

**SANTA YNEZ RIVER WATER
CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
JUNE 30, 2017 AND 2016
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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2017 and 2016, 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 38, California Public Employees' Retirement System - Schedule of Contributions on page 39, and Other Post-Employment Benefits (OPEB) Plan - Schedule of Funding Progress on page 40 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 41 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, Pringle & Wolf, LLP

Santa Barbara, California
November 14, 2017

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

This section presents management’s analysis of the Santa Ynez River Water Conservation District, Improvement District No. 1's (“The District's”) financial condition and activities for the fiscal year ending June 30, 2017. This narrative overview and analysis should be read in conjunction with the accompanying financial statements.

Summary of Organization and Business

The District was formed on July 7, 1959 under the Water Conservation Law of 1931, Division 21, Section 74000 et seq. of the California Water Code (the “Act”), for the purposes of furnishing potable domestic and irrigation water within its boundaries. The District has operated continuously since 1959 and is located in the central portion of Santa Barbara County and includes the communities of Santa Ynez, Los Olivos, Ballard and the City of Solvang. Based on the U.S. Census Bureau, the population was modified to account for 2010 census data and updated to the year 2012, the District’s population is approximately 6,737 (excluding the City of Solvang) and currently provides water to approximately 2,587 municipal and industrial customers and approximately 115 agricultural customers.

The District obtains its water supplies from the Cachuma Project/State Water exchange, direct diversions from the Cachuma Project, deliveries from the State Water Project, produces water from the Santa Ynez Uplands Groundwater Basin, and diverts water from the Santa Ynez River alluvium. The District’s major activities include acquisition, construction, operation and maintenance of works and facilities for the development and use of water resources and water rights including without limitation, works and facilities to divert, store, pump, treat, deliver and sell water for beneficial uses to its domestic and agricultural accounts. The District has maintained a staff of fifteen full-time employees and two part-time employees to carry out this purpose in fiscal year 2016/2017.

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

Overview of Financial Statements

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

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

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

Overview of Financial Statements (Continued)

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

The District's basic financial statements include four components.

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

The balance sheet includes all the District's assets and liabilities, with the difference between the two reported as net position. Net position may be displayed in the following categories:

- Net investment in capital assets
- Restricted
- Unrestricted

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

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

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

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

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

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

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

Overview of Financial Statements (Continued)

The District's budget is prepared on the accrual basis and includes the District's water systems. 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, 2017, the District's net position increased by a total of \$1,025,350 (4.90%). The District's operating revenues decreased by \$665,105 (-6.92%) and operating expenses decreased by \$417,532 (-4.85%). Non-operating income increased by \$1,135,647 (2,275.07%) and non-operating expenses decreased in the current year by \$66,247 (-6.78%).

Balance Sheet

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

	2017	2016	2015	2017-2016 Variance		2016-2015 Variance	
				Dollars	Percent	Dollars	Percent
Assets:							
Current assets	\$ 15,138,409	\$ 14,262,762	\$ 15,387,789	\$ 875,647	6.14%	\$ (1,125,027)	-7.31%
Noncurrent assets:							
Restricted assets	401,656	401,548	396,245	108	0.03%	5,303	1.34%
Capital assets, net	14,184,341	14,120,721	13,651,272	63,620	0.45%	469,449	3.44%
Intangible assets, net	9,307	11,109	12,911	(1,802)	-16.22%	(1,802)	-13.96%
Total Assets	\$ 29,733,713	\$ 28,796,140	\$ 29,448,217	\$ 937,573	3.26%	\$ (652,077)	-2.21%
Deferred Outflows of Resources:							
Deferred pensions	\$ 588,104	\$ 228,335	\$ 204,813	\$ 359,769	157.56%	\$ 23,522	11.48%
Total Deferred Outflows of Resources	\$ 588,104	\$ 228,335	\$ 204,813	\$ 359,769	157.56%	\$ 23,522	11.48%
Liabilities:							
Current liabilities	\$ 3,981,985	\$ 3,934,018	\$ 4,414,433	\$ 47,967	1.22%	\$ (480,415)	-10.88%
Long term liabilities	4,323,447	3,989,893	4,036,373	333,554	8.36%	(46,480)	-1.15%
Total Liabilities	\$ 8,305,432	\$ 7,923,911	\$ 8,450,806	\$ 381,521	4.81%	\$ (526,895)	-6.23%
Deferred Inflows of Resources:							
Deferred pensions	\$ 75,294	\$ 184,823	\$ 357,512	\$ (109,529)	-59.26%	\$ (172,689)	-48.30%
Total Deferred Inflows of Resources	\$ 75,294	\$ 184,823	\$ 357,512	\$ (109,529)	-59.26%	\$ (172,689)	-48.30%
Net Position:							
Net investment in capital assets	\$ 12,710,608	\$ 12,399,329	\$ 11,692,221	\$ 311,279	2.51%	\$ 707,108	6.05%
Restricted	401,656	401,548	396,245	108	0.03%	5,303	1.34%
Unrestricted, reserved	5,626,031	4,710,509	6,088,194	915,522	19.44%	(1,377,685)	-22.63%
Unrestricted, unreserved	3,202,796	3,404,355	2,668,052	(201,559)	-5.92%	736,303	27.60%
Total Net Position	\$ 21,941,091	\$ 20,915,741	\$ 20,844,712	\$ 1,025,350	4.90%	\$ 71,029	0.34%

**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 \$21,941,091 as of June 30, 2017.

The largest portion of the District's total net position is its net investment in capital assets, in the amount of \$12,710,608. 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 \$63,620 as discussed further in the capital assets section of this analysis and Note 4 to the financial statements. This increase, combined with the decrease in outstanding capital related debt (Series 2004 A COMB Bonds) of \$247,659 equates to the increase in total net position invested in capital assets of \$311,279 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 \$401,656 and \$401,548 at June 20, 2017 and 2016, 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 8 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:

	2017	2016	2015	2017-2016 Variance		2016-2015 Variance	
				Dollars	Percent	Dollars	Percent
Operating revenues	\$ 8,942,010	\$ 9,607,115	\$ 9,461,859	\$ (665,105)	-6.92%	\$ 145,256	1.54%
Operating expenses	8,191,509	8,609,041	9,386,204	(417,532)	-4.85%	(777,163)	-8.28%
Total Operating Income	750,501	998,074	75,655	(247,573)	-24.81%	922,419	1219.24%
Non-operating income	1,185,564	49,917	71,991	1,135,647	2275.07%	(22,074)	-30.66%
Non-operating expense	910,715	976,962	1,247,273	(66,247)	-6.78%	(270,311)	-21.67%
Total Non-operating Inc (Exp)	274,849	(927,045)	(1,175,282)	1,201,894	129.65%	248,237	21.12%
Change in net position	1,025,350	71,029	(1,099,627)	954,321	1343.57%	1,170,656	106.46%
Net Position at beginning of year, as originally presented	20,915,741	20,844,712	23,420,904	71,029	0.34%	(2,576,192)	-11.00%
Prior period adjustment	-	-	(1,476,565)	-	0.00%	1,476,565	100.00%
Net Position at beginning of year, as restated	-	-	21,944,339	-	0.00%	(21,944,339)	100.00%
Net Position at End of Year	\$ 21,941,091	\$ 20,915,741	\$ 20,844,712	\$ 1,025,350	4.90%	\$ 71,029	0.34%

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

The District reported a total increase in net position of \$1,025,350 for the year ended June 30, 2017, as compared to an increase in net position of \$71,029 for the year ended June 30, 2016.

Operating revenues decreased by \$665,105 during the fiscal year ended June 30, 2017 due to a combination of the following factors: In the prior year the District entered into a one-time sale 750 acre feet of Cachuma Project carryover water which was subject to stranding and evaporation losses. This sale to the Montecito Water District generated revenue of \$761,250 which was not repeated in the 2016/2017 fiscal year. The District also experienced decreases in state water contract revenue of \$399,997 (fully offset by a related decrease in state water contract expense).

The decreases noted above were partially offset by an increase in water sales. The District implemented the fourth water rate increase of a five-year adopted water rate schedule effective July 1, 2016, and another rate increase which took effect February 1, 2017. Also, due to the lifting of drought restrictions there was an increase in usage during the last quarter of 2016/2017.

**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)

Operating expenses decreased by \$417,532 during the fiscal year ended June 30, 2017 due to a combination of the following factors: The District's state water costs decreased by \$129,915, and state water contract expense related to the City of Solvang decreased by \$399,997 (which was entirely offset by a decrease in the corresponding state water contract revenue as noted above.) See Note 14 for more information about the Water Supply Agreement with the City of Solvang. Pumping expenses decreased by \$53,402 due to continued limited use of wells impacted by the Chromium 6 regulations discussed in Note 16. These decreases were partially offset by an increase in special program and study fees of \$264,252 primarily related to planning and design services for the District's Chromium 6 related treatment plans and facilities.

Non-operating revenues increased by \$1,135,647 from the prior year due to the reinstatement of the ad valorem special tax assessment which was collected in the amount of \$780,624 as well as the receipt of \$343,831 in capital facilities fees. There were no special assessment collections in the prior fiscal year due to suspension of the assessment by the Board of Trustees, and capital facilities fees for fiscal year 2015/2016 were only \$10,045.

Non-operating expenses decreased by \$66,247 from the prior year due primarily to a decrease in unanticipated and special legal fees.

Capital Assets

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

Capital Assets

	2017	2016	2015	2017-2016 Variance		2016-2015 Variance	
				Dollars	Percent	Dollars	Percent
Land and water rights	\$ 503,317	\$ 503,317	\$ 503,317	\$ -	0.00%	\$ -	0.00%
Utility plant	8,170,822	8,170,822	7,399,832	-	0.00%	770,990	10.42%
Wells and major repairs	17,968,959	17,482,530	17,290,484	486,429	2.78%	192,046	1.11%
Office building	195,699	185,113	176,115	10,586	5.72%	8,998	5.11%
Transportation equipment	653,143	653,143	616,847	-	0.00%	36,296	5.88%
Office equipment	145,916	149,780	148,254	(3,864)	-2.58%	1,526	1.03%
Other equipment	210,011	210,011	198,504	-	0.00%	11,507	5.80%
Total Capital Assets	\$ 27,847,867	\$ 27,354,716	\$ 26,333,353	\$ 493,151	1.80%	\$ 1,021,363	3.88%
Less accumulated depreciation	(14,349,792)	(13,667,515)	(12,984,035)	(682,277)	4.99%	(683,480)	5.26%
Subtotal	\$ 13,498,075	\$ 13,687,201	\$ 13,349,318	\$ (189,126)	-1.38%	\$ 337,883	2.53%
Construction in progress	686,266	433,520	301,954	252,746	58.30%	131,566	43.57%
Net Capital Assets	\$ 14,184,341	\$ 14,120,721	\$ 13,651,272	\$ 63,620	0.45%	\$ 469,449	3.44%

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

Capital Assets Analysis

The District's net capital assets as of June 30, 2017 including construction in progress were \$14,184,341. Total 2016/2017 capital assets additions including construction in progress totaled \$753,191 which related to reservoir relining, construction of wells, and other equipment purchases. This increase was offset by depreciation expense of \$689,571. The resulting overall increase in net capital assets was \$63,620, 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 8.

Long Term Debt

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

Bonds Payable

	2017	2016	2015	2017-2016 Variance		2016-2015 Variance	
				Dollars	Percent	Dollars	Percent
Revenue Bonds	\$ 1,460,000	\$ 1,705,000	1,940,000	\$ (245,000)	-14.37%	\$ (235,000)	-12.11%
Premium (Discount) on Bonds	13,733	16,392	19,051	(2,659)	-16.22%	(2,659)	-13.96%
Total Outstanding Bonds	\$ 1,473,733	\$ 1,721,392	\$ 1,959,051	\$ (247,659)	-14.39%	\$ (237,659)	-12.13%

Long Term Debt Analysis

As of June 30, 2017, the District had total outstanding debt of \$1,473,733 related to the issuance of the Series 2004 A Cachuma Operations and Maintenance Board (COMB) Bonds which were used to refinance the 1993 Cachuma Project Authority Revenue (CPA) Bonds. The CPA Bonds had been issued to refinance the State of California Department of Water Resources contract #E58028, the 1988 General Obligation Bond, and to finance the construction of the Zone 3 water storage reservoir. The debt term extends to fiscal year ending 2023. Additional information on the District's long-term debt is described in Note 6.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
BALANCE SHEET
June 30, 2017 and 2016**

ASSETS

	2017	2016
Current Assets:		
Cash	\$ 3,891,910	\$ 1,546,160
Investments, cash equivalents	5,328,905	6,913,779
Accounts receivable	799,380	689,574
Interest receivable	14,084	10,668
Inventories	173,959	169,859
Prepaid CCWA expenses	3,752,140	3,764,279
Prepaid water	87,083	81,901
Prepaid expenses and deposits	1,090,948	1,086,542
Total current assets	15,138,409	14,262,762
Restricted Assets:		
Cash	292,444	292,336
Investments, cash equivalents	109,212	109,212
Total restricted assets	401,656	401,548
Capital Assets:		
Capital assets	27,847,867	27,354,716
Less: accumulated depreciation	(14,349,792)	(13,667,515)
Construction in progress	686,266	433,520
Net capital assets	14,184,341	14,120,721
Other Assets:		
Bond issuance costs - prepaid insurance, net	9,307	11,109
Total assets	29,733,713	28,796,140

DEFERRED OUTFLOWS OF RESOURCES

Deferred pensions	588,104	228,335
Total deferred outflows of resources	588,104	228,335
Total assets and deferred outflows of resources	\$ 30,321,817	\$ 29,024,475

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
BALANCE SHEET
June 30, 2017 and 2016**

LIABILITIES AND NET POSITION

	2017	2016
Current Liabilities:		
Accounts payable	\$ 301,679	\$ 387,935
Accrued expenses	169,132	166,515
Interest payable	26,427	30,510
Current portion of revenue bonds payable	250,000	245,000
Advances payable	3,234,747	3,104,058
Total current liabilities	3,981,985	3,934,018
Long-term Liabilities:		
Net pension liability	1,651,018	1,285,968
Net OPEB obligation	1,448,696	1,227,533
Revenue bonds payable, net of current portion	1,210,000	1,460,000
Premium on bonds	13,733	16,392
Total long-term liabilities	4,323,447	3,989,893
Total liabilities	8,305,432	7,923,911
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred pensions	75,294	184,823
Total deferred inflows of resources	75,294	184,823
Net Position:		
Net investment in capital assets	12,710,608	12,399,329
Restricted	401,656	401,548
Unrestricted, reserved	5,626,031	4,710,509
Unrestricted, unreserved	3,202,796	3,404,355
Total net position	21,941,091	20,915,741
Total liabilities, deferred inflows of resources, and net position	\$ 30,321,817	\$ 29,024,475

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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Water sales	\$ 6,367,009	\$ 5,868,155
State water contract revenue	2,470,559	2,870,556
Water sales to other agency	-	761,250
Miscellaneous billings and fees	104,442	107,154
Total operating revenues	<u>8,942,010</u>	<u>9,607,115</u>
Operating Expenses:		
Source of supply	1,523,579	1,713,261
State water contract expense	2,470,559	2,870,556
Pumping expense	511,379	564,781
Water treatment	44,734	47,407
Transmission and distribution	620,278	631,109
Special programs and study fees	738,985	474,733
Administrative and general	2,281,995	2,307,194
Total operating expenses	<u>8,191,509</u>	<u>8,609,041</u>
Operating income	<u>750,501</u>	<u>998,074</u>
Other Income:		
Capital facilities fees	343,831	10,045
Investment income	61,109	39,872
Special assessment	780,624	-
Total other income	<u>1,185,564</u>	<u>49,917</u>
Other Expenses:		
Depreciation and amortization	691,373	696,014
Interest expense	61,583	71,349
Loss on disposal of assets	-	2,008
Unanticipated and special legal fees	157,759	207,591
Total other expenses	<u>910,715</u>	<u>976,962</u>
Change in net position	1,025,350	71,029
Net Position - beginning of year	<u>20,915,741</u>	<u>20,844,712</u>
Net Position - end of year	<u>\$ 21,941,091</u>	<u>\$ 20,915,741</u>

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the years ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 8,832,204	\$ 9,569,641
Cash payments to suppliers for goods and services	(6,640,180)	(6,918,773)
Cash payments to employees for services	<u>(1,388,776)</u>	<u>(1,340,968)</u>
Net cash provided by operating activities	<u>803,248</u>	<u>1,309,900</u>
Cash Flows from Noncapital Financing Activities:		
Capital facilities fees	343,831	10,045
Special assessments	780,624	-
Non-operating unanticipated and special legal fees	<u>(157,759)</u>	<u>(207,591)</u>
Net cash provided (used) by noncapital financing activities:	<u>966,696</u>	<u>(197,546)</u>
Cash Flows from Capital and Related Financing Activities:		
Principal repayments of long-term debt	(245,000)	(235,000)
Interest payments	(68,325)	(77,925)
Capital assets purchased	<u>(753,328)</u>	<u>(1,372,986)</u>
Net cash used by capital and related financing activities	<u>(1,066,653)</u>	<u>(1,685,911)</u>
Cash Flows from Investing Activities:		
Interest received	<u>57,693</u>	<u>32,573</u>
Net cash provided by investing activities	<u>57,693</u>	<u>32,573</u>
Net increase (decrease) in cash	760,984	(540,984)
Cash and cash equivalents, beginning of year	<u>8,861,487</u>	<u>9,402,471</u>
Cash and cash equivalents, end of year	<u>\$ 9,622,471</u>	<u>\$ 8,861,487</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, 2017 and 2016**

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

	<u>2017</u>	<u>2016</u>
Unrestricted cash and cash equivalents	\$ 9,220,815	\$ 8,459,939
Restricted cash - Series 2004 A COMB bond debt service	281,713	281,612
Restricted cash - Santa Ynez Indian Reservation	10,731	10,724
Restricted investments - capital facilities fees	109,212	109,212
	<u>\$ 9,622,471</u>	<u>\$ 8,861,487</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 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.

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 Post Employment Benefits

Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of Other Post-Employment Benefit costs (OPEB) and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of post employment benefits when provided separately from a pension plan.

OPEB cost is measured and disclosed using the accrual basis of accounting. Annual OPEB cost is equal to the annual required contributions of the OPEB plan, calculated in accordance with certain parameters. See Note 10 for further details.

L) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's Health'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.

M) Net Position

Net position represents the difference between assets and liabilities 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.

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.

**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)

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) Implementation of New Accounting Pronouncements

For the year ended June 30, 2017, the District implemented the following Governmental Accounting Standards Board (GASB) Pronouncements:

Statement No. 79 *Certain External Investment Pools and Pool Participants* enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. The impact of implementing this Statement will be reflected in Note 2.

Statement No. 82 *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this Statement have been adopted for the fiscal year ended June 30, 2017 and are reflected in the presentation of the required supplementary information.

Note 2 – Cash and Investments

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.

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

Note 2 – Cash and Investments (Continued)

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).

Credit Risk

In accordance with the Governmental Accounting Standards Board Statement 3, the District's cash and equivalents are classified as to credit risk into three categories:

- Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 - Collateralized with securities held by the pledging institution's trust department or agent in the District's name.
- Category 3 – Uncollateralized

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

Note 2 – Cash and Investments (Continued)

The District's cash and investments at June 30, 2017 are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Credit Risk Category</u>
Cash in banks and on hand	\$ 3,902,641	\$ 3,902,641	1
Cash with fiscal agents	281,713	281,713	1
Local Agency Investment Fund	<u>5,438,117</u>	<u>5,438,117</u>	N/A*
Total cash and investments	<u>\$ 9,622,471</u>	<u>\$ 9,622,471</u>	

*Not subject to categorization

The District's cash and investments at June 30, 2016 are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Credit Risk Category</u>
Cash in banks and on hand	\$ 1,556,884	\$ 1,556,884	1
Cash with fiscal agents	281,612	281,612	1
Local Agency Investment Fund	<u>7,022,991</u>	<u>7,022,991</u>	N/A*
Total cash and investments	<u>\$ 8,861,487</u>	<u>\$ 8,861,487</u>	

* Not subject to categorization

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, 2017 includes the original deposit and the interest earned on the cash balance.

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

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.

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

Note 3 – Restricted Cash and Investments (Continued)

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

	<u>2017</u>	<u>2016</u>
Cash		
Santa Ynez Indian Reservation	\$ 10,731	\$ 10,724
Series 2004 A COMB Bonds Debt Service	<u>281,713</u>	<u>281,612</u>
Total Restricted Cash	<u>\$ 292,444</u>	<u>\$ 292,336</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>

Note 4 – Property and Equipment

The following is a summary of changes in capital assets for the year ended June 30, 2017.

	Balance <u>June 30, 2016</u>	Additions	Disposals	Transfers	Balance <u>June 30, 2017</u>
Utility plant	\$ 8,170,822	\$ -	\$ -	\$ -	\$ 8,170,822
Wells and major repairs	17,482,530	31,720	-	454,709	17,968,959
Office building	185,113	14,016	(3,430)	-	195,699
Transportation equipment	653,143	-	-	-	653,143
Office equipment	149,780	-	(3,864)	-	145,916
Other equipment	210,011	-	-	-	210,011
Total depreciable assets	<u>26,851,399</u>	<u>45,736</u>	<u>(7,294)</u>	<u>454,709</u>	<u>27,344,550</u>
Land and land rights	<u>503,317</u>	-	-	-	503,317
Total capital assets	<u>27,354,716</u>	<u>45,736</u>	<u>(7,294)</u>	<u>454,709</u>	<u>27,847,867</u>
Accumulated depreciation	<u>(13,667,515)</u>	<u>(689,571)</u>	<u>7,294</u>	-	<u>(14,349,792)</u>
Construction in progress	<u>433,520</u>	<u>707,455</u>	-	<u>(454,709)</u>	<u>686,266</u>
Net capital assets	<u>\$ 14,120,721</u>	<u>\$ 63,620</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,184,341</u>

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

Note 4 – Property and Equipment (Continued)

The following is a summary of changes in capital assets for the year ended June 30, 2016.

	Balance June 30, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Utility plant	\$ 7,399,832	\$ 9,302	\$ (1,440)	\$ 763,128	\$ 8,170,822
Wells and major repairs	17,290,484	-	-	192,046	17,482,530
Office building	176,115	8,998	-	-	185,113
Transportation equipment	616,847	36,296	-	-	653,143
Office equipment	148,254	1,526	-	-	149,780
Other equipment	198,504	22,807	(11,300)	-	210,011
Total depreciable assets	<u>25,830,036</u>	<u>78,929</u>	<u>(12,740)</u>	<u>955,174</u>	<u>26,851,399</u>
Land and land rights	503,317	-	-	-	503,317
Total capital assets	<u>26,333,353</u>	<u>78,929</u>	<u>(12,740)</u>	<u>955,174</u>	<u>27,354,716</u>
Accumulated depreciation	<u>(12,984,035)</u>	<u>(694,212)</u>	<u>10,732</u>	<u>-</u>	<u>(13,667,515)</u>
Construction in progress	<u>301,954</u>	<u>1,086,740</u>	<u>-</u>	<u>(955,174)</u>	<u>433,520</u>
Net capital assets	<u>\$ 13,651,272</u>	<u>\$ 471,457</u>	<u>\$ (2,008)</u>	<u>\$ -</u>	<u>\$ 14,120,721</u>

Note 5 – Intangible Assets

The District's intangible assets as of June 30, 2017 and 2016 consisted of:

	<u>2017</u>	<u>2016</u>
Bond issuance costs (insurance)	\$ 32,426	\$ 32,426
Accumulated amortization	<u>(23,119)</u>	<u>(21,317)</u>
	<u>\$ 9,307</u>	<u>\$ 11,109</u>

Note 6 – 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%.

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

Note 6 – Bonds Payable (Continued)

On August 19, 2004 the outstanding 1993 CPA Bonds were refinanced with the Series 2004 A 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.

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 levy an ad valorem assessment tax on all land within its boundary and 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.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 250,000	\$ 58,425	\$ 308,425
2019	255,000	48,006	303,006
2020	265,000	36,956	301,956
2021	260,000	25,475	285,475
2022	210,000	14,900	224,900
2023	220,000	5,088	225,088
Total	<u>\$ 1,460,000</u>	<u>\$ 188,850</u>	<u>\$ 1,648,850</u>

The following is a summary of activity related to the COMB bonds for the years ending June 30, 2017 and 2016:

	Balance June 30, 2016	Additions/ Issuances	Deductions/ Repayments	Balance June 30, 2017
COMB Revenue Bonds	\$ 1,705,000	\$ -	\$ (245,000)	\$ 1,460,000
Premium on Bonds	16,392	-	(2,659)	13,733
	<u>\$ 1,721,392</u>	<u>\$ -</u>	<u>\$ (247,659)</u>	<u>\$ 1,473,733</u>

	Balance June 30, 2015	Additions/ Issuances	Deductions/ Repayments	Balance June 30, 2016
COMB Revenue Bonds	\$ 1,940,000	\$ -	\$ (235,000)	\$ 1,705,000
Premium on Bonds	19,051	-	(2,659)	16,392
	<u>\$ 1,959,051</u>	<u>\$ -</u>	<u>\$ (237,659)</u>	<u>\$ 1,721,392</u>

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

Note 7 – Supplemental Schedule of the Statement of Cash Flows

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

	2017	2016
Cash Flows from Operating Activities:		
Operating income	\$ 750,501	\$ 998,074
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in:		
Accounts receivable	(109,806)	(37,474)
Inventories	(4,100)	(341)
Prepaid expenses and deposits	2,551	623,854
Deferred outflows of resources - pension	(359,769)	(23,522)
Increase (decrease) in:		
Accounts payable	(86,119)	102,963
Accrued expenses	2,617	22,764
Net pension liability	365,050	7,066
Net OPEB obligation	221,163	194,113
Advances payable	130,689	(404,908)
Deferred inflows of resources - pension	(109,529)	(172,689)
Net cash provided by operating activities	\$ 803,248	\$ 1,309,900

Note 8 – 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, 2017 and 2016.

	2017	2016
Repair and replacement	\$ 950,120	\$ 622,735
Debt reserve	668,713	-
Plant expansion	1,007,198	1,087,774
SWP Fund Reserve	3,000,000	3,000,000
Total reserves	\$ 5,626,031	\$ 4,710,509

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

Note 9 – 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.

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

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

Note 9 – Defined Benefit Pension Plan (Continued)

The Plan’s provisions and benefits in effect at June 30, 2017 and 2016, 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		
2017	7.00%	6.50%
2016	7.00%	6.50%
Required employer contribution rates		
2017	9.06%	6.93%
2016	8.84%	6.73%

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 \$101,678 and \$90,663 for the fiscal years ended June 30, 2017 and 2016, respectively.

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

As of June 30, 2017 the District reported a liability of \$1,651,018 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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.

The District’s proportionate share of the net pension liability as of June 30, 2016 and 2015 (measurement dates) was as follows:

<u>Measurement date June 30, 2016</u>		<u>Measurement date June 30, 2015</u>	
Proportion – June 30, 2015	0.04687%	Proportion – June 30, 2014	0.05175%
Proportion – June 30, 2016	0.04753%	Proportion – June 30, 2015	0.04687%
Increase (Decrease)	<u>0.00066%</u>	Increase (Decrease)	<u>-0.00488%</u>

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

Note 9 – Defined Benefit Pension Plan (Continued)

For the years ended June 30, 2017 and 2016, the District recognized pension expense of \$114,202 and \$12,515, respectively. At June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 218,450	\$ -	\$ 201,660	\$ -
Differences between expected and actual experience	5,555	-	11,757	-
Changes in assumptions	-	(68,178)	-	(111,232)
Changes in employer's proportion and difference between the employer's contributions and the employer's proportionate share of contributions	9,252	(7,116)	14,918	(17,830)
Net differences between projected and actual earnings on plan investments	354,847	-	-	(55,761)
Total	<u>\$ 588,104</u>	<u>\$ (75,294)</u>	<u>\$ 228,335</u>	<u>\$ (184,823)</u>

Employer contributions of \$218,450 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, 2018. 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	
2018	\$ 18,474
2019	23,182
2020	160,795
2021	91,909
2022	-
	<u>\$ 294,360</u>

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.

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

Note 9 – Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 and 2014 actuarial valuations (June 30, 2016 and 2015 measurement dates) were determined using the following actuarial assumptions:

	Miscellaneous Plan
Actual Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	
Measurement Date - 2016	7.65%
Measurement Date - 2015	7.65%
Inflation	2.75%
Salary Increases	Varies by entry age and service (1)
Investment Rate of Return	
Measurement Date - 2016	7.65%
Measurement Date - 2015	7.65%
Mortality	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

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

Change of Assumption – There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows 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 7.65%. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), the amortization and smoothing periods recently adopted by the CalPERS Board were used. For the Plan, the crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investment. Based on the testing of the rate plans, the tests revealed the assets would not run out. Therefore, long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained on CalPERS’ website under the GASB 68 section.

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.

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

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

Asset Class	Measurement Date June 30, 2016			Measurement Date June 30, 2015		
	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	51.00%	5.25%	5.71%	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%	2.00%	-0.55%	-1.05%

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65% 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	
	2017	2016
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 2,590,528	\$ 2,156,666
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 1,651,018	\$ 1,285,968
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 874,560	\$ 567,114

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

Note 9 – Defined Benefit Pension Plan (Continued)

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

Note 10 – 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.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and its Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements. The District contributes up to a maximum of \$1,748.20 per employee for medical only. The specific contribution percentage is based on District years of credited service.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortized any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Annual required contribution	\$ 278,817	\$ 264,475
Interest on net OPEB obligation	49,101	41,336
ARC Adjustment	<u>(45,355)</u>	<u>(38,184)</u>
Annual OPEB cost (expense)	282,563	267,627
Contributions made	<u>(61,400)</u>	<u>(73,514)</u>
Increase in net OPEB obligation	221,163	194,113
Net OPEB obligation, beginning of year	<u>1,227,533</u>	<u>1,033,420</u>
Net OPEB obligation, end of year	<u>\$ 1,448,696</u>	<u>\$1,227,533</u>

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

Note 10 – Other Post-employment Benefits (OPEB) (Continued)

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending June 30, 2017 and the two preceding fiscal years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
06/30/15	\$ 253,138	23%	\$ 1,033,420
06/30/16	267,627	28%	1,227,533
06/30/17	282,563	22%	1,448,696

Funded Status and Funding Progress

As of July 1, 2014 valuation date, the actuarial accrued liability for benefits was \$2,463,580, of which \$2,463,580 was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,187,146, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 207.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress on page 40 presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods reflect a long-term perspective.

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

Valuation Date	July 1, 2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open - Level Percent of Payroll
Average Remaining Period	30 Years as of the Valuation Date
Asset Valuation Method	N/A
Actuarial Assumptions	
Discount Rate	4.00%
Payroll Growth	3.25%
Healthcare Cost Trend	9.00% initially, reduced by decrements to an ultimate rate of 5.00% after 8 years

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

Note 11 – 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.

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 12 – Cachuma Project Authority

The District entered into a joint powers agreement with several other area water agencies to form the Cachuma Project Authority (CPA). The CPA renegotiated the Cachuma Project Renewal Master Contract with the United States Bureau of Reclamation (USBR). The master contract was entered into on September 12, 1949, and was renewed April 14, 1996, to run through September 30, 2020. The Parent District has assigned its rights under the original Contract to the District. The CPA has issued revenue bonds to pay off the District's long-term debt (see Note 6) and to finance the construction of a water reservoir.

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

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

Note 13 – Joint Powers Insurance Authority

The District participates in the property and liability insurance program organized by the Association of California Water Agencies/Joint Powers Insurance Authority ("ACWA/JPIA"). ACWA/JPIA is a Joint Powers Authority created to provide a self-insurance program to water agencies in the State of California. The ACWA/JPIA is not a component unit of the District for financial reporting purposes, as explained below.

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

Note 13 – Joint Powers Insurance Authority (Continued)

ACWA/JPIA provides liability, property and workers' compensation insurance for approximately 292 water agencies for losses in excess of the member districts' specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial carriers. ACWA/JPIA is governed by a separate board comprised of members from participating districts. The board controls the operations of ACWA/JPIA, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board.

Each member shares surpluses and deficiencies proportionately to its participation in ACWA/JPIA. Based on financial information at September 30, 2016, ACWA/JPIA had total assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net assets of \$189,566,761, \$1,065,779, \$121,474,323, \$454,600, and \$68,703,617, respectively.

Note 14 – Joint Venture

Central Coast Water Authority

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

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

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.

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

Note 14 – Joint Venture (Continued)

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

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

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

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

On June 18, 2016 the Authority issued Series 2016A refunding revenue bonds in the amount of \$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.

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

Note 14 – Joint Venture (Continued)

District's Share:

	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Debt Service and Credits</u>	<u>Total</u>
2018	\$ 1,152,573	\$ 356,961	\$ (123,969)	\$ 1,385,565
2019	1,237,104	365,801	301,446	1,904,351
2020	1,259,440	331,409	301,242	1,892,091
2021	1,299,392	333,216	300,823	1,933,431
2022	1,329,772	349,877	300,452	1,980,101
Total	<u>\$ 6,278,281</u>	<u>\$ 1,737,264</u>	<u>\$ 1,079,994</u>	<u>\$ 9,095,539</u>

City of Solvang's Share:

	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Debt Service</u>	<u>Total</u>
2018	\$ 1,728,279	\$ 182,874	\$ 781,100	\$ 2,692,253
2019	1,743,114	243,223	802,670	2,789,007
2020	1,750,956	255,385	802,128	2,808,469
2021	1,812,048	268,154	801,014	2,881,216
2022	1,841,130	281,563	800,025	2,922,718
Total	<u>\$ 8,875,527</u>	<u>\$ 1,231,199</u>	<u>\$ 3,986,937</u>	<u>\$ 14,093,663</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.

Note 15 – Commitments

Water Entitlement Exchange

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

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

Note 15 – Commitments (Continued)

Bradbury Dam

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

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

Note 16 – Contingent Liabilities

SWRCB Hearings

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

The District and these other local agencies are conducting studies and constructing fish projects on the Santa Ynez River and associated tributaries in connection with the 2000 Biological Opinion, the SWRCB proceedings and implementing the Lower Santa Ynez River Fish Management Plan, and the cost of those studies is a material annual expense of the District. The outcome of the studies and the SWRCB proceedings may affect the amount of water the District receives from the Cachuma Project in future years. The District is a participant in a Cooperation and Joint Defense Agreement and shares in the annual costs of these activities. Its percentage of funding contribution is 11.58% and 10.31% depending on the program.

New Legislation - Hexavalent Chromium-6

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

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

Note 16 – Contingent Liabilities (Continued)

New Legislation - Hexavalent Chromium-6 (Continued)

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

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

Note 17 – 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 18 – Subsequent Events

Subsequent events have been evaluated through November 14, 2017, 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, 2017
LAST 10 YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.01908%	0.01874%	0.02055%
Proportionate share of the net pension liability	\$ 1,651,018	\$ 1,285,968	\$ 1,278,902
Covered - employee payroll	\$ 1,299,691	\$ 1,190,037	\$ 1,082,007
Proportionate Share of the net pension liability as percentage of covered-employee payroll	127.03%	108.06%	118.20%
Plan fiduciary net position as a percentage of the total pension liability	76.34%	80.35%	79.73%
Measurement date	06/30/16	06/30/15	06/30/14

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, 2016 measurement date.

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

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT, IMPROVEMENT DISTRICT NO. 1
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2017
LAST 10 YEARS*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 218,450	\$ 201,660	\$ 165,075
Contributions in relation to the actuarially determined contributions	\$ 218,450	\$ 201,660	\$ 165,075
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,349,875	\$ 1,299,691	\$ 1,082,007
Contributions as a percentage of covered-employee payroll	16.18%	15.52%	15.26%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2016-2017 were derived from the June 30, 2014 funding valuation report.

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

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT,
IMPROVEMENT DISTRICT NO. 1
OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN
SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2017**

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL) (A) - (B)	Funded Ratio (B)/(A)	Annual Covered Payroll	UAAL as a % of Payroll (C)/(E)
07/01/09	\$ 2,058,383	-	\$ 2,058,383	0.0%	\$ 1,072,350	192.0%
07/01/12	1,776,309	-	1,776,309	0.0%	1,058,812	167.8%
07/01/14	2,463,580	-	2,463,580	0.0%	1,187,146	207.5%

See accompanying notes

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, 2017
WITH COMPARATIVE ACTUAL AMOUNTS AT JUNE 30, 2016**

	<u>2017 Actual</u>	<u>2017 Budget</u>	<u>2017 Over/(Under)</u>	<u>2016 Actual</u>
Operating Revenues:				
Water sales	\$ 6,367,009	\$ 5,644,395	\$ 722,614	\$ 5,868,155
State water contract revenue	2,470,559	2,627,436	(156,877)	2,870,556
Water sales to other agency	-	-	-	761,250
Miscellaneous billings and fees	104,442	65,793	38,649	107,154
Total operating revenues	<u>8,942,010</u>	<u>8,337,624</u>	<u>604,386</u>	<u>9,607,115</u>
Operating Expenses:				
Source of supply	1,523,579	1,778,658	(255,079)	1,713,261
State water contract expense	2,470,559	2,627,436	(156,877)	2,870,556
Pumping expense	511,379	590,200	(78,821)	564,781
Water treatment	44,734	61,500	(16,766)	47,407
Transmission and distribution	620,278	614,819	5,459	631,109
Special programs and study fees	738,985	565,924	173,061	474,733
Administrative and general	2,281,995	2,480,007	(198,012)	2,307,194
Total operating expenses	<u>8,191,509</u>	<u>8,718,544</u>	<u>(527,035)</u>	<u>8,609,041</u>
Operating income	<u>750,501</u>	<u>(380,920)</u>	<u>1,131,421</u>	<u>998,074</u>
Other Income:				
Capital facilities fees	343,831	174,336	169,495	10,045
Investment income	61,109	18,000	43,109	39,872
Special assessment	780,624	750,000	30,624	-
Total other income	<u>1,185,564</u>	<u>942,336</u>	<u>243,228</u>	<u>49,917</u>
Other Expenses:				
Depreciation and amortization	691,373	-	691,373	696,014
Interest expense	61,583	68,325	(6,742)	71,349
Loss on disposal of assets	-	-	-	2,008
Unanticipated and special legal fees	157,759	130,000	27,759	207,591
Total other expenses	<u>910,715</u>	<u>198,325</u>	<u>712,390</u>	<u>976,962</u>
Change in net position	<u>\$ 1,025,350</u>	<u>\$ 363,091</u>	<u>\$ 662,259</u>	<u>\$ 71,029</u>

See accompanying notes