

**SANTA YNEZ RIVER WATER
CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
JUNE 30, 2020 AND 2019
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, 2020 and 2019, 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, 2020 and 2019, 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
December 15, 2020

**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 (“District”) financial condition and activities for the fiscal year ending June 30, 2020. 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 District Law of 1931, Division 21, Section 74000 et seq. of the California Water Code (the “Act”), for the purpose of furnishing potable domestic and irrigation water within its boundaries. The District has operated continuously since 1959.

Located in the central portion of Santa Barbara County, the District serves the communities of Santa Ynez, Los Olivos, Ballard, the Santa Ynez Band of Chumash Indians, and the City of Solvang on a limited basis. With a population of approximately 6,737 (excluding the City of Solvang), the District currently provides water directly to approximately 2,598 municipal and industrial customers (including domestic/residential, commercial, institutional, rural residential, and fire service) and approximately 97 agricultural customers. The District encompasses an area of approximately 10,850 acres (including approximately 1,300 acres within Solvang).

The District obtains its water supplies from the Cachuma Project via exchange of State Water Project supplies, direct diversions from the Cachuma Project (as needed), direct deliveries from the State Water Project, production from the Santa Ynez Uplands Groundwater Basin, and diversions 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 reasonable and beneficial uses by the District’s domestic and agricultural customers.

During fiscal year 2019/2020, the District maintained a staff of sixteen full-time employees and one part-time employee.

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 provide an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the 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 an 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, 2020, the District's net position increased by a total of \$2,629,239 (10.31%), resulting from total operating income of \$2,296,560 and total non-operating income of \$332,679.

In comparison to the prior year, the District's operating revenues increased by \$572,060 (5.18%) and operating expenses increased by \$703,475 (8.16%). Non-operating income decreased by \$126,423 (-9.48%) and non-operating expenses decreased in the current year by \$290,175 (-24.90%).

Balance Sheet

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

	2020	2019	2018	2020-2019 Variance		2019-2018 Variance	
				Dollars	Percent	Dollars	Percent
Assets:							
Current assets	\$ 22,321,855	\$ 20,664,841	\$ 17,879,992	\$ 1,657,014	8.02%	\$ 2,784,849	15.58%
Noncurrent assets:							
Restricted assets	520,617	483,898	401,663	36,719	7.59%	82,235	20.47%
Capital assets, net	14,069,303	13,949,343	13,943,643	119,960	0.86%	5,700	0.04%
Total Assets	\$ 36,911,775	\$ 35,098,082	\$ 32,225,298	\$ 1,813,693	5.17%	\$ 2,872,784	8.91%
Deferred Outflows of Resources:							
Deferred outflows	\$ 665,485	\$ 733,022	\$ 779,587	\$ (67,537)	-9.21%	\$ (46,565)	-5.97%
Total Deferred Outflows of Resources	\$ 665,485	\$ 733,022	\$ 779,587	\$ (67,537)	-9.21%	\$ (46,565)	-5.97%
Liabilities:							
Current liabilities	\$ 3,653,342	\$ 4,569,346	\$ 4,187,844	\$ (916,004)	-20.05%	\$ 381,502	9.11%
Long term liabilities	5,230,193	5,281,141	5,403,656	(50,948)	-0.96%	(122,515)	-2.27%
Total Liabilities	\$ 8,883,535	\$ 9,850,487	\$ 9,591,500	\$ (966,952)	-9.82%	\$ 258,987	2.70%
Deferred Inflows of Resources:							
Deferred inflows	\$ 572,680	\$ 488,811	\$ 518,481	\$ 83,869	17.16%	\$ (29,670)	-5.72%
Total Deferred Inflows of Resources	\$ 572,680	\$ 488,811	\$ 518,481	\$ 83,869	17.16%	\$ (29,670)	-5.72%
Net Position:							
Net investment in capital assets	\$ 13,373,547	\$ 12,985,928	\$ 12,722,569	\$ 387,619	2.98%	\$ 263,359	2.07%
Restricted	520,617	483,898	401,663	36,719	7.59%	82,235	20.47%
Unrestricted, reserved	6,963,101	8,415,029	7,366,723	(1,451,928)	-17.25%	1,048,306	14.23%
Unrestricted, unreserved	7,263,780	3,606,951	2,403,949	3,656,829	101.38%	1,203,002	50.04%
Total Net Position	\$ 28,121,045	\$ 25,491,806	\$ 22,894,904	\$ 2,629,239	10.31%	\$ 2,596,902	11.34%

**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 \$28,121,045 and \$25,491,806 as of June 30, 2020 and 2019, respectively.

The largest portion of the District's total net position is its net investment in capital assets, in the amount of \$13,373,547 at June 30, 2020 and \$12,985,928 at June 30, 2019. 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 \$119,960 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 \$267,659 equates to the increase in total net position invested in capital assets of \$387,619 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 \$520,617 and \$483,898 at June 20, 2020 and 2019, 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:

	2020	2019	2018	2020-2019 Variance		2019-2018 Variance	
				Dollars	Percent	Dollars	Percent
Operating revenues	\$ 11,617,737	\$ 11,045,677	\$ 10,556,856	\$ 572,060	5.18%	\$ 488,821	4.63%
Operating expenses	9,321,177	8,617,702	8,434,789	703,475	8.16%	182,913	2.17%
Total Operating Income	2,296,560	2,427,975	2,122,067	(131,415)	-5.41%	305,908	14.42%
Non-operating income	1,207,821	1,334,244	1,028,678	(126,423)	-9.48%	305,566	29.70%
Non-operating expense	875,142	1,165,317	899,132	(290,175)	-24.90%	266,185	29.60%
Total Non-operating Inc (Exp)	332,679	168,927	129,546	163,752	96.94%	39,381	30.40%
Change in net position	2,629,239	2,596,902	2,251,613	32,337	1.25%	345,289	15.34%
Net Position at beginning of year, as originally presented	25,491,806	22,894,904	21,941,091	2,596,902	11.34%	953,813	4.35%
Prior period adjustment	-	-	(1,297,800)	-	0.00%	1,297,800	-100.00%
Net Position at beginning of year, as restated	25,491,806	22,894,904	20,643,291	2,596,902	11.34%	2,251,613	100.00%
Net Position at End of Year	\$ 28,121,045	\$ 25,491,806	\$ 22,894,904	\$ 2,629,239	10.31%	\$ 2,596,902	11.34%

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

As described in the table above, the District reported a total increase in net position of \$2,629,239 for the year ended June 30, 2020. The increase in net position for the year ended June 30, 2020 was due in part to federal, state, and local restrictions arising from the Novel Coronavirus (COVID-19). These restrictions, many of which were imposed in March 2020 and remained in place throughout fiscal year 2019/2020, postponed the completion of several of the District's Capital Improvement Projects (CIP) that were projected to be completed by year end, resulting in significantly less expenses than were projected during the fiscal year.

Operating revenues increased by \$572,060 during the fiscal year ended June 30, 2020 due to a combination of increased water usage and scheduled increases in water rates. The District implemented the fourth water rate increase of a five-year adopted water rate schedule effective January 1, 2020.

Operating expenses increased by \$703,475 during the fiscal year ended June 30, 2020 due to a combination of several factors. Source of supply expenses increased by \$413,905 overall, which was mainly driven by an increase in state water expenses of \$395,861. State water contract expenses paid on behalf of the City of Solvang increased by \$224,223 which was fully offset by an increase in state water contract operating revenue. Administrative and general expense increased by \$215,628 due primarily to an increase of \$192,768 in non-cash pension expense which is calculated and reported based on annual valuations provided by CalPERS.

**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 decreased by \$126,423 from the prior year due primarily to a decrease in capital facilities fees of \$122,196.

Non-operating expenses decreased in total by \$290,175 from the prior year due primarily to decreases in unanticipated and special legal fees of \$149,160 and a decrease of \$142,328 in net loss on disposal of assets which was a loss of \$141,328 in the prior year as compared to a gain in the current year of \$1,000.

Capital Assets

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

Capital Assets

	2020	2019	2018	2020-2019 Variance		2019-2018 Variance	
				Dollars	Percent	Dollars	Percent
Land and water rights	\$ 503,317	\$ 503,317	\$ 503,317	\$ -	0.00%	\$ -	0.00%
Utility plant	9,039,554	9,039,554	8,995,457	-	0.00%	44,097	0.49%
Wells and major repairs	18,544,178	18,008,704	18,128,729	535,474	2.97%	(120,025)	-0.66%
Office building	210,372	192,976	195,699	17,396	9.01%	(2,723)	-1.39%
Transportation equipment	818,449	748,263	683,301	70,186	9.38%	64,962	9.51%
Office equipment	161,744	155,518	156,552	6,226	4.00%	(1,034)	-0.66%
Other equipment	341,939	283,895	255,574	58,044	20.45%	28,321	11.08%
Total Capital Assets	\$ 29,619,553	\$ 28,932,227	\$ 28,918,629	\$ 687,326	2.38%	\$ 13,598	0.05%
Less accumulated depreciation	(16,060,625)	(15,481,880)	(15,020,358)	(578,745)	3.74%	(461,522)	3.07%
Subtotal	\$ 13,558,928	\$ 13,450,347	\$ 13,898,271	\$ 108,581	0.81%	\$ (447,924)	-3.22%
Construction in progress	510,375	498,996	45,372	11,379	2.28%	453,624	999.79%
Net Capital Assets	\$ 14,069,303	\$ 13,949,343	\$ 13,943,643	\$ 119,960	0.86%	\$ 5,700	0.04%

Capital Assets Analysis

The District's net capital assets as of June 30, 2020 and 2019 including construction in progress were \$14,069,303 and \$13,949,343, respectively. Capital asset additions including construction in progress during fiscal year 2019/2020 totaled \$857,913 which related primarily to the Phase II Lateral Replacement Project, the Meter Replacement Project, SCADA upgrades, Meadowlark BPS submersible pump, and other equipment purchases. This increase was offset by depreciation expenses of \$737,953. The resulting overall increase in net capital assets was \$119,960, 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

	2020	2019	2018	2020-2019 Variance		2019-2018 Variance	
				Dollars	Percent	Dollars	Percent
Revenue Bonds	\$ 690,000	\$ 955,000	\$ 1,210,000	\$ (265,000)	-27.75%	\$ (255,000)	-21.07%
Premium (Discount) on Bonds	5,756	8,415	11,074	(2,659)	-31.60%	(2,659)	-24.01%
Total Outstanding Bonds	\$ 695,756	\$ 963,415	\$ 1,221,074	\$ (267,659)	-27.78%	\$ (257,659)	-21.10%

Long Term Debt Analysis

As of June 30, 2020, the District had total outstanding debt of \$695,756 related to the issuance of the Series 2004A 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, 2020 and 2019**

ASSETS

	2020	2019
Current Assets:		
Cash	\$ 5,222,961	\$ 2,089,247
Investments, cash equivalents	10,510,382	12,034,149
Accounts receivable	1,001,124	868,401
Interest receivable	43,016	82,087
Inventories	174,793	145,650
Prepaid CCWA expenses	4,122,938	4,207,487
Prepaid water	144,912	149,439
Prepaid expenses and deposits	1,101,729	1,088,381
Total current assets	22,321,855	20,664,841
Restricted Assets:		
Cash	411,405	374,686
Investments, cash equivalents	109,212	109,212
Total restricted assets	520,617	483,898
Capital Assets:		
Capital assets	29,619,553	28,932,227
Less: accumulated depreciation	(16,060,625)	(15,481,880)
Construction in progress	510,375	498,996
Net capital assets	14,069,303	13,949,343
 Total assets	 36,911,775	 35,098,082
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows related to pensions	518,244	608,359
Deferred outflows related to OPEB	147,241	124,663
Total deferred outflows of resources	665,485	733,022
 Total assets and deferred outflows of resources	 \$ 37,577,260	 \$ 35,831,104

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
BALANCE SHEET
June 30, 2020 and 2019**

LIABILITIES

	2020	2019
Current Liabilities:		
Accounts payable	\$ 399,260	\$ 330,706
Accrued expenses	147,125	160,967
Interest payable	13,052	17,745
Current portion of revenue bonds payable	260,000	265,000
Advances payable	2,833,905	3,794,928
Total current liabilities	3,653,342	4,569,346
Long-term Liabilities:		
Net pension liability	1,981,106	1,828,856
Net OPEB liability	2,813,331	2,753,870
Revenue bonds payable, net of current portion	430,000	690,000
Premium on bonds	5,756	8,415
Total long-term liabilities	5,230,193	5,281,141
Total liabilities	8,883,535	9,850,487

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	96,010	79,445
Deferred inflows related to OPEB	476,670	409,366
Total deferred inflows of resources	572,680	488,811

NET POSITION

Net Position:		
Net investment in capital assets	13,373,547	12,985,928
Restricted	520,617	483,898
Unrestricted, reserved	6,963,101	8,415,029
Unrestricted, unreserved	7,263,780	3,606,951
Total net position	28,121,045	25,491,806
Total liabilities, deferred inflows of resources, and net position	\$ 37,577,260	\$ 35,831,104

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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Water sales	\$ 8,365,131	\$ 7,972,394
State water contract revenue	3,141,649	2,917,426
Miscellaneous billings and fees	110,957	155,857
Total operating revenues	<u>11,617,737</u>	<u>11,045,677</u>
Operating Expenses:		
Source of supply	1,653,279	1,239,374
State water contract expense	3,141,649	2,917,426
Pumping expense	575,929	580,331
Water treatment	37,438	38,170
Transmission and distribution	997,145	982,535
Special programs and study fees	320,995	480,752
Administrative and general	2,594,742	2,379,114
Total operating expenses	<u>9,321,177</u>	<u>8,617,702</u>
Operating income	<u>2,296,560</u>	<u>2,427,975</u>
Other Income:		
Capital facilities fees	11,597	133,793
Investment income	322,337	271,954
Special assessment	873,887	928,497
Total other income	<u>1,207,821</u>	<u>1,334,244</u>
Other Expenses:		
Depreciation and amortization	737,953	725,535
Interest expense	29,111	40,216
(Gain) loss on disposal of assets	(1,000)	141,328
Unanticipated and special legal fees	109,078	258,238
Total other expenses	<u>875,142</u>	<u>1,165,317</u>
Change in net position	2,629,239	2,596,902
Net Position - beginning of year	<u>25,491,806</u>	<u>22,894,904</u>
Net Position - end of year	<u>\$ 28,121,045</u>	<u>\$ 25,491,806</u>

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the years ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 11,485,014	\$ 11,087,342
Cash payments to suppliers for goods and services	(7,373,604)	(6,265,135)
Cash payments for payroll taxes and employee benefits	(735,358)	(933,969)
Cash payments to employees for services	<u>(1,686,138)</u>	<u>(1,698,026)</u>
Net cash provided by operating activities	<u>1,689,914</u>	<u>2,190,212</u>
Cash Flows from Noncapital Financing Activities:		
Capital facilities fees	11,597	133,793
Special assessments	873,887	928,497
Non-operating unanticipated and special legal fees	<u>(109,078)</u>	<u>(258,238)</u>
Net cash provided by noncapital financing activities	<u>776,406</u>	<u>804,052</u>
Cash Flows from Capital and Related Financing Activities:		
Principal repayments of long-term debt	(265,000)	(255,000)
Interest payments	(36,463)	(47,391)
Proceeds from sale of capital assets	1,000	574
Capital assets purchased	<u>(880,599)</u>	<u>(895,823)</u>
Net cash used by capital and related financing activities	<u>(1,181,062)</u>	<u>(1,197,640)</u>
Cash Flows from Investing Activities:		
Investment income received	<u>361,408</u>	<u>228,922</u>
Net cash provided by investing activities	<u>361,408</u>	<u>228,922</u>
Net increase in cash	1,646,666	2,025,546
Cash and cash equivalents, beginning of year	<u>14,607,294</u>	<u>12,581,748</u>
Cash and cash equivalents, end of year	<u><u>\$ 16,253,960</u></u>	<u><u>\$ 14,607,294</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, 2020 and 2019**

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

	<u>2020</u>	<u>2019</u>
Cash	\$ 5,222,961	\$ 2,089,247
Investments, cash equivalents	10,510,382	12,034,149
Restricted cash	411,405	374,686
Restricted investments, cash equivalents	109,212	109,212
	<u>\$ 16,253,960</u>	<u>\$ 14,607,294</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	June 30, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

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

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, 2019. (FY 20/21)
Statement No. 87	<i>"Leases"</i>	The requirements of this statement are effective for periods beginning after June 15, 2021. (FY 21/22)
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, 2020. (FY 21/22)

**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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash in banks and on hand	\$ 5,233,709	\$ 2,177,639
Cash with fiscal agents	400,657	286,294
Local Agency Investment Fund	<u>10,619,594</u>	<u>12,143,361</u>
Total cash and investments	<u>\$ 16,253,960</u>	<u>\$ 14,607,294</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, 2020 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 2004A 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 during the year ended June 30, 2019. Those funds were transferred to an escrow account during the year ended June 30, 2020.

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>2020</u>	<u>2019</u>
Cash:		
Santa Ynez Indian Reservation	\$ 10,748	\$ 10,742
Series 2004 A COMB Bonds Debt Service	275,656	286,294
Separation agreement checking/escrow	<u>125,001</u>	<u>77,650</u>
Total Restricted Cash	<u>\$ 411,405</u>	<u>\$ 374,686</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, 2020.

	Balance June 30, 2019	Additions	Disposals	Transfers	Balance June 30, 2020
Utility plant	\$ 9,039,554	\$ -	\$ -	\$ -	\$ 9,039,554
Wells and major repairs	18,008,704	59,400	(130,200)	606,274	18,544,178
Office building	192,976	18,630	(1,234)	-	210,372
Transportation equipment	748,263	94,109	(23,923)	-	818,449
Office equipment	155,518	10,077	(3,851)	-	161,744
Other equipment	283,895	58,044	-	-	341,939
Total depreciable assets	<u>28,428,910</u>	<u>240,260</u>	<u>(159,208)</u>	<u>606,274</u>	<u>29,116,236</u>
Land and land rights	<u>503,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>503,317</u>
Total capital assets	<u>28,932,227</u>	<u>240,260</u>	<u>(159,208)</u>	<u>606,274</u>	<u>29,619,553</u>
Accumulated depreciation	<u>(15,481,880)</u>	<u>(737,953)</u>	<u>159,208</u>	<u>-</u>	<u>(16,060,625)</u>
Construction in progress	<u>498,996</u>	<u>617,653</u>	<u>-</u>	<u>(606,274)</u>	<u>510,375</u>
Net capital assets	<u>\$ 13,949,343</u>	<u>\$ 119,960</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,069,303</u>

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>

**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
2021	\$ 260,000	\$ 25,475	\$ 285,475
2022	210,000	14,900	224,900
2023	220,000	5,088	225,088
Total	\$ 690,000	\$ 45,463	\$ 735,463

**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, 2020 and 2019:

	Balance June 30, 2019	Additions/ Issuances	Deductions/ Repayments	Balance June 30, 2020
COMB Revenue Bonds	\$ 955,000	\$ -	\$ (265,000)	\$ 690,000
Premium on Bonds	8,415	-	(2,659)	5,756
	<u>\$ 963,415</u>	<u>\$ -</u>	<u>\$ (267,659)</u>	<u>\$ 695,756</u>

	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
	<u>\$ 1,221,074</u>	<u>\$ -</u>	<u>\$ (257,659)</u>	<u>\$ 963,415</u>

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:

	2020	2019
Cash Flows from Operating Activities:		
Operating income	\$ 2,296,560	\$ 2,427,975
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in:		
Accounts receivable	(132,723)	41,665
Inventories	(29,143)	23,010
Prepaid expenses and deposits	75,728	(863,181)
Deferred outflows of resources - pension	90,115	103,287
Deferred outflows of resources - OPEB	(22,578)	(56,722)
Increase (decrease) in:		
Accounts payable	91,240	83,346
Accrued expenses	(13,842)	(25,730)
Net pension liability	152,250	(76,773)
Net OPEB obligation	59,461	221,917
Advances payable	(961,023)	341,088
Deferred inflows of resources - pension	16,565	7,545
Deferred inflows of resources - OPEB	67,304	(37,215)
Net cash provided by operating activities	<u>\$ 1,689,914</u>	<u>\$ 2,190,212</u>

**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, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Repair and replacement	\$ 1,474,905	\$ 1,954,751
Debt reserve	-	595,753
Plant expansion	2,488,196	2,864,525
SWP Fund Reserve	3,000,000	3,000,000
Total reserves	<u>\$ 6,963,101</u>	<u>\$ 8,415,029</u>

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 PEPR, 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 PEPR, the District does not pay any portion of the employee’s required contribution.

The Plan’s provisions and benefits in effect at June 30, 2020 and 2019, 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		
2020	7.00%	7.25%
2019	7.00%	6.50%
Required employer contribution rates		
2020	10.33%	7.07%
2019	9.64%	7.27%

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 \$114,504 and \$141,396 for the fiscal years ended June 30, 2020 and 2019, respectively.

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

As of June 30, 2020 the District reported a liability of \$1,981,106 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 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, 2019 and 2018 (measurement dates) was as follows:

Measurement date June 30, 2019		Measurement date June 30, 2018	
Proportion – June 30, 2018	0.04853%	Proportion – June 30, 2017	0.04834%
Proportion – June 30, 2019	0.04947%	Proportion – June 30, 2018	0.04853%
Increase (Decrease)	0.00094%	Increase (Decrease)	0.00019%

For the fiscal years ended June 30, 2020 and 2019, the District recognized pension expense of \$498,629 and \$305,861, respectively. At June 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2020		June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 239,699	\$ -	\$ 271,802	\$ -
Differences between expected and actual experience	137,597	(10,661)	70,170	(23,879)
Changes in assumptions	94,468	(33,488)	208,495	(51,098)
Changes in employer’s proportion	46,480		48,232	
Difference between employer's contributions and employer's proportionate share of contributions	-	(17,224)	619	(4,468)
Net differences between projected and actual earnings on plan investments	-	(34,637)	9,041	-
Total	\$ 518,244	\$ (96,010)	\$ 608,359	\$ (79,445)

Employer contributions of \$239,699 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, 2021. 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	
2021	\$ 166,924
2022	(10,115)
2023	18,727
2024	6,999
2025	-
	\$ 182,535

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
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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, 2018 and 2017 actuarial valuations (June 30, 2019 and 2018 measurement dates) were determined using the following actuarial assumptions:

	<u>Miscellaneous Plan</u>
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	
Measurement Date - 2019	7.15%
Measurement Date - 2018	7.15%
Inflation	
Measurement Date - 2019	2.50%
Measurement Date - 2018	2.75%
Salary Increases	Varies by entry age and service
Investment Rate of Return (1)	
Measurement Date - 2019	7.15%
Measurement Date - 2018	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

(1) 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. Deferred inflows and outflows of resources for changes of assumptions represents the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for the measurement periods ending June 30, 2019 and 2018. 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 a statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

Asset Class	Measurement Date June 30, 2019			Measurement Date June 30, 2018		
	Net Strategic Allocation	Real Return Years 1 -10(a)	Real Return Years 11+(b)	Net Strategic Allocation	Real Return Years 1 -10(a)	Real Return Years 11+(b)
Global Equity	50.00%	4.80%	5.98%	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%	1.00%	0.00%	-0.92%

- (a) An expected inflation of 2.0% used for this period.
- (b) An expected inflation of 2.92% 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	
	2020	2019
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 3,196,376	\$ 2,947,994
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 1,981,106	\$ 1,828,856
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 977,987	\$ 905,027

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, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019, 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 - 2019	3.50%
Measurement Date - 2018	3.36%
Payroll Growth (1)	
Measurement Date - 2019	2.75%
Measurement Date - 2018	3%, decreasing to 2.75%
Mortality	2009 CalPERS Mortality for Active Miscellaneous Employees; 2009 CalPERS Mortality for Retired Miscellaneous Employees
Turnover	2009 CalPERS Turnover for Miscellaneous Employees
Retirement	2009 CalPERS 2.0%@55 Rates for Miscellaneous Employees; 2009 CalPERS 2.0% @60 Rates for Miscellaneous Employees
Healthcare Trend Rate	
Measurement Date - 2019	4%
Measurement Date - 2018	7.50% 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 increased from 3.36% to 3.50% for the measurement period ending June 30, 2019. 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 3.50% and 3.36% for the measurement periods ending June 30, 2019 and 2018, 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 <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net OPEB Liability/(Asset) <u>(a) - (b)</u>
Balance at June 30, 2019 <i>(Measurement Date June 30, 2018)</i>	\$ 2,753,870	\$ -	\$ 2,753,870
Changes Recognized for the Measurement Period:			
Service cost	155,826	-	155,826
Interest on Total OPEB Liability	93,707	-	93,707
Contributions - Employer	-	72,323	(72,323)
Benefit Payments	(72,323)	(72,323)	-
Expected versus actual experience	(67,721)	-	(67,721)
Assumption changes	<u>(50,028)</u>	<u>-</u>	<u>(50,028)</u>
Net Changes	<u>59,461</u>	<u>-</u>	<u>59,461</u>
Balance at June 30, 2020 <i>(Measurement Date June 30, 2019)</i>	<u>\$ 2,813,331</u>	<u>\$ -</u>	<u>\$ 2,813,331</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 periods ended June 30, 2019 and 2018:

<u>1% Decrease</u>	Current <u>Discount Rate</u>	<u>1% Increase</u>
\$ 3,204,679	\$ 2,813,331	\$ 2,493,886

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 periods ended June 30, 2019 and 2018.

<u>Trend 1% Lower</u>	Valuation <u>Trend</u>	<u>Trend 1% Higher</u>
\$ 2,507,259	\$ 2,813,331	\$ 3,171,322

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 8.9 years at measurement date June 30, 2019.

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

For the fiscal years ended June 30, 2020 and 2019, the District recognized OPEB expense of \$203,843 and \$200,313, respectively. At June 30, 2020 and 2019, the District reported deferred outflows of resources related to OPEB from the following sources.

	June 30, 2020		June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 99,659	\$ -	\$ 72,323	\$ -
Differences between expected and actual experience	21,753	(64,167)	23,929	(4,460)
Changes in assumptions	25,829	(412,503)	28,411	(404,906)
Total	<u>\$ 147,241</u>	<u>\$ (476,670)</u>	<u>\$ 124,663</u>	<u>\$ (409,366)</u>

Employer contributions of \$99,659 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, 2021. 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	
2021	\$ (45,687)
2022	(45,687)
2023	(45,687)
2024	(45,687)
2025	(45,687)
Thereafter	(200,653)
	<u>\$ (429,088)</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 original master contract for the Cachuma Project was entered into by the United States Bureau of Reclamation (USBR) and the Santa Barbara County Water Agency on September 12, 1949. Prior to expiration of the original contract, the District and other Cachuma Project Member Units formed the Cachuma Project Authority (CPA) in 1993 to represent their interests in negotiating the Cachuma Project Renewal Master Contract, the Cachuma Project Member Unit Contracts, and related environmental review processes. The Cachuma Project Renewal Master Contract (Contract No. I75r-1802R) was renewed on April 14, 1996 for a term to expire on September 30, 2020. On September 28, 2020, an Amendment to the Renewal Master Contract was entered to extend its term through September 30, 2023 (Contract No. I75r-1802RA).

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 “Transferred Project Works” and certain administrative responsibilities and reporting to USBR on behalf of the Cachuma Project Member Units. All assets and liabilities of the CPA 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 separate from COMB and 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.”

Effective August 23, 2018, the District and the remaining agencies of COMB 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 pursuant to the Separation Agreement as a complete compromise related to the District’s share of certain COMB costs for fiscal years 2015-2016 and 2016-2017. The Separation Agreement sets forth other continuing obligations of the District, some of which conclude upon the expiration of the Renewal Master Contract or other triggering events. Except as expressly required by the Separation Agreement, the District shall have no obligation or responsibility for any liabilities, financial obligations, or other activities of COMB. In approximately April 2019, COMB filed litigation against the District with regard to payment amounts under the Separation Agreement that were disputed by the parties and deposited into an escrow account. (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.) The District and COMB met and conferred in an effort to resolve the litigation. Those efforts resulted in a First Amendment to the Separation Agreement (First Amendment), effective July 30, 2020. The terms of the First Amendment resolved the parties’ dispute, streamlined implementation of the Separation Agreement, and terminated the litigation between COMB and the District.

**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, 2020 the District participates in the ACWA/JPIA pooled programs for liability, and property programs as follows:

Coverage	Deductible	Coverage Limit
General, Auto and Public Officials liability	None	\$5,000,000 - \$55,000,000
Cyper liability	None	\$3,000,000 - \$5,000,000
Property	\$500 - \$50,000	\$2,500,000 - \$500,000,000
Crime	\$1,000	\$100,000
Workers' Compensation	None	Statutory

Note 13 – Joint Ventures

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 Ventures (Continued)

Central Coast Water Authority (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.

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

Note 13 – Joint Ventures (Continued)

Central Coast Water Authority (Continued)

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.

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>
2021	\$ 1,307,999	\$ 525,326	\$ 288,818	\$ 2,122,143
2022	1,285,029	589,944	299,434	2,174,407
2023	1,319,299	619,442	-	1,938,741
2024	1,122,208	650,414	-	1,772,622
2025	1,138,431	682,934	-	1,821,365
Total	<u>\$ 6,172,966</u>	<u>\$ 3,068,060</u>	<u>\$ 588,252</u>	<u>\$ 9,829,278</u>

City of Solvang's Share:

	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Debt Service</u>	<u>Total</u>
2021	\$ 2,074,854	\$ 237,000	\$ 796,458	\$ 3,108,312
2022	2,003,308	248,968	797,313	3,049,589
2023	2,040,406	261,417	-	2,301,823
2024	2,093,256	274,488	-	2,367,744
2025	2,101,128	288,212	-	2,389,340
Total	<u>\$ 10,312,952</u>	<u>\$ 1,310,085</u>	<u>\$ 1,593,771</u>	<u>\$ 13,216,808</u>

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,
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NOTES TO FINANCIAL STATEMENTS**

Note 13 – Joint Ventures (Continued)

Santa Ynez River Valley Groundwater Basin, Eastern Management Area Groundwater Sustainability Agency

The District is a participant with the City of Solvang (Solvang), the Santa Ynez River Water Conservation District (Parent District), and the Santa Barbara County Water Agency (SBCWA) under a 2017 Memorandum of Agreement (MOA) to oversee implementation of the Sustainable Groundwater Management Act (SGMA) within the Eastern Management Area (EMA) of the Santa Ynez River Valley Groundwater Basin. Pursuant to the MOA, the District, Solvang, Parent District, and SBCWA form the Groundwater Sustainability Agency (GSA) for the EMA. The EMA GSA is governed by a committee comprised of one representative and one alternative from each agency. SGMA requires the EMA GSA to prepare and adopt a Groundwater Sustainability Plan (GSP) for the EMA by January 2022. Substantial work is underway to prepare the GSP.

All proposed actions or resolutions of the EMA GSA must be passed by a simple majority and significant actions, such as forming a Joint Powers Authority, require at least 70 percent vote and concurrence of each agency's governing body. During fiscal year 2019/2020, the District paid \$3,509 as its share costs incurred by the EMA GSA. Based on grant funds received from the California Department of Water Resources, those costs were reimbursed to the District in July 2020. The District also provides project management and other administrative support for the EMA GSA. Financial statements for the EMA GSA can be obtained from its administrative office at 3669 Sagunto Street, Suite 101, Santa Ynez, CA 93460.

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 Member Units (Carpinteria Valley Water District, Goleta Water District, Montecito Water District, and the City of Santa Barbara), the La Cumbre Mutual Water Company, and the Central Coast Water Authority (CCWA) to exchange the District's share of Cachuma Project water entitlement for an equal amount of the South Coast agencies' State Water Project entitlement.

Bradbury Dam

On July 1, 2002, COMB and USBR entered into the Contract for Repayment of Funds Expended for Federally Performed Safety of Dams Act Modification Program (SOD Contract) for seismic modifications to Bradbury Dam. Under the SOD Contract, COMB reimburses the United States on behalf of the Cachuma Member Units for a portion of Safety of Dams Act funds the United States expended to preserve the structural integrity of Bradbury Dam and related Cachuma Project facilities. The SOD Contract calls for a repayment of the cost over a 50-year period.

COMB assesses the District annually for amounts equal to the District's share of the obligation due to the United States. The District has a commitment equal to 10.31% of total contract repayment. Currently, the District's annual payment is \$26,976.

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

Note 14 – Commitments (Continued)

Suspended Table “A” Reacquisition

The Central Coast Water Authority is continuing its efforts to acquire 12,214 acre feet (AF) of State Water Project “Suspended Table A” supplies from DWR. Five agencies within CCWA, including the District, have executed contracts with CCWA to participate in the acquisition 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. The District has 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 October 2020, CCWA provided an update of the DWR and Santa Barbara County estimated repayment costs to reacquire the suspended water; DWR at \$36.2 million, and Santa Barbara County at \$7.4 million. Using these cost estimates, and assuming the Santa Barbara County costs would be deferred due to the broader County benefit position, the District’s 4.1% share of the DWR portion would total approximately \$1.5 million as a one-time payment. Environmental analysis by CCWA is underway for the proposed acquisition.

Note 15 – Contingent Liabilities

SWRCB Hearings

The District, along with other local water agencies and several state and federal regulatory entities, are signatories to a 2001 Memorandum of Understanding (MOU) for Cooperation in Research and Fish Maintenance – Santa Ynez River concerning fishery resources in the Lower Santa Ynez River below Bradbury Dam. These agencies are also involved in ongoing proceedings before the State Water Resources Control Board (SWRCB) regarding Cachuma Project permits held by USBR 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. In September 2019, the SWRCB issued a final Water Rights Order for operation of the Cachuma Project to ensure protection of public trust resources and downstream water rights below Bradbury Dam (WRO 2019-0148). Pursuant to WRO 2019-0148, USBR is required to prepare and undertake various reports and studies regarding potential impacts to fishery resources in the Lower Santa Ynez River. Complying with these requirements will result in higher Cachuma Project water costs to the District in the form of higher water rates from USBR and/or voluntary expenses incurred annually by the District in providing support to USBR in its compliance activities.

In addition to the SWRCB proceedings, the District is involved with various local, state, and federal agencies as part of the federal Endangered Species Act (ESA), Section 7 reconsultation process for operation and maintenance of the Cachuma Project for the protection of Southern California steelhead in the Lower Santa Ynez River. For purposes of the ESA, the Cachuma Project is currently governed by the 2000 Biological Opinion issued by the National Marine Fisheries Service (NMFS). Pursuant to the ongoing Section 7 reconsultation process, NMFS is expected to issue a new Biological Opinion in 2021, which will impact the manner in which USBR is required to operate the Cachuma Project. The new Biological Opinion will impose specific water release requirements from Bradbury Dam, which may result in additional impacts to Cachuma Project water supplies, including the amount of water the District receives under its contractual entitlement. The new Biological Opinion will also impose certain monitoring, reporting, study, and other requirements on USBR. Complying with these requirements will result in higher Cachuma Project water costs to the District in the form of higher water rates from USBR and/or voluntary expenses incurred annually by the District in providing support to USBR in its compliance activities.

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

Note 15 – Contingent Liabilities (Continued)

New Legislation - Hexavalent Chromium-6

The State of California enacted a new standard for Hexavalent Chromium (Cr6) effective July 1, 2014 which required all water systems to comply with a lowered maximum contaminant level (MCL) set at no more than 10 parts per billion (ppb) of Cr6 in the water produced from groundwater wells. Public water systems were required to achieve compliance with this new standard 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 demands, 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 a District-specific 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. The costs associated with new treatment and blending facilities varied, and were estimated to be as much as \$12.5 million.

On May 5, 2017, a California Superior Court ruled that, in establishing the new Cr6 standard, the State failed to adequately assess the economic feasibility of complying with the new MCL, and the 10 ppb MCL was invalidated. The Court order required the State to reevaluate its new Cr6 MCL following an adequate economic feasibility analysis. In the meantime, the State's MCL of 50 ppb for total chromium remains in place. While the District has temporarily postponed its work in developing a new centralized treatment system for Cr6, 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.

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 – COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economics and financial markets of many countries, including the geographical area in which the District operates.

Note 18 – Subsequent Events

Subsequent events have been evaluated through December 15, 2020, 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, 2020
LAST 10 YEARS***

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.01933%	0.01898%	0.01922%	0.01908%	0.01874%	0.02055%
Proportionate share of the net pension liability	\$ 1,981,106	\$ 1,828,856	\$ 1,905,629	\$ 1,651,018	\$ 1,285,968	\$ 1,278,902
Covered payroll	\$ 1,608,531	\$ 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 payroll	123.16%	121.77%	141.17%	127.03%	108.06%	116.41%
Plan fiduciary net position as a percentage of the total pension liability	78.07%	77.89%	75.85%	76.34%	80.35%	79.73%
Measurement date	06/30/19	06/30/18	06/30/17	06/30/16	06/30/15	06/30/14
Valuation date	06/30/18	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, 2018 valuation date.

* Historical information is required only for measurement periods for which GASB 68 is applicable. Future years' information will be displayed for 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, 2020
LAST 10 YEARS*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 239,699	\$ 271,802	\$ 244,533	\$ 218,450	\$ 201,660	\$ 165,075
Contributions in relation to the actuarially determined contribution	\$ 239,699	\$ 271,802	\$ 244,533	\$ 218,450	\$ 201,660	\$ 165,075
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,533,069	\$ 1,608,531	\$ 1,501,838	\$ 1,349,875	\$ 1,299,691	\$ 1,190,037
Contributions as a percentage of covered payroll	15.64%	16.90%	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, 2017 funding valuation report.

* Historical information is required only for measurement periods for which GASB 68 is applicable. Future years' information will be displayed for 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, 2020
LAST 10 YEARS*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability:			
Service cost	\$ 155,826	\$ 151,287	\$ 199,377
Interest on the total OPEB liability	93,707	85,855	69,249
Expected versus actual experience	(67,721)	26,104	(5,271)
Assumption changes	(50,028)	30,994	(478,525)
Benefit payments	<u>(72,323)</u>	<u>(72,323)</u>	<u>(67,941)</u>
Net change in total OPEB liability	59,461	221,917	(283,111)
Total OPEB liability - beginning	<u>2,753,870</u>	<u>2,531,953</u>	<u>2,815,064</u>
Total OPEB liability - ending (a)	<u>\$ 2,813,331</u>	<u>\$ 2,753,870</u>	<u>\$ 2,531,953</u>
 Fiduciary Net Position			
Employer contributions	\$ 72,323	\$ 72,323	\$ 67,941
Benefit payments	<u>(72,323)</u>	<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>
 Net OPEB liability - ending (a) - (b)	\$ 2,813,331	\$ 2,753,870	\$ 2,531,953
 Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%
 Covered - employee payroll	\$ 1,672,296	\$ 1,556,210	\$ 1,388,793
 Net OPEB liability as a percentage of covered-employee payroll	168.23%	176.96%	182.31%
 Measurement date	06/30/19	06/30/18	07/01/17
Valuation date	06/30/19	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, 2020
WITH COMPARATIVE ACTUAL AMOUNTS AT JUNE 30, 2019**

	<u>2020 Actual</u>	<u>2020 Budget</u>	<u>2020 Over/(Under)</u>	<u>2019 Actual</u>
Operating Revenues:				
Water sales	\$ 8,365,131	\$ 7,364,657	\$ 1,000,474	\$ 7,972,394
State water contract revenue	3,141,649	3,166,279	(24,630)	2,917,426
Miscellaneous billings and fees	110,957	118,183	(7,226)	155,857
Total operating revenues	<u>11,617,737</u>	<u>10,649,119</u>	<u>968,618</u>	<u>11,045,677</u>
Operating Expenses:				
Source of supply	1,653,279	1,855,327	(202,048)	1,239,374
State water contract expense	3,141,649	3,166,938	(25,289)	2,917,426
Pumping expense	575,929	605,621	(29,692)	580,331
Water treatment	37,438	57,000	(19,562)	38,170
Transmission and distribution	997,145	757,162	239,983	982,535
Special programs and study fees	320,995	288,850	32,145	480,752
Administrative and general	2,594,742	2,777,527	(182,785)	2,379,114
Total operating expenses	<u>9,321,177</u>	<u>9,508,425</u>	<u>(187,248)</u>	<u>8,617,702</u>
Operating income	<u>2,296,560</u>	<u>1,140,694</u>	<u>1,155,866</u>	<u>2,427,975</u>
Other Income:				
Capital facilities fees	11,597	75,000	(63,403)	133,793
Investment income	322,337	147,375	174,962	271,954
Special assessment	873,887	875,000	(1,113)	928,497
Total other income	<u>1,207,821</u>	<u>1,097,375</u>	<u>110,446</u>	<u>1,334,244</u>
Other Expenses:				
Depreciation and amortization	737,953	-	737,953	725,535
Interest expense	29,111	36,956	(7,845)	40,216
(Gain) loss on disposal of assets	(1,000)	-	(1,000)	141,328
Unanticipated and special legal fees	109,078	152,500	(43,422)	258,238
Total other expenses	<u>875,142</u>	<u>189,456</u>	<u>685,686</u>	<u>1,165,317</u>
Change in net position	<u>\$ 2,629,239</u>	<u>\$ 2,048,613</u>	<u>\$ 580,626</u>	<u>\$ 2,596,902</u>