u>-</u>	<u>(15,481,880)</u>
Construction in progress	<u>45,372</u>	<u>680,607</u>	<u>-</u>	<u>(226,983)</u>	<u>498,996</u>
Net capital assets	<u>\$ 13,943,643</u>	<u>\$ 147,602</u>	<u>\$ (141,902)</u>	<u>\$ -</u>	<u>\$ 13,949,343</u>

The following is a summary of changes in capital assets for the year ended June 30, 2018.

	Balance June 30, 2017	Additions	Disposals	Transfers	Balance June 30, 2018
Utility plant	\$ 8,170,822	\$ -	\$ -	\$ 824,635	\$ 8,995,457
Wells and major repairs	17,968,959	70,365	(48,850)	138,255	18,128,729
Office building	195,699	-	-	-	195,699
Transportation equipment	653,143	30,158	-	-	683,301
Office equipment	145,916	10,636	-	-	156,552
Other equipment	210,011	45,563	-	-	255,574
Total depreciable assets	<u>27,344,550</u>	<u>156,722</u>	<u>(48,850)</u>	<u>962,890</u>	<u>28,415,312</u>
Land and land rights	<u>503,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>503,317</u>
Total capital assets	<u>27,847,867</u>	<u>156,722</u>	<u>(48,850)</u>	<u>962,890</u>	<u>28,918,629</u>
Accumulated depreciation	<u>(14,349,792)</u>	<u>(692,854)</u>	<u>22,288</u>	<u>-</u>	<u>(15,020,358)</u>
Construction in progress	<u>686,266</u>	<u>321,996</u>	<u>-</u>	<u>(962,890)</u>	<u>45,372</u>
Net capital assets	<u>\$ 14,184,341</u>	<u>\$ (214,136)</u>	<u>\$ (26,562)</u>	<u>\$ -</u>	<u>\$ 13,943,643</u>

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 5 – Revenue Bonds Payable

Cachuma Project Authority Revenue Bonds

In October 1993, some of the Cachuma Project Authority (CPA) participants, in conjunction with the CPA, issued \$9,950,000 of Cachuma Project Authority Revenue Bonds. The District's share of the bond proceeds, \$6,185,000, was used to refinance the State of California Department of Water Resources contract #E58028 and the 1988 General Obligation Bonds. \$3,500,000 was also set aside to finance construction of a water reservoir. The loan was due over a period of 30 years in semi-annual payments due January 1 and July 1, beginning July 1, 1994. The interest rate on the bonds varied from 2.75% to 5.25%.

On August 19, 2004 the outstanding 1993 CPA Bonds were refinanced with the Series 2004A Cachuma Operations and Maintenance Board (COMB) Bonds, of which the District's portion was \$3,960,000. The loan is to be repaid through fiscal year 2022/2023 at an interest rate ranging from 3.0% to 4.65%. The refinancing resulted in an economic gain of \$189,626. Interest is payable semi-annually on February 1 and August 1 of each year, commencing on February 1, 2005. Principal payments are payable annually on August 1 of each year, commencing on August 1, 2006.

All water system revenues and ad valorem assessment taxes of the District are irrevocably pledged to the payment of the revenue bonds. The District's obligations pursuant to the Joint Participation Agreements No.1 and No.2, as amended for the COMB Revenue Refunding Bonds (Member Agency Projects) Series 2004A require the District to fix, prescribe, and collect rates and charges which will be at least sufficient to yield Net Revenues (as defined in the District's bond documents) equal to one hundred twenty five percent (125%) of the District's annual debt service. In the event of default the entire principal amount of the unpaid bonds and the accrued interest thereon maybe declared to be due and payable immediately.

The annual requirements to amortize the COMB Bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 265,000	\$ 36,956	\$ 301,956
2021	260,000	25,475	285,475
2022	210,000	14,900	224,900
2023	220,000	5,088	225,088
Total	<u>\$ 955,000</u>	<u>\$ 82,419</u>	<u>\$ 1,037,419</u>

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 5 – Revenue Bonds Payable (Continued)

The following is a summary of activity related to the COMB bonds for the years ending June 30, 2019 and 2018:

	Balance June 30, 2018	Additions/ Issuances	Deductions/ Repayments	Balance June 30, 2019
COMB Revenue Bonds	\$ 1,210,000	\$ -	\$ (255,000)	\$ 955,000
Premium on Bonds	11,074	-	(2,659)	8,415
	\$ 1,221,074	\$ -	\$ (257,659)	\$ 963,415

	Balance June 30, 2017	Additions/ Issuances	Deductions/ Repayments	Balance June 30, 2018
COMB Revenue Bonds	\$ 1,460,000	\$ -	\$ (250,000)	\$ 1,210,000
Premium on Bonds	13,733	-	(2,659)	11,074
	\$ 1,473,733	\$ -	\$ (252,659)	\$ 1,221,074

Note 6 – Supplemental Schedule of the Statement of Cash Flows

The following is a reconciliation of operating income to net cash provided by operating activities:

	2019	2018
Cash Flows from Operating Activities:		
Operating income	\$ 2,427,975	\$ 2,122,067
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in:		
Accounts receivable	41,665	(110,686)
Inventories	23,010	5,299
Prepaid expenses and deposits	(863,181)	348,045
Deferred outflows of resources - pension	103,287	(123,542)
Deferred outflows of resources - OPEB	(56,722)	627
Increase (decrease) in:		
Accounts payable	83,346	(84,705)
Accrued expenses	(25,730)	17,565
Net pension liability	(76,773)	254,611
Net OPEB obligation	221,917	(283,111)
Advances payable	341,088	219,093
Deferred inflows of resources - pension	7,545	(3,394)
Deferred inflows of resources - OPEB	(37,215)	446,581
Net cash provided by operating activities	\$ 2,190,212	\$ 2,808,450

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 7 – Reserves

The District has reserved a portion of its assets for future construction projects and projected repair and replacement costs. The following is a schedule of the reserves as of June 30, 2019 and 2018.

	2019	2018
Repair and replacement	\$ 1,954,751	\$ 1,603,490
Debt reserve	595,753	884,221
Plant expansion	2,864,525	1,879,012
SWP Fund Reserve	3,000,000	3,000,000
Total reserves	\$ 8,415,029	\$ 7,366,723

Note 8 – Defined Benefit Pension Plan

Plan Description – All qualified employees are eligible to participate in the District’s Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and local government 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. Eligible employees hired after January 1, 2013 that are considered new members as defined by the Public Employees’ Pension Reform Act (PEPRA) participate in the PEPRA Miscellaneous Plan.

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, as discussed above. Members with five years of total service are eligible to retire at age 50 or 52 if in the PEPRA Miscellaneous Plan with statutorily reduced benefits. An optional benefit regarding sick leave was adopted. Any unused sick leave accumulates at the time of retirement will be converted to credited service at a rate of 0.004 years of service for each day of sick leave. All members are eligible for non-duty disability benefits after 10 years of service. The system also provides for the Optional Settlement 2W Death Benefit, as well as the 1959 Survivor Benefit. The cost of living adjustments for all plans are applied as specified by the Public Employees’ Retirement Law.

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.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 8 – Defined Benefit Pension Plan (Continued)

For employees hired prior to January 1, 2013 and for all classic members as defined by PEPRA, the District pays the employee’s contribution in addition to the employer’s contribution. These contributions made on behalf of employees are included in operating expenses on the statement of revenues, expenses, and changes in net position, but are not included in pension expense as disclosed below. For employees hired after January 1, 2013 who are considered new members as defined by PEPRA, the District does not pay any portion of the employee’s required contribution.

The Plan’s provisions and benefits in effect at June 30, 2019 and 2018, are summarized as follows:

	Miscellaneous Plan	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - Minimum	52 - Minimum
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates		
2019	7.00%	6.50%
2018	7.00%	6.50%
Required employer contribution rates		
2019	9.64%	7.27%
2018	9.10%	6.91%

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above, and as a dollar amount for contributions toward the unfunded liability. The District’s required contribution for the unfunded liability was \$141,396 and \$117,627 for the fiscal years ended June 30, 2019 and 2018, respectively.

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

As of June 30, 2019 the District reported a liability of \$1,828,856 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of their long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 8 – Defined Benefit Pension Plan (Continued)

The District’s proportionate share of the net pension liability as of June 30, 2018 and 2017 (measurement dates) was as follows:

Measurement date June 30, 2018		Measurement date June 30, 2017	
Proportion – June 30, 2017	0.04834%	Proportion – June 30, 2016	0.04753%
Proportion – June 30, 2018	<u>0.04853%</u>	Proportion – June 30, 2017	<u>0.04834%</u>
Increase (Decrease)	<u>0.00019%</u>	Increase (Decrease)	<u>0.00081%</u>

For the fiscal years ended June 30, 2019 and 2018, the District recognized pension expense of \$305,861 and \$372,208, respectively. At June 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019		June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 271,802	\$ -	\$ 244,533	\$ -
Differences between expected and actual experience	70,170	(23,879)	2,653	(38,015)
Changes in assumptions	208,495	(51,098)	329,222	(25,103)
Changes in employer’s proportion	48,232		58,941	(2,911)
Difference between employer's contributions and employer's proportionate share of contributions	619	(4,468)	1,840	(5,871)
Net differences between projected and actual earnings on plan investments	<u>9,041</u>	<u>-</u>	<u>74,457</u>	<u>-</u>
Total	<u>\$ 608,359</u>	<u>\$ (79,445)</u>	<u>\$ 711,646</u>	<u>\$ (71,900)</u>

Employer contributions of \$271,802 reported as deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	
2020	\$ 202,960
2021	122,277
2022	(51,676)
2023	(16,449)
2024	-
	<u>\$ 257,112</u>

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 8 – Defined Benefit Pension Plan (Continued)

Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into CalPERS. Subsequent plan amendments are amortized as level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period. If the plan’s accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Actuarial Assumptions – The total pension liabilities in the June 30, 2017 and 2016 actuarial valuations (June 30, 2018 and 2017 measurement dates) were determined using the following actuarial assumptions:

	Miscellaneous Plan
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	
Measurement Date - 2018	7.15%
Measurement Date - 2017	7.15%
Inflation	
Measurement Date - 2018	2.50%
Measurement Date - 2017	2.75%
Salary Increases	Varies by entry age and service (1)
Investment Rate of Return (2)	
Measurement Date - 2018	7.15%
Measurement Date - 2017	7.15%
Mortality	Derived using CalPERS’ Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.5% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

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

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 8 – Defined Benefit Pension Plan (Continued)

Change of Assumption – During the measurement period ended June 30, 2018, demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for the measurement periods ending June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at a statutorily required rate, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return – The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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+ 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 expected real rates of return by asset class are as follows:

Asset Class	Measurement Date June 30, 2018			Measurement Date June 30, 2017		
	Net Strategic Allocation	Real Return Years 1 -10(a)	Real Return Years 11+(b)	Net Strategic Allocation	Real Return Years 1 -10(c)	Real Return Years 11+(d)
Global Equity	50.00%	4.80%	5.98%	47.00%	4.90%	5.38%
Global Fixed Income	28.00%	1.00%	2.62%	19.00%	0.80%	2.27%
Inflation Sensitive	0.00%	0.77%	1.81%	6.00%	0.60%	1.39%
Private Equity	8.00%	6.30%	7.23%	12.00%	6.60%	6.63%
Real Estate	13.00%	3.75%	4.93%	11.00%	2.80%	5.21%
Liquidity	1.00%	0.00%	-0.92%	2.00%	-0.40%	-0.90%

- (a) An expected inflation of 2.0% used for this period.
- (b) An expected inflation of 2.92% used for this period.
- (c) An expected inflation of 2.5% used for this period.
- (d) An expected inflation of 3.0% used for this period.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 8 – Defined Benefit Pension Plan (Continued)

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 calculated using the discount rate of 7.15% as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Fiscal Year	
	2019	2018
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 2,947,994	\$ 2,990,840
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 1,828,856	\$ 1,905,629
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 905,027	\$ 1,006,838

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

Note 9 – Other Post-employment Benefits (OPEB)

The District’s plan is a single-employer defined benefit OPEB plan which provides retiree medical and prescription drug coverage to eligible retirees and their dependents. Employees who attain age 55 and 10 years of service and retire from active employment are eligible to receive pro-rated benefits from the Plan. Medical coverage is offered under a fully-insured PPO plan option and a fully-insured HMO plan option, through the Association of California Water Agencies Health Plan, consistent with the coverage provided under the CalPERS Health Program.

Funding Policy

The District funds the plan on a pay-as-you-go basis. The District contributes up to the amount of the monthly premium for ACWA Advantage coverage for employee and family, plus administrative fees and Contingency Reserve Fund assessments. The specific contribution percentage is based on District years of credited service.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 9 – Other Post-employment Benefits (OPEB) (Continued)

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2017, rolled forward to June 30, 2018 using standard update procedures based on the following actuarial methods and assumptions:

	OPEB Plan
Actuarial Cost Method	Entry-Age Normal, Level Percent of Pay
Actuarial Assumptions:	
Discount Rate	
Measurement Date - 2018	3.36%
Measurement Date - 2017	3.44%
Payroll Growth (1)	3% for the July 1, 2017 valuation, 2.875% for the June 30, 2018 valuation, 2.75% thereafter.
Mortality	CalPERS mortality tables for non-industrial employees split by males and females for Public Agencies
Withdrawal Rate	CalPERS Matrix of Termination Assumption Rates for Public Agency Miscellaneous
Disability Rate	CalPERS disability table for non industrial employees split by males and females for Public Agencies
Healthcare Trend Rate	
Measurement Date - 2018	7.50% decreasing to 5.00%
Measurement Date - 2017	7.00% decreasing to 5.00%

(1) Benefits are not dependent upon salary. Rate is used in applying the level percentage of projected payroll amortization method.

Assumption Changes

The discount rate was decreased from 3.44% to 3.36% for the measurement period ending June 30, 2018.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.36% and 3.44% for the measurement periods ending June 30, 2018 and July 1, 2017 respectively. The discount rates are based on the S&P municipal Bond 20-Year High Grade Rate Index.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 9 – Other Post-employment Benefits (OPEB) (Continued)

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (a) - (b)
Balance at June 30, 2018 (Measurement Date July 1, 2017)	\$ 2,531,953	\$ -	\$ 2,531,953
Changes Recognized for the Measurement Period:			
Service cost	151,287	-	151,287
Interest on Total OPEB Liability	85,855	-	85,855
Contributions - Employer	-	72,323	(72,323)
Benefit Payments	(72,323)	(72,323)	-
Expected versus actual experience	26,104	-	26,104
Assumption changes	30,994	-	30,994
Net Changes	<u>221,917</u>	<u>-</u>	<u>221,917</u>
Balance at June 30, 2019 (Measurement Date June 30, 2018)	<u>\$ 2,753,870</u>	<u>\$ -</u>	<u>\$ 2,753,870</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

1% Decrease (2.36%)	Current Discount Rate (3.36%)	1% Increase (4.36%)
\$ 3,188,230	\$ 2,753,870	\$ 2,400,357

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018.

Trend 1% Lower	Valuation Trend	Trend 1% Higher
\$ 2,346,230	\$ 2,753,870	\$ 3,273,523

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 9 – Other Post-employment Benefits (OPEB) (Continued)

The recognition period differs depending on the source of the gain or loss. The difference between projected OPEB plan investment earnings and actual earnings is amortized over a five year period. The remaining gains and losses are amortized over the expected average remaining service life, which was 12 years at measurement date June 30, 2018.

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

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of \$200,313. At June 30, 2019 and 2018, the District reported deferred outflows of resources related to OPEB from the following sources.

	<u>June 30, 2019</u>		<u>June 30, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 72,323	\$ -	\$ 67,941	\$ -
Differences between expected and actual experience	23,929	(4,460)	-	(4,866)
Changes in assumptions	28,411	(404,906)	-	(441,715)
Total	<u>\$ 124,663</u>	<u>\$ (409,366)</u>	<u>\$ 67,941</u>	<u>\$ (446,581)</u>

Employer contributions of \$72,323 reported as deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Fiscal Year Ended June 30	
2020	\$ (32,457)
2021	(32,457)
2022	(32,457)
2023	(32,457)
2024	(32,457)
Thereafter	(194,741)
	<u>\$ (357,026)</u>

Note 10 – Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. The District does not contribute to this plan and all contributions are made voluntarily by the employee. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 10 – Deferred Compensation Plan (Continued)

All assets of the plan were placed in trust for the exclusive benefit of participants and their beneficiaries. The requirements of the IRC Section prescribes that the District no longer owns the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the District's financial statements.

Note 11 – Cachuma Project Authority/Cachuma Operations and Maintenance Board

The District entered into a joint powers agreement with several other area water agencies to form the Cachuma Project Authority (CPA). The CPA renegotiated the Cachuma Project Renewal Master Contract with the United States Bureau of Reclamation (USBR). The master contract was entered into on September 12, 1949, and was renewed April 14, 1996, to run through September 30, 2020. The Parent District assigned its rights under the original Contract to the District. The CPA issued revenue bonds to pay off the District's long-term debt (see Note 5) and to finance the construction of a water reservoir.

Effective September 30, 1996, the CPA merged into the Cachuma Operations and Maintenance Board (COMB), which continues to be responsible for operation and maintenance of the "Project Works" and certain administrative responsibilities and reporting to the USBR on behalf of the Cachuma Project member units. All assets and liabilities of the Authority were transferred to COMB.

On May 26, 2016, at a Special Meeting of the District's Board of Trustees, the Board unanimously voted to formally withdraw from the "1996 Amended and Restated Agreement for the Establishment of a Board of Control to Operate and Maintain the Cachuma Project – Cachuma Operation and Maintenance Board", and separate from COMB. The District's withdrawal from COMB was effective as of May 27, 2016.

On August 23, 2018 all parties signed the Cachuma Operation and Maintenance Board Joint Powers Authority Separation Agreement (Separation Agreement) finalizing the withdrawal and severance of the District from COMB effective as of May 27, 2016. During the fiscal year 2018/2019 the District paid COMB \$167,500 as a complete compromise related to the District's share of COMB costs for fiscal years 2015-2016 and 2016-2017. There are certain continuing obligations related to the District that will carry forward as defined in the Separation Agreement, some of which conclude upon the expiration of the Master Contract or other triggering events, including certain financial obligations which continue until specific termination dates or debt obligations of the District are paid. Except as expressly set forth by the Separation Agreement, the District shall have no obligation or responsibility for any liabilities, financial obligations, or other activities of COMB. Pursuant to terms of the Separation Agreement, the District has paid disputed amounts into escrow relating to its share of certain COMB costs for fiscal year 2018-2019. The District and COMB agreed in the Separation Agreement to mediate any disputed amounts prior to filing litigation. Nevertheless, COMB has filed litigation against the District with the regard to the disputed amounts that are deposited in escrow. (Cachuma Operation and Maintenance Board v. Santa Ynez River Water Conservation District, Improvement District No.1, et al.; Santa Barbara County Superior Court Case No. 19CV01873.)

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 12 – Risk Management

The District participates in the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool of California water agencies, for general and auto liability, public officials’ liability, property damage, and fidelity insurance. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group-purchased commercial excess insurance is obtained.

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. ACWA/JPIA may be terminated at any time by written consent of three-fourths of voting members at which time the members may be required to pay their share of any additional amount of premium in accordance with the loss allocation formulas for final disposition of all claims and losses covered by the joint powers agreement. To obtain complete financial information contact ACWA/JPIA at P.O. Box 619082 Roseville, CA 95661.

At June 30, 2019 the District participates in the ACWA/JPIA pooled programs for liability, and property programs as follows:

<u>Coverage</u>	<u>Deductible</u>	<u>Coverage Limit</u>
General liability	None	\$5,000,000 - \$20,000,000
Auto liability	None	\$5,000,000 - \$20,000,000
Public officials liability	None	\$5,000,000 - \$20,000,000
Cyper liability	None	\$3,000,000 - \$5,000,000
Property	\$500 - \$50,000	\$100,000 - \$500,000,000
Crime	\$1,000	\$100,000
Workers' Compensation	None	Statutory

Note 13 – Joint Venture

Central Coast Water Authority

In 1991, the District’s electorate approved participation in the State Water Project (SWP). As a result, the District joined in the formation of the Central Coast Water Authority (CCWA) in September 1991. The purpose of the CCWA is to provide for the financing, construction, operation, and maintenance of certain local (non-state owned) facilities required to deliver water from the SWP to certain water purveyors and users in Santa Barbara County. In September 1997, the project began delivering state water to the District.

The District has entered into a Water Supply Agreement with the City of Solvang for 75% of the District’s 2,000 acre-foot State Water Project entitlement. The agreement calls for the City to reimburse the District for its allocated share (72.75%) of all costs associated with the SWP. The difference between the 75% allocation of water and the 72.75% allocated share of costs is due to the fact that costs attributed only to the District increased its revenue bond allocation percentage, causing its overall cost percentage to be 72.75%.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 13 – Joint Venture (Continued)

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 project participants to buy, a specified amount of water from CCWA ("take or pay"); and
- 2) assigning the Santa Barbara project participant's entitlement rights in the State Water project 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 as defined by GASB.

The District and each project participant is required to pay to CCWA an amount equal to its share of the total cost of "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 operating and administrative costs.

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 payments required pursuant to the Water Supply Agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

CCWA is composed of eight members, all of which are public agencies. CCWA was organized and exists under a joint exercise of power agreement among the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are approximately apportioned between the entities based upon each entity's allocation of State water entitlement. The District's weighted voting allocation based upon number of acre-feet of water is 7.64%. Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

In August 2006, CCWA issued the Series 2006A Refunding Revenue Bonds for \$123,190,000 with an average interest rate of 4.24% to refund \$142,985,000 of outstanding 1996 Revenue Bonds with an average interest rate of 5.47%. The 1996 Revenue Bonds were issued to advance refund the 1992 Revenue Bonds. The 1992 Revenue Bonds were issued by the Authority for the benefit of its participants to finance a portion of the costs of developing a pipeline and water treatment plant, to reimburse certain project participants for costs incurred in connection with the State Water Project, and to finance certain other liabilities.

On June 18, 2016 the Authority issued Series 2016A refunding revenue bonds for \$45,470,000, which refunded the outstanding \$59,645,000 Series 2006A revenue bonds on October 1, 2016. The 2016A refunding revenue bonds were issued to realize the benefits of lower interest rates, which were issued at a true interest cost of 1.355% compared to the 4.24% true interest costs of the 2006A bonds. The bond refunding transaction was completed at the close of escrow on July 21, 2016.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 13 – Joint Venture (Continued)

Based on the Water Supply Agreement with the City of Solvang described above, below are the projected required costs of the State Water Project for the District and City of Solvang. Because the District is the “Project Participant” in CCWA, it is obligated to make all fixed and variable charge payments to CCWA and then is reimbursed by the City of Solvang for the City’s share of the annual funding in accordance with the Agreement.

District's Share:

	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Debt Service and Credits</u>	<u>Total</u>
2020	\$ 1,042,450	\$ 219,738	\$ 38,597	\$ 1,300,785
2021	961,451	305,919	299,805	1,567,175
2022	988,611	321,215	299,433	1,609,259
2023	901,773	337,276	-	1,239,049
2024	911,172	354,139	-	1,265,311
Total	\$ 4,805,457	\$ 1,538,287	\$ 637,835	\$ 6,981,579

City of Solvang's Share:

	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Debt Service</u>	<u>Total</u>
2020	\$ 2,181,164	\$ 186,270	\$ 798,844	\$ 3,166,278
2021	1,935,497	296,899	798,301	3,030,697
2022	1,987,442	311,743	797,312	3,096,497
2023	2,034,843	327,330	-	2,362,173
2024	2,041,251	343,697	-	2,384,948
Total	\$ 10,180,197	\$ 1,465,939	\$ 2,394,457	\$ 14,040,593

The above fixed and variable costs include both DWR and CCWA charges. Variable costs are dependent on actual water deliveries taken or to be taken. Debt service amounts above include interest expense. The “fixed costs,” “variable costs,” and “debt service” numbers were obtained from CCWA’s five-year projected cost schedules.

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

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 14 – Commitments

Water Entitlement Exchange

In 1993, the District entered into the Santa Ynez River/State Water Exchange Agreement with the South Coast Cachuma members (Carpinteria, Goleta, and Montecito Water Districts and the City of Santa Barbara), the La Cumbre Mutual Water Company and CCWA to exchange the District's share of Cachuma Project water entitlement for those members' pro rata share of State Water Project entitlement.

Bradbury Dam

On July 1, 2002 the District approved a contract for COMB to participate in a repayment contract with the Bureau of Reclamation in the Department of Interior of the United States (United States). Under the terms of this agreement, COMB will reimburse the United States for a portion of Safety of Dams (SOD) Act funds the United States expended to preserve the structural integrity of Bradbury Dam and related Cachuma Project facilities. The contract calls for a repayment of the cost over a 50-year period.

COMB will assess the District annually for amounts equal to the District's share of the obligation due to the Department of Interior. The District has a commitment equal to 10.31% of total contract repayment. Currently, the annual payment is \$26,976. The District's obligation for the SOD repayment contract is a condition in the August 23, 2018 Cachuma Operation and Maintenance Board Joint Powers Authority Separation Agreement which will continue until the specific termination date or the debt obligation of the District is paid.

Suspended Table "A" Reacquisition

The Central Coast Water Authority continued its efforts during FY 2018/19 to reacquire the 12,214 acre feet of Table "A" State Water Project water that was suspended by DWR in the 1980's. Five agencies within CCWA, including the District, have executed contracts with CCWA to participate in the reacquisition with all costs to date being allocated to the five agencies. The District is participating in 500 AF or approximately 4.1% of the total amount. In addition, the District also committed to 300 AF on behalf of the City of Solvang with Solvang responsible for approximately 2.5% of the 12,215 AF total. In September 2018, CCWA provided an update of the DWR and Santa Barbara County estimated repayment costs to reacquire the suspended water; DWR at \$32.4 million, and Santa Barbara County at \$7.1 million which the District's share would be approximately 4.1% of the total. Should Santa Barbara County costs be deferred due to the broader County benefit position, the District would be responsible for the DWR portion totaling an estimated \$1.3 million as a one-time payment. Environmental analysis was initiated in FY 2018/19 by CCWA as the lead agency funded by the five participating parties.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 15 – Contingent Liabilities

SWRCB Hearings

The District and other local water agencies are signatories to a 2001 Memorandum of Understanding (MOU) for Cooperation in Research and Fish Maintenance – Santa Ynez River with various federal and state agencies concerning the fishery in Santa Ynez River below Bradbury Dam. In addition, the District along with those other local, state and federal agencies is involved in ongoing quasi-legal proceedings before the State Water Resources Control Board (SWRCB) regarding Cachuma Project permits held by the United States Bureau of Reclamation on behalf of the Cachuma Member Units, including the release of water stored in the Cachuma Project facilities to downstream reaches of the Santa Ynez River.

The District and these other local agencies are conducting studies and constructing fish projects on the Santa Ynez River and associated tributaries in connection with the 2000 Biological Opinion issued by the National Marine Fisheries Service to Reclamation, Section 7 Re-consultation under the Endangered Species Act, the SWRCB proceedings and implementing the Lower Santa Ynez River Fish Management Plan, and the cost of those studies is a material annual expense of the District. The outcome of the re-consultation studies, Biological Opinions, and the SWRCB proceedings may affect the amount of water the District receives from the Cachuma Project in future years.

New Legislation - Hexavalent Chromium-6

The State of California enacted a standard for Hexavalent Chromium (Cr6) effective July 1, 2014 which required all water systems to comply with new lowered maximum contaminant levels (MCLs) set at no more than 10 parts per billion (ppb) of Cr6 in the water produced from groundwater wells. In September 2015 legislation was passed, Senate Bill 385, which in addition to other requirements, allows the water system to achieve compliance at the earliest feasible date prior to January 1, 2020.

In order to comply with the new State standard and meet current and future water demand, the District conducted pilot studies to determine the best available water treatment technology for its water chemistry, prepared preliminary engineering design for blending systems, performed feasibility and cost analysis for each option, and developed a well modification project as part of the on-going Cr6 remediation program. The primary solution involved investing in a new centralized water treatment facility with a capability of treating Cr6 produced from the District's groundwater and other water quality constituents. The costs associated with new treatment facilities and blending varied, and were estimated to be as much as \$12.5 million.

However, on May 5, 2017, a Superior Court judge ruled that, in establishing the new standard, the State failed to adequately assess the economic feasibility of complying with the new MCL and the 10 ppb MCL was invalidated. The order requires the State to establish a new MCL for Cr6 following an adequate economic feasibility analysis. In the meantime, the State's MCL of 50 ppb for total chromium remains in place. While postponing work on the mitigation of Cr6 in the water supply, the District continues to monitor the progress of the State in establishing a new MCL. When the new MCL is established, the District will resume work to assure compliance with the new regulation.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

Note 16 – Legal Contingencies

In the ordinary course of conducting business, various legal proceedings may be pending, however, in the opinion of the District's management, the ultimate disposition of these matters will have no significant impact on the financial position of the District.

Note 17 – Reclassifications

Certain prior year balances were reclassified in order to conform with current year presentation.

Note 18 – Subsequent Events

Subsequent events have been evaluated through November 19, 2019, the date the financial statements were available to be issued.

Required Supplementary Information

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT, IMPROVEMENT DISTRICT NO. 1
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2019
LAST 10 YEARS***

	2019	2018	2017	2016	2015
Proportion of the net pension liability	0.01898%	0.01922%	0.01908%	0.01874%	0.02055%
Proportionate share of the net pension liability	\$ 1,828,856	\$ 1,905,629	\$ 1,651,018	\$ 1,285,968	\$ 1,278,902
Covered payroll	\$ 1,501,838	\$ 1,349,875	\$ 1,299,691	\$ 1,190,037	\$ 1,098,615
Proportionate Share of the net pension liability as percentage of covered-employee payroll	121.77%	141.17%	127.03%	108.06%	116.41%
Plan fiduciary net position as a percentage of the total pension liability	77.89%	75.85%	76.34%	80.35%	79.73%
Measurement date	06/30/18	06/30/17	06/30/16	06/30/15	06/30/14
Valuation date	06/30/17	06/30/16	06/30/15	06/30/14	06/30/13

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2017 valuation date.

* Historical information is required only for measurement periods for which GASB 68 is applicable. Future year's information will be displayed up to 10 years as information becomes available.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT, IMPROVEMENT DISTRICT NO. 1
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2019
LAST 10 YEARS*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 271,802	\$ 244,533	\$ 218,450	\$ 201,660	\$ 165,075
Contributions in relation to the actuarially determined contributions	\$ 271,802	\$ 244,533	\$ 218,450	\$ 201,660	\$ 165,075
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,608,531	\$ 1,501,838	\$ 1,349,875	\$ 1,299,691	\$ 1,190,037
Contributions as a percentage of covered-employee payroll	16.28%	16.28%	16.18%	15.52%	13.87%

Notes to Schedule:

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

* Historical information is required only for measurement periods for which GASB 68 is applicable.
Future year's information will be displayed up to 10 years as information becomes available.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT, IMPROVEMENT DISTRICT NO. 1
OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019
LAST 10 YEARS***

	<u>2019</u>	<u>2018</u>
Total OPEB liability:		
Service cost	\$ 151,287	\$ 199,377
Interest on the total OPEB liability	85,855	69,249
Expected versus actual experience	26,104	(5,271)
Assumption changes	30,994	(478,525)
Benefit payments	<u>(72,323)</u>	<u>(67,941)</u>
Net change in total OPEB liability	221,917	(283,111)
Total OPEB liability - beginning	<u>2,531,953</u>	<u>2,815,064</u>
Total OPEB liability - ending (a)	<u><u>\$ 2,753,870</u></u>	<u><u>\$ 2,531,953</u></u>
 Fiduciary Net Position		
Employer contributions	\$ 72,323	\$ 67,941
Benefit payments	<u>(72,323)</u>	<u>(67,941)</u>
Net change in fiduciary net position	-	-
Total fiduciary net position- beginning	-	-
Total fiduciary net position - ending (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
 Net OPEB liability - ending (a) - (b)	\$ 2,753,870	\$ 2,531,953
 Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%
 Covered - employee payroll	\$ 1,556,210	\$ 1,388,793
 Net OPEB liability as a percentage of covered-employee payroll	176.96%	182.31%
 Measurement date	06/30/18	07/01/17
Valuation date	07/01/17	07/01/17

Notes to Schedule:

* Historical information is required only for measurement periods for which GASB 75 is applicable. Future year's information will be displayed up to 10 years as information becomes available.

Other Supplementary Information

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES - ACTUAL AND BUDGET
FOR THE YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE ACTUAL AMOUNTS AT JUNE 30, 2018**

	<u>2019 Actual</u>	<u>2019 Budget</u>	<u>2019 Over/(Under)</u>	<u>2018 Actual</u>
Operating Revenues:				
Water sales	\$ 7,972,394	\$ 7,381,017	\$ 591,377	\$ 7,798,410
State water contract revenue	2,917,426	2,783,948	133,478	2,608,659
Miscellaneous billings and fees	155,857	105,500	50,357	149,787
Total operating revenues	<u>11,045,677</u>	<u>10,270,465</u>	<u>775,212</u>	<u>10,556,856</u>
Operating Expenses:				
Source of supply	1,239,374	1,406,647	(167,273)	1,516,149
State water contract expense	2,917,426	2,783,948	133,478	2,608,659
Pumping expense	580,331	602,000	(21,669)	692,459
Water treatment	38,170	67,500	(29,330)	50,513
Transmission and distribution	982,535	738,973	243,562	648,921
Special programs and study fees	480,752	642,500	(161,748)	280,512
Administrative and general	2,379,114	2,791,793	(412,679)	2,637,576
Total operating expenses	<u>8,617,702</u>	<u>9,033,361</u>	<u>(415,659)</u>	<u>8,434,789</u>
Operating income	<u>2,427,975</u>	<u>1,237,104</u>	<u>1,190,871</u>	<u>2,122,067</u>
Other Income:				
Capital facilities fees	133,793	75,000	58,793	26,073
Investment income	271,954	145,000	126,954	107,600
Special assessment	928,497	875,000	53,497	895,005
Total other income	<u>1,334,244</u>	<u>1,095,000</u>	<u>239,244</u>	<u>1,028,678</u>
Other Expenses:				
Depreciation and amortization	725,535	-	725,535	702,161
Interest expense	40,216	48,006	(7,790)	51,599
Loss on disposal of assets	141,328	-	141,328	26,562
Unanticipated and special legal fees	258,238	118,000	140,238	118,810
Total other expenses	<u>1,165,317</u>	<u>166,006</u>	<u>999,311</u>	<u>899,132</u>
Change in net position	<u>\$ 2,596,902</u>	<u>\$ 2,166,098</u>	<u>\$ 430,804</u>	<u>\$ 2,251,613</u>

See accompanying notes