MONTECITO SANITARY DISTRICT

JUNE 30, 2016 AND 2015

FINANCIAL STATEMENTS

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

MONTECITO SANITARY DISTRICT

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Montecito Sanitary District:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Montecito Sanitary District (the "District") as of and for the years ended June 30, 2016 and 2015, 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2016 and 2015, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as 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's Discussion and Analysis on pages 4 through 13, the California Public Employees' Retirement System Schedule of Montecito Sanitary District's Proportionate Share of the Net Pension Liability on page 41, the California Public Employees' Retirement System Schedule of Montecito Sanitary District's Contributions on page 42, and the Other Post-Employment Benefits (OPEB) Plan Schedule of Funding Progress on page 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Montecito Sanitary District's basic financial statements. The list of the Board of Directors and the Schedule of Operating Expenses – By Department on pages 44 through 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Expenses – By Department 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 Schedule of Operating Expenses – By Department is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The list of board of directors on page 44 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Bartlett, Pringle + Wolf, LLP

Santa Barbara, California
November 14, 2016

This Management's Discussion and Analysis (MD&A) is a key element of the District's annual audited financial statements that are prepared in accordance with the Governmental Accounting Standards Board Statement No. 34 (GASB 34). The purpose of the MD&A is to provide an overview of the District's financial condition and to highlight important changes and activities with fiscal implications that occurred during the fiscal years (FY) 2015-2016 and 2014-2015. We encourage readers to consider the information presented here in conjunction with the District's financial statements and related notes, which follow this section.

District Overview

The Montecito Sanitary District (the District) is an independent special district voted into existence in 1947 by the residents of Montecito to provide for the collection, treatment and disposal of wastewater. The District's mission has always been and continues to be "to protect public health and safety and to preserve the natural environment through the collection, treatment and disposal of wastewater in the most cost-effective way possible."

In 1961, the District constructed a wastewater treatment plant capable of processing 750,000 gallons per day. The infrastructure includes an ocean outfall pipeline (located 1,500 feet offshore) and sewer collection system pipeline and pumping system. In 1981 the voters approved $3.1 million in revenue bonds to incorporate new technology, and double the plant's capacity to 1.5 million gallons per day. Today, the treatment plant capacity remains at 1.5 million gallons per day (mgd). The average daily flow for FY 2015-2016 was approximately 600,000 gallons per day (gpd).

In March 2007 the District issued Certificates of Participation (COPs) in the amount of $14,765,000. These funds have been used for capital replacement/improvement projects including new laboratory and collection maintenance buildings, over 25 miles of sewer main rehabilitation, lift station refurbishment and a new sewer force main.

The District currently serves 3065 residential connections and 41 commercial/institutional connections.

Management and Governance

The District is governed by a five-member Board of Directors. The Directors are elected on an at-large basis for four-year terms. In 2001, the Board voted to align its elections with the Statewide General Elections to increase voter turnout and achieve a substantial cost savings. At the Board's discretion an Organizational Meeting is held at least every other year to assign officers' duties and to appoint the standing Committee Representatives. This process generally results in a rotation of duties among the Board members. The established Committees meet on an as-needed basis. If necessary, Ad Hoc Committees are formed for special projects. The Board of Directors approves the annual operating and capital budgets and authorizes expenditures of the District's funds.

The District employs a General Manager as the chief executive. The General Manager reports directly to the Board of Directors and is responsible for the overall operation and administration of the District. The District's Management Staff also includes a District Administrator who is the chief administrator, an Operations Manager, and a Lab and Pretreatment Manager. The District had 15 full-time authorized positions in FY 2015-2016 and FY 2014-2015.

Financial Statements

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 financial statements include four components:

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

The statement of net position includes all the District's assets and deferred outflows and liabilities and deferred inflows, with the difference reported as net position. Net position is categorized as follows:

- Net Investment in Capital Assets
  All property not easily converted to cash and held for a long period of time (real estate, equipment, etc.)
- Restricted
  Assets/Cash needed to pay liabilities and may be restricted according to law or regulation, i.e., Certificates of Participation proceeds.
- Unrestricted
  Any asset that is not restricted, i.e., cash

The statement of net position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also 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. The statement of revenues, expenses and changes in net position 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:

- Operations
- Non-capital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement of cash flows 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 that are not otherwise present in the financial statements.

Financial Highlights

- With the implementation of GASB 68 first effective in fiscal year 2014-15, items pertaining to CalPERS pension liability are now calculated and reported on the District's financial statements, and not just mentioned in the notes. Unfunded Pension Liability, along with Deferred Inflows and Outflows are reported on the financial statements. The implementation of this requirement resulted in a prior period adjustment in the amount of $1,581,405 which is reflected in the 2014-15 financial statements.
- The District's net position increased 2.82% or $650,842 to $23,712,763 in fiscal year 2015-2016. In the prior year, the District's net position decreased 4.89% or $1,186,188 to $23,061,921 as a result of an increase of $395,217 from operations and a decrease of $1,581,405 from a prior period adjustment to implement Governmental Accounting Standards Board Statement No. 68.
- The District's operating revenues decreased by 1.67% and operating expenses increased by 2.45% in FY 2015-2016. In the prior year, operating revenues increased by 1.59% and operating expenses increased by 10.14%.

Financial Analysis of the District

The following is a summary of the District's statement of net position:

	June 30, 2016	June 30, 2015	June 30, 2014	% Change FY 2015-2016 and 2014-2015	% Change FY 2014-2015 and 2013-2014
Assets:					
Current assets	$ 10,791,655	$ 11,754,893	$ 10,850,949	-8.19%	8.33%
Noncurrent assets:					
Restricted assets	1,605,053	3,267,616	3,478,012	-50.88%	-6.05%
Capital assets	26,452,489	23,787,097	24,276,443	11.21%	-2.02%
Total Assets	38,849,197	38,809,606	38,605,404	0.10%	0.53%
Deferred Outflows of Resources:					
Deferred pensions	190,156	158,355	-	20.08%	100.00%
Liabilities:					
Current liabilities	805,236	967,061	786,825	-16.73%	22.91%
Long term liabilities	14,219,027	14,473,560	13,570,470	-1.76%	6.65%
Total Liabilities	15,024,263	15,440,621	14,357,295	-2.70%	7.55%
Deferred Inflows of Resources:					
Deferred pensions	302,327	465,419	-	-35.04%	100.00%

The following is a summary of the District's statement of net position (continued):

	June 30, 2016	June 30, 2015	June 30, 2014	% Change FY 2015-2016 and 2014-2015	% Change FY 2014-2015 and 2013-2014
Net Position:					
Net investment in capital assets	$ 14,178,864	$ 12,830,771	$ 12,757,836	10.51%	0.57%
Restricted	871,745	861,679	979,026	1.17%	-11.99%
Unrestricted	8,662,154	9,369,471	10,511,247	-7.55%	-10.86%
Total Net Position	$ 23,712,763	$ 23,061,921	$ 24,248,109	2.82%	-4.89%

(% Change calculated by current year less prior year number and divided by prior year number.)

The following is a summary of the District's statement of revenues, expense and changes in net position for the years ended June 30, 2016 and 2015:

	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014	% Change FY 2015-2016 and 2014-2015	% Change FY 2014-2015 and 2013-2014
Operating revenues	$ 4,725,993	$ 4,806,115	$ 4,730,900	-1.67%	1.59%
Operating expenses	4,576,039	4,466,603	4,055,293	2.45%	10.14%
Operating income	149,954	339,512	675,607	-55.83%	-49.75%
Nonoperating revenue	614,636	469,868	565,271	30.81%	-16.88%
Nonoperating expense	176,512	419,585	295,164	-57.93%	42.15%
Non-operating income	438,124	50,283	270,107	771.32%	-81.38%
Excess of revenue over expenses	588,078	389,795	945,714	50.87%	-58.78%
Capital contributions	62,764	5,422	39,368	1057.58%	-86.23%
Change in net position	650,842	395,217	985,082	64.68%	-59.88%
Net position, beginning of year	23,061,921	24,248,109	23,263,027	-4.89%	4.23%
Prior period adjustment	-	(1,581,405)	-	100.00%	100.00%
Net position, beginning of year, as restated	23,061,921	22,666,704	23,263,027	1.74%	-2.56%
Net position, end of year	$ 23,712,763	$ 23,061,921	$ 24,248,109	2.82%	-4.89%

Sources of Revenue

The following is a table of the Districts revenues broken down by major source:

Revenue Category	2015-2016	2014-2015	2013-2014	% Change FY 2015-2016 and 2014-2015	% Change FY 2014-2015 and 2013-2014
Service charges	$ 4,516,762	$ 4,558,161	$ 4,467,496	-0.9%	2.0%
Connection fees	177,438	199,935	226,979	-11.3%	-11.9%
Other services	31,793	48,019	36,425	-33.8%	31.8%
Operating revenue	4,725,993	4,806,115	4,730,900	-1.7%	1.6%
Investment income	75,919	57,279	72,465	32.5%	-21.0%
Property taxes	520,131	498,630	475,861	4.3%	4.8%
Other revenue/expense	18,586	(86,041)	16,945	121.6%	-607.8%
Nonoperating revenue	614,636	469,868	565,271	30.8%	-16.9%
Total revenue	$ 5,340,629	$ 5,275,983	$ 5,296,171	1.2%	-0.4%

Sewer Service Charge (SSC)

The major source of revenue for the District is the Sewer Service Charges (SSC). The fiscal year (FY) 2015-2016 sewer service charges revenue decreased approximately 0.9% from the prior FY 2014-2015. The District’s total annual SSC revenue for FY 2015-2016 was $4,516,762; which amounted to 84.6% of the total revenues and 95.6% of the total operating revenue. The District’s total annual SSC revenue for FY 2014-2015 was $4,558,161; which amounted to 86.4% of the total revenues and 94.8% of the total operating revenue.

The District maintains a Teeter Plan agreement with the County of Santa Barbara. Under this agreement, the District receives the total guaranteed amounts of SSC revenue reported to the County each year and the County collects these funds from the District’s customers on their bi-annual property tax statements.

A 3-year approved rate increase structure went into effect beginning with FY 2009-2010 and ran through FY 2011-2012. The rates in FY 2012-2013, 2013-2014, and 2014-2015 remained the same as the previous year, and remained the same in FY 2015-2016. All rate increases were validated and approved by following the procedures and requirements of Proposition 218. The rate increases were necessary to keep up with the rising operations and maintenance costs, debt service payments and depreciation funding of the District’s capital assets. On May 9, 2016 the Board of Directors approved a 3-year planned rate increase structure that will go into effect beginning in FY 2016-17 and run through FY 2018-19.

Connection Permit Fees

The Connection Fee collected on District permits is the fee charged for connection to the District's sanitary sewer system, intended to cover or recoup infrastructure costs incurred to provide service. Connection fees collected for the FY 2015-2016 and FY 2014-2015 were $177,438 and $199,935, respectively.

The District's Governing Board of Directors voted to increase the connection fees to $7,300 per dwelling unit effective January 1, 2011 with Resolution No. 2010-861. Those fees remained the same for FY 2015-2016.

Investment Income

The District's current approved investment policy, under Resolution No. 2013-883, states that it shall be the policy of the District to invest funds, with maximum security through diversification and prudence, in a manner which will provide the highest investment return, while meeting the daily cash flow demands of the entity and conforming to all statutes governing the investments of District funds.

In keeping with that policy, the District Board chose to distribute the District's monies between two investment vehicles: the Santa Barbara County Investment Pool, and the Local Agency Investment Fund (LAIF) which is a State of California controlled investment pool. Funds are readily available from either pool. District practice has been to draw from the Santa Barbara County Pool for operating funds. The Santa Barbara County Pool consists of Sewer Service Charges and Property Tax Income.

Interest revenues received within FY 2015-2016 from the two investment pools was $52,483. Interest earned from the COP monies was $5,567. Minor checking account interest in the amount of $3 was earned for the checking account at Union Bank. Investment income for the FY 2015-2016 also reflects a fair market value adjustment of $17,869 from the two investment pools.

Property Tax

The District receives one half of 1% of the total property tax revenue that is collected by the County of Santa Barbara for parcels within its service area whether or not they are a customer of the District. The property tax revenue is inclusive of secure, unsecured, unitary, and supplemental property taxes. In FY 2015-2016 this property tax revenue amounted to $520,131.

Operating Expenses

The District's operating expenses (not including depreciation) for FY 2015-2016 were $3,454,830 and for FY 2014-2015 were $3,413,150. This is an overall increase for FY 2015-2016 in actual operating expenses of 1.2%. For FY 2014-2015 there was an increase in actual operating expenses of 9.5%. Depreciation expense for FY 2015-2016 was $1,121,209 and for FY 2014-2015 was $1,053,453. A tabular summary of the expenditure increases or decreases versus the previous fiscal year is presented on the following page.

Expenditure increases or decreases in fiscal year 2015-2016 versus fiscal year 2014-2015 were as follows:

Expense Category	Expenses FY 2015/2016	Expenses FY 2014/2015	FY 2015/2016 Expense Increase (Decrease)	Difference	Comments/Justification
Personnel (Salaries, Payroll Taxes, WC Insurance, and Benefits)	$ 2,305,614	$ 2,208,756	$ 96,858	4.4%	Staff salary increases, decrease in Workers Comp due to high accrual
Pooled Liability and Other CSRMA Insurance Programs	61,616	48,861	12,755	26.1%	Increase in premiums-new vehicles
Maintenance, Repairs, Operating Supplies/Equip, and Contracted Services	574,785	649,878	(75,093)	-11.6%	Fewer major repairs, outside lab analysis no longer necessary, decrease in chemical expense
Utilities, Telephone, Fuel and Oil	182,633	197,335	(14,702)	-7.5%	Decrease in treatment plant electrical expenses
Research & Monitoring	33,557	16,213	17,344	107.0%	New lab equipment
Office Expenses, Special Projects, and Misc. Administrative Costs	64,090	30,607	33,483	109.4%	2015 Sewer Service Charge rate study expense
Professional Services, Administrative Fees, and Memberships	190,766	222,441	(31,675)	-14.2%	Prior year included ocean sampling (due once every 5 years)
Training, Safety and Travel Expenses	41,769	39,059	2,710	6.9%	Comparable
Subtotals	**3,454,830**	**3,413,150**	**41,680**	**1.2%**	
Depreciation	1,121,209	1,053,453	67,756	6.4%	Increase in depreciable assets FY 15-16
Totals	**$ 4,576,039**	**$ 4,466,603**	**$ 109,436**	**2.5%**	

Expenditure increases or decreases in fiscal year 2014-2015 versus fiscal year 2013-2014 were as follows:

Expense Category	Expenses FY 2014/2015	Expenses FY 2013/2014	FY 2014/2015 Expense Increase (Decrease)	Difference	Comments/Justification
Personnel (Salaries, Payroll Taxes, WC Insurance, and Benefits)	$ 2,208,756	$ 2,039,318	$ 169,438	8.3%	New hires to bring to full staffing level
Pooled Liability and Other CSRMA Insurance Programs	48,861	46,565	2,296	4.9%	Decrease in insurance dividend
Maintenance, Repairs, Operating Supplies/Equip, and Contracted Services	649,878	569,247	80,631	14.2%	Brought maintenance function in-house, purchase of required tools, maint equipment
Utilities, Telephone, Fuel and Oil	197,335	184,516	12,819	6.9%	Increase in utility charges
Research & Monitoring	16,213	28,771	(12,558)	-43.6%	Large lab equipment purchase in the prior year
Office Expenses, Special Projects, and Misc. Administrative Costs	30,607	20,316	10,291	50.7%	Special projects - Plant site study for master plan, sewer lateral rebate postcards
Professional Services, Administrative Fees, and Memberships	222,441	196,145	26,296	13.4%	Ocean bottom sampling in FY14-15 (occurs once in a 5 year permit period)
Training, Safety and Travel Expenses	39,059	31,418	7,641	24.3%	Additional training, fines
Subtotals	**3,413,150**	**3,116,296**	**296,854**	**9.5%**	
Depreciation	1,053,453	938,997	114,456	12.2%	Increase in depreciable assets FY 14-15
Totals	**$ 4,466,603**	**$ 4,055,293**	**$ 411,310**	**10.1%**	

Certificates of Participation (COPs) – California Special Districts Association (CSDA) Finance Corporation – 2007 Series UU

Due to an urgent need for capital improvement project funds in FY 2006-07 the District worked with CSDA and CSDA's financial consultant, Mr. Saul Rosenbaum, at Prager, Sealey & Co. Inc. to seek funding through the issuance of COPs. The District contracted the services of Fieldman, Rolapp & Associates, independent financial advisors. The Board and General Manager saw this as a means to ensure the District would have the funds necessary to complete a list of capital projects deemed to be mission critical to the District's efforts to provide the kind of service expected and mandated by federal and state regulations, and to ensure the environmental health and safety of the community in which the District serves. On March 1, 2007 the CSDA Finance Corporation issued Certificates of Participation (COPs) in the amount of $14,765,000 (see Note 6). The Acquisition Fund was established from these funds in 2007 with a beginning balance of $10,533,493. As of June 30, 2016 the District has spent $11,799,730 of the Acquisition Fund (which included increased funding from interest and contributed capital) on Board approved Mission Critical Projects. Capital expenditures of the COP funds from July 1, 2015 through June 30, 2016 total $1,512,299, and were used to complete a sewer main rehabilitation project. The balance of available funds from the Acquisition Fund monies at June 30, 2016 was $1,488. The District maintains a separate fund with the State Treasurer's Investment Pool - Local Agency Investment Fund (LAIF) for the required reserve amounting to the final payment due in 2037. The balance of this reserve fund at June 30, 2016 was $951,634.

Annual Audited Financial Statements

At the end of each fiscal year, the District is audited by an independent certified public accounting firm qualified to perform government accounting audits. The financial statements consist of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, an entire operating entity. These statements then proceed to provide a detailed look at specific financial activities. This annual report consists of two parts –management's discussion and analysis (this section) and a series of basic financial statements.

The annual financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows, followed by various and specific notes to those financial statements.

Additionally, the financial report includes required supplementary information, as well as other supplemental information as noted in the table of contents.

Future Rate Increases

The District ended a 3-year approved rate increase plan with FY 2011-2012 (June 30, 2012). These increases from the previous years enabled the District to collect service-generated revenues to cover not only the daily operations and maintenance costs, but monies to fund future rehabilitation projects to maintain system integrity. The District's sewer service charges for FY 2015-2016 continued at the same rate as FY 2014-2015, FY 2013-2014, 2012-2013, and FY 2011-2012. On May 9, 2016 the Board of Directors approved a 3-year planned rate increase structure that will go into effect beginning in FY 2016-17 and run through FY 2018-19.

On June 14, 2010, the Board authorized the creation of a separate account fund for Retirement Medical Benefits and transferred $60,000 into a fund titled Montecito Sanitary Retiree Medical Benefits with the County of Santa Barbara. As of June 30, 2016, there was $101,274 in this account. Additional monies are deposited in July of each Fiscal Year. Retirement Medical Benefits are only available to employees hired prior to July 1, 2010. There are only 3 current and 3 former employees eligible for this benefit. See financial statement Note 9 regarding Post-Employment Health Care Benefits.

On May 26, 2009, the Board authorized the creation of a separate fund for depreciation. Effective July 1, 2009, the County Auditor-Controller's office established a fund titled Montecito Sanitary Capital Replacement Fund and as of June 30, 2016 there was $5,300,156 in this fund. Annually the Board considers additional contributions to this fund. Typically the amount contributed is based on the prior year annual depreciation expense. The District may withdraw monies from the Capital Replacement Fund at any time to fund Capital projects or to meet operational, maintenance or any type of financial need of the District.

Contacting the District's Financial Management

This financial report is designed to provide the District's customers, creditors, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions about this report or need additional financial information, contact Toni M. McDonald, District Administrator/Board Clerk, at 1042 Monte Cristo Lane, Santa Barbara, CA 93108, or by telephone at (805) 969-4200.

MONTECITO SANITARY DISTRICT
STATEMENT OF NET POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and investments (Note 2 and 3)	$ 10,693,202	$ 11,694,471
Interest receivable	25,232	14,895
Prepaid insurance	73,221	45,527
Total current assets	10,791,655	11,754,893
Restricted Assets:		
Cash and investments (Note 2 and 3)	1,605,053	3,267,616
Total restricted assets	1,605,053	3,267,616
Capital Assets:		
Depreciable:		
Plant and equipment	44,962,988	40,797,755
Less accumulated depreciation	(18,616,999)	(17,495,790)
	26,345,989	23,301,965
Non-depreciable:		
Construction in progress	-	378,632
Land and improvements	106,500	106,500
Net capital assets (Note 2 and 4)	26,452,489	23,787,097
Total Assets	38,849,197	38,809,606
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pensions (Note 8)	190,156	158,355
Total deferred outflows and resources	$ 190,156	$ 158,355

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF NET POSITION
June 30, 2016 and 2015

	2016	2015
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 48,453	$ 211,329
Accrued salaries and benefits	59,446	54,893
Accrued interest	286,337	293,339
Customer deposits	46,000	57,500
Current portion of long-term debt (Note 6)	365,000	350,000
Total current liabilities	805,236	967,061
Long-Term Liabilities:		
Compensated absences payable (Note 5)	182,456	158,704
Long-term debt, net of current portion (Note 6)	12,641,933	13,012,263
Net pension liability (Note 8)	1,307,464	1,229,008
Post-employment health care benefits (Note 9)	87,174	73,585
Total long-term liabilities	14,219,027	14,473,560
Total Liabilities	15,024,263	15,440,621
DEFERRED INFLOWS OF RESOURCES		
Deferred pensions (Note 8)	302,327	465,419
Total deferred inflows and resources	302,327	465,419
NET POSITION		
Net investment in capital assets	14,178,864	12,830,771
Restricted	871,745	861,679
Unrestricted, designated for retirement benefits obligation	101,274	85,690
Unrestricted, designated for capital replacement	5,300,156	6,086,998
Unrestricted	3,260,724	3,196,783
Total Net Position	$ 23,712,763	$ 23,061,921

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Years ended June 30, 2016 and 2015

	2016	2015
Operating Revenues:		
Service charges	$ 4,516,762	$ 4,558,161
Connection fees	177,438	199,935
Other services	31,793	48,019
Total operating revenues	4,725,993	4,806,115
Operating Expenses:		
Sewage collection	1,603,014	1,544,078
Sewage treatment	2,066,491	2,127,289
Sewage disposal	46,386	51,437
Administrative	860,148	743,799
Total operating expenses	4,576,039	4,466,603
Income from operations	149,954	339,512
Nonoperating Revenue (Expense):		
Investment income	75,919	57,279
Property taxes	520,131	498,630
Other income (expense)	18,586	(86,041)
Interest expense	(176,512)	(419,585)
Total non-operating revenue (expense)	438,124	50,283
Excess of revenue over expenses	588,078	389,795
Capital contributions	62,764	5,422
Change in net position	650,842	395,217
Net position, beginning of year	23,061,921	22,666,704
Net position, end of year	$ 23,712,763	$ 23,061,921

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Years ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Cash received from customers	$ 4,708,544	$ 4,811,145
Cash payments to vendors for goods and services	(1,346,788)	(1,029,591)
Cash payments to employees for services	(2,380,157)	(2,204,458)
Net cash provided by operating activities	981,599	1,577,096
Cash Flows from Noncapital Financing Activities:		
Property taxes	520,131	498,630
Other	18,586	4,807
Net cash provided by noncapital financing activities	538,717	503,437
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(3,395,771)	(493,192)
Interest payments	(572,672)	(586,679)
Extension reimbursements	62,764	5,422
Principal payments on long term debt	(350,000)	(340,000)
Net cash used by capital and related financing activities	(4,255,679)	(1,414,449)
Cash Flows from Investing Activities:		
Investment income received	71,531	55,842
Net cash provided by investing activities	71,531	55,842
Net increase (decrease) in cash and restricted cash	(2,663,832)	721,926
Cash and restricted cash – beginning of year	14,962,087	14,240,161
Cash and restricted cash – end of year	$ 12,298,255	$ 14,962,087
Reconciliation to Statement of Net Position:		
Cash and investments	$ 10,693,202	$ 11,694,471
Restricted cash and investments	1,605,053	3,267,616
	$ 12,298,255	$ 14,962,087

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Years ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 149,954	$ 339,512
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,121,209	1,053,453
Change in assets and liabilities:		
Prepaid insurance	(27,694)	21,376
Accounts receivable	(5,949)	8,439
Deferred pension outflow	(31,801)	(44,300)
Accounts payable	(162,876)	160,227
Accrued salaries and benefits	18,142	33,667
Accrued interest	(7,002)	(6,800)
Customer deposits	(11,500)	(3,409)
Compensated absences	23,752	15,964
Net pension liability	78,456	(466,452)
Deferred pension inflow	(163,092)	465,419
Net cash provided by operating activites	$ 981,599	$ 1,577,096

See accompanying notes

Note 1 - Reporting Entity

Montecito Sanitary District was organized in 1947, pursuant to the Sanitary District Act of 1923, to provide sewage collection and treatment for residents within the District's geographical boundaries.

The District is governed by a board of directors consisting of five members elected at large. The Directors receive fees for attendance at Board and Committee meetings. The District employs a General Manager/District Engineer and such other personnel as are required to meet its responsibilities.

Note 2 - Summary of Significant Accounting Policies

A) Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants (AICPA).

B) Accounting Basis

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the District is that the costs, including depreciation, of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The accounts are maintained and these financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses recognized when they are 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 statement of net position.

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. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

C) Budget

The District prepares an annual budget which estimates major sources of revenue to be received during the fiscal year, as well as estimated expenditures needed for operation of District facilities. The budget is filed with Santa Barbara County (the County). The Board of Directors has the power to amend the budget during the year.

Note 2 - Summary of Significant Accounting Policies (Continued)

D) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.

E) Property, Plant and Equipment

Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired. Interest incurred during the construction period of an asset is capitalized as part of the cost.

F) Depreciation

Capital assets purchased by the District are depreciated over their estimated useful lives (ranging from 5-80 years) under the straight-line method of depreciation.

G) Accumulated Vacation, Compensated Time Off and Sick Leave

Accumulated unpaid employee vacation, compensated time off, and sick leave benefits are recognized as liabilities of the District.

H) Net Position

Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows, 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 assets which are legally restricted by outside parties for use for a specific purpose.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” Dedicated net position represents unrestricted assets which are segregated by the Board of Directors 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

I) Revenue Recognition – Property Taxes and Services Charges

Property taxes and user sewer service charges are collected on the tax rolls of the County of Santa Barbara. The District receives an allocation of general property taxes. Sewer service charges are based upon the total number of equivalent residential units (ERU's) connected to the sewers of the District. Commercial properties are charged based upon loading factors and water consumption. The property taxes and service charges are recognized when they have been collected by the County and are available for distribution to the District.

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations – are established by the Assessor of the County of Santa Barbara (County) for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIIA of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Collections – are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

During the fiscal year ended June 30, 1994, the District adopted the "Teeter Plan" as defined in the Revenue and Taxation Code. Under this plan, the District is guaranteed 99.6% of the secured property taxes each year. The District is also assured of receiving 95% of the unsecured property taxes for each fiscal year by July 31 of the following fiscal year. The remaining 5% is placed in a Tax Loss Reserve Fund which will be used to offset future tax sale losses incurred by the County. Additionally, the District is assured of receiving 100% of its sewer service charges for each fiscal year by July 31 of the following year.

Tax Levy Apportionments – Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the County Auditor-Controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Note 2 - Summary of Significant Accounting Policies (Continued)

I) Revenue Recognition – Property Taxes and Services Charges (continued)

Property Tax Administration Fees – The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies – are limited to 1% of full value which results in a tax rate of $1.00 per $100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as they exist at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

J) Annual Appropriations Limit

The District is exempt from the annual appropriations limit required by Senate Bill 813 (Chapter 1025, Statutes of 1987) in accordance with California Constitution Article XIII B. This exemption is based on a tax rate not greater than 12-1/2 cents per $100 of assessed valuation in 1978.

K) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

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

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 Montecito Sanitary District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - <u>Summary of Significant Accounting Policies</u> (Continued)

M) <u>Implementation of New Accounting Pronouncements</u>

For the year ended June 30, 2016, Montecito Sanitary District implemented the following Governmental Accounting Standards Board (GASB) Pronouncements:

Statement No. 72 *Fair Value Measurement and Application*. This Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2015.

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions.
3. Timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation.

The requirements of this Statement for pension plans that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement will identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively.

Note 2 - Summary of Significant Accounting Policies (Continued)

N) Future Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement 75 and 82 listed below will be implemented in future financial statements. The aforementioned future GASB pronouncements will be evaluated by the District to determine if they will have a material impact to the financial statements once effective.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement replaces the requirements of Statement 45 and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit other postemployment benefits (OPEB), this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

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 requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

Note 3 - Cash and Investments

Cash and investments are classified in the accompanying financial statements at June 30, 2016 and 2015 as follows:

	June 30, 2016	June 30, 2015
Unrestricted:		
Cash and investments, undesignated	$ 5,291,772	$ 5,521,783
Cash designated for retirement benefits	101,274	85,690
Cash designated for capital replacement	5,300,156	6,086,998
Restricted cash from bond proceeds	1,605,053	3,267,616
Total cash and investments	$ 12,298,255	$ 14,962,087

Cash and investments as of June 30, 2016 and 2015 consist of the following:

	June 30, 2016	June 30, 2015
Cash on hand	$ 250	$ 250
Deposits held with financial institutions	253,941	270,719
Cash with fiscal agent	652,835	647,143
Local Agency Investment Fund	2,610,245	4,272,153
Santa Barbara County Investment Pool	8,780,984	9,771,822
Total cash and investments	$ 12,298,255	$ 14,962,087

Investments Authorized by the District's Investment Policy

The District's investment policy authorizes investments selected on the basis of credit worthiness, financial strength, experience, and minimal capitalization. The District shall select only licensed brokers and dealers in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers, or other applicable self-regulatory organizations. The District is prohibited from investing in any funds in inverse floaters, range notes, interest-only strips derived from mortgage pools, or any investment which may result in a zero interest accrual if held to maturity. It is the District policy to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

The primary objectives of the District's investment activities in priority order are: safety, liquidity, and return on investments. Investments shall be chosen with judgment and care, considering the probable safety of their capital as well as the probable income to be derived. Although the District has pre-authorized investment categories per Resolution No. 2013-883, the only investments in practice are those in the local government investment pool administered by the State of California Local Agency Investment Fund (LAIF) and the Santa Barbara County Investment Pool.

Note 3 - Cash and Investments (Continued)

Investments

The District participates in LAIF and the Santa Barbara County Investment Pool. LAIF and the Santa Barbara County Investment Pool are regulated by the California Government Code.

The District's investment in LAIF is reported in the accompanying financial statements at amounts based on the District's pro-rata share of the value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis. LAIF invests some of its portfolio in derivatives. Detailed information on derivative investments held by this pool is not readily available. The fair value of LAIF is approximately equal to the value of the pool shares.

The District's investment in the Santa Barbara County Investment Pool is reported in the accompanying financial statements at the amounts based upon the District's pro-rata share of the value provided by the Santa Barbara County Investment Pool for the entire Santa Barbara County Investment Pool portfolio, which is recorded on the amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by the Santa Barbara Investment Pool. The fair value of the Santa Barbara Investment Pool is approximately equal to the value of the pool shares.

Custodial Credit Risk

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

None of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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

Note 3 - <u>Cash and Investments</u> (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District did not have any investments that are considered highly sensitive to changes in interest rates at June 30, 2016 and 2015.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2016 and 2015:

	June 30, 2016				
Investment Type	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Local Agency Investment Fund	$ 2,610,245	$ 2,610,245	$ -	$ -	$ -
Santa Barbara County Investment Pool	8,780,984	8,780,984	-	-	-
Total Investments	$ 11,391,229	$ 11,391,229	$ -	$ -	$ -

	June 30, 2015				
Investment Type	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Local Agency Investment Fund	$ 4,272,153	$ 4,272,153	$ -	$ -	$ -
Santa Barbara County Investment Pool	9,771,822	9,771,822	-	-	-
Total Investments	$ 14,043,975	$ 14,043,975	$ -	$ -	$ -

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization.

Note 3 - Cash and Investments (Continued)

Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of June 30, 2016 and 2015 for each investment type.

	2016					
		Minimum	Exempt			
	Carrying	Legal	From	Rating as of Fiscal Year End		
Investment Type	Amount	Rating	Disclosure	AAA	AA	Not Rated
Local Agency Investment Fund	$ 2,610,245	N/A	$ 2,610,245	$ -	$ -	$ -
Santa Barbara County Investment Pool	8,780,984	N/A	8,780,984	-	-	-
Total Investments	$ 11,391,229		$ 11,391,229	$ -	$ -	$ -

	2015					
		Minimum	Exempt			
	Carrying	Legal	From	Rating as of Fiscal Year End		
Investment Type	Amount	Rating	Disclosure	AAA	AA	Not Rated
Local Agency Investment Fund	$ 4,272,153	N/A	$ 4,272,153	$ -	$ -	$ -
Santa Barbara County Investment Pool	9,771,822	N/A	9,771,822	-	-	-
Total Investments	$ 14,043,975		$ 14,043,975	$ -	$ -	$ -

Fair Value of Investments

The following investments are recognized at amortized cost at June 30, 2016 and 2015, respectively.

	June 30, 2016
Local Agency Investment Fund	$ 2,610,245
Santa Barbara County Investment Pool	8,780,984
Total Investments	$ 11,391,229

	June 30, 2015
Local Agency Investment Fund	$ 4,272,153
Santa Barbara County Investment Pool	9,771,822
Total Investments	$ 14,043,975

Note 4 - <u>Schedule of Capital Assets</u>

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2016, is shown below:

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Subsurface Lines	$23,074,724	$ -	$ -	$3,622,667	$26,697,391
Collection Facilities	3,990,994	5,655	-	345,954	4,342,603
Treatment Facilities	11,969,249	8,784	-	832,621	12,810,654
Disposal Facilities	532,466	-	-	-	532,466
Administrative Facilities	1,230,322	21,170	-	(671,618)	579,874
	40,797,755	35,609	-	4,129,624	44,962,988
Accumulated Depreciation	(17,495,790)	(1,121,209)	-	-	(18,616,999)
	23,301,965	(1,085,600)	-	4,129,624	26,345,989
Construction in Progress	378,632	3,750,992	-	(4,129,624)	-
Land and Improvements	106,500	-	-	-	106,500
Net capital assets	$23,787,097	$2,665,392	$ -	$ -	$26,452,489

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2015, is shown below:

	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Subsurface Lines	$22,994,137	$ -	$ -	$ 80,587	$23,074,724
Collection Facilities	3,798,794	-	-	192,200	3,990,994
Treatment Facilities	12,060,643	27,662	-	(119,056)	11,969,249
Disposal Facilities	532,466	-	-	-	532,466
Administrative Facilities	1,119,374	4,150	-	106,798	1,230,322
	40,505,414	31,812	-	260,529	40,797,755
Accumulated Depreciation	(16,442,337)	(1,053,453)	-	-	(17,495,790)
	24,063,077	(1,021,641)	-	260,529	23,301,965
Construction in Progress	106,866	623,143	(90,848)	(260,529)	378,632
Land and Improvements	106,500	-	-	-	106,500
Net capital assets	$24,276,443	$ (398,498)	$ (90,848)	$ -	$23,787,097

Note 5 - Compensated Absences

Employees are entitled to accumulate up to 120 working days of sick leave, at the rate of eight hours per month for full time employees, and pro-rated for part-time employees. If employees retire under the District's retirement program, or voluntarily resign after twenty or more years of service, they would receive full compensation for any unused sick leave, paid at their current salary level. If employees voluntarily resign with less than twenty years of service, they would receive one-half to three quarters of their unused sick leave, depending on the years of service completed.

Employees are also entitled to accumulate vacation leave at a rate of two to five weeks per year, depending on the number of years of service completed. Such accumulated leave cannot exceed two times the employee's annual entitlement. Vacation leave is fully vested at all times and will be paid to employees upon termination of employment.

Eligible employees may request the option of selecting compensatory time off (CTO) for overtime hours worked during any workweek in lieu of overtime pay. Any employee having CTO banked hours is entitled to convert such hours to pay at their regular rate at any time. All CTO hours will be subject to payout at the time of employment separation.

In accordance with accounting principles generally accepted in the United States of America, the liability is reflected on the statement of net position and the current fiscal year allocation has been expensed.

Note 6 - Long-Term Debt

The long-term debt liabilities of the District are as follows:

	Balance June 30, 2015	Additions	Retirements/ Amortization	Balance June 30, 2016
Series 2007 Certificates of Participation	$ 13,245,000	$ -	$ (350,000)	$ 12,895,000
Unamortized premiums	117,263		(5,330)	111,933
Net long-term debt	$ 13,362,263	$ -	$ (355,330)	$ 13,006,933

CSDA Finance Corporation Certificates of Participation 2007 Series UU

The CSDA Finance Corporation Certificates of Participation 2007 Series UU were issued March 1, 2007 in the aggregate principal amount of $14,765,000. The CSDA Finance Corporation Certificates of Participation consisted of serial certificates in the principal amount of $4,750,000 bearing an average interest rate of 4%, with the final installment payment due July 1, 2022, term certificates in the amount of $2,615,000 bearing interest of 4.25% due July 1, 2027, term certificates in the amount of $4,020,000 bearing interest of 5% due July 1, 2033, and term certificates in the amount of $3,380,000 bearing interest of 4.3% due July 1, 2037. Interest is payable semi-annually each January 1 and July 1, commencing July 1, 2007. The Certificates shall not be subject to optional prepayment prior to July 1, 2017.

Note 6 - Long-Term Debt (Continued)

The District is required to use the proceeds from the certificates to finance the following expenditures:

1. The acquisition of certain sanitary sewer improvements, in connection with the District's wastewater system.
2. To prepay the District's obligations under the installment Note dated as of May 31, 2005, between the District and Santa Barbara Bank & Trust.
3. To fund in whole or in part, a Reserve Fund for the Certificates.
4. To fund certain capitalized interest with respect to the Certificates.
5. To pay certain costs of issuing the Certificates.

Total annual requirements to amortize the Certificates of Participation are as follows:

Fiscal Year End	Principal	Interest	Total
6/30/2017	$ 365,000	$ 565,378	$ 930,378
6/30/2018	380,000	550,478	930,478
6/30/2019	395,000	534,978	929,978
6/30/2020	410,000	518,878	928,878
6/30/2021	425,000	502,178	927,178
2022-2026	2,405,000	2,229,963	4,634,963
2027-2031	2,975,000	1,643,119	4,618,119
2032-2036	3,780,000	823,185	4,603,185
2037-2038	1,760,000	76,540	1,836,540
Total	$ 12,895,000	$ 7,444,697	$ 20,339,697

Debt service payments in any one fiscal year will not exceed $930,478.

Note 7 - Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employees.

Note 8 - Defined Benefit Pension Plan

General Information about the Pension Plans

Plan Descriptions **–** All eligible full time employees are required to participate in Montecito Sanitary District's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans 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) are participating 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 is included in the District retirement contract with CalPERS. Any unused sick leave accumulated 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.

The Plans' provisions and benefits in effect at June 30, 2016 and 2015 are summarized as follows:

	For the Year Ended June 30, 2016		For the Year Ended June 30, 2015	
	Miscellaneous Plan		Miscellaneous Plan	
Hire date	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50 - Minimum	52 - Minimum	50 - Minimum	52 - Minimum
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%	6.90%	N/A
Required employer contribution rates	8.51%	6.24%	8.31%	N/A
Required employer contribution rates for payment on all UAL amortization bases	4.77%	0.00%	1.72%	N/A

Note 8 - Defined Benefit Pension Plan (Continued)

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. Montecito Sanitary District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2016 and 2015, the contributions recognized as part of pension expense for all Plans were as follows:

	Miscellaneous Plan	
	June 30, 2016	June 30, 2015
Contributions – employer	$ 158,355	$ 85,186

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

The District's net pension liability for all Plans is measured as the proportionate share of the net pension liability. As of June 30, 2016 and 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability	
	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015
Miscellaneous	$ 1,307,464	$ 1,229,008

For the year ended June 30, 2016, the net pension liability of all of the Plans is measured as of June 30, 2015, and the total pension liability for all Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures.

For the year ended June 30, 2015, the net pension liability of all of the Plans is measured as of June 30, 2014, and the total pension liability for all Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures.

Note 8 - Defined Benefit Pension Plan (Continued)

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 for all Plans with an actuarial valuation date of June 30, 2014 and 2013 (and measurement date of June 30, 2015 and 2014, respectively) was as follows:

For the Year Ended June 30, 2016		For the Year Ended June 30, 2015	
	Miscellaneous		Miscellaneous
Proportion - June 30, 2014	0.04973%	Proportion - June 30, 2013	0.05174%
Proportion - June 30, 2015	0.04766%	Proportion - June 30, 2014	0.04973%
Change - Increase (Decrease)	-(0.00207%)	Change - Increase (Decrease)	-(0.00201%)

For the years ended June 30, 2016 and 2015, the District recognized pension earnings (expense) of $64,711 and $95,210, respectively. At June 30, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016		June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 181,148	$ -	$ 140,543	$ -
Differences between actual and expected experience	9,008	-	-	-
Changes in assumptions	-	(85,221)	-	-
Changes in employer's proportion and difference between the employer's contributions and the employer's proportionate share of contributions	-	(174,384)	17,812	(39,510)
Net differences between projected and actual earnings on plan investments	-	(42,722)	-	(425,909)
	$ 190,156	$ (302,327)	$ 158,355	$ (465,419)

Employer contributions of $181,148 reported at June 30, 2016 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, 2017. During the fiscal year ended June 30, 2016, $158,355 of employer contributions that was reported in deferred outflows of resources was recognized as a reduction to the net pension liability.

Note 8 - Defined Benefit Pension Plan (Continued)

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

Year Ended June 30:	Amount
2017	$ (124,700)
2018	(123,180)
2019	(100,048)
2020	54,609
2021	-
Thereafter	-
	$ (293,319)

Actuarial Assumptions **–** The total pension liabilities in the June 30, 2014 and 2013 actuarial valuations were determined using the following actuarial assumptions:

	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015
	Miscellaneous	Miscellaneous
Valuation Date	30-Jun-14	30-Jun-13
Measurement Date	30-Jun-15	30-Jun-14
Actual Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	Varies by entry age and service (1)	Varies by entry age and service (1)
Investment Rate of Return	7.65%	7.5% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds	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	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

The actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can found on the CalPERS website.

Change of Assumption **–** According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expenses. The discount rate was changed from 7.50 percent (net of administrative expense for measurement date June 30, 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense. Administrative expenses are assumed to be 15 basis points.

Note 8 - Defined Benefit Pension Plan (Continued)

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

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

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

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses. The CalPERS Board adopted a new target allocation effective July 1, 2014. This is the primary change that was reflected in the table below for the year ended June 30, 2016.

Note 8 - Defined Benefit Pension Plan (Continued)

The table below reflects the long-term expected real rate of return by asset class at June 30, 2016 and 2015, respectively.

	For the Year Ended June 30, 2016			For the Year Ended June 30, 2015		
Asset Class	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%	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	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%	12.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%	11.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%	3.00%	4.50%	5.09%
Liquidity	2.00%	-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 Montecito Sanitary District's proportionate share of the net pension liability for all Plans, calculated using the discount rate for all Plans, as well as what Montecito Sanitary 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:

For the Year Ended June 30, 2016			For the Year Ended June 30, 2015		
Miscellaneous			Miscellaneous		
1% Decrease		6.65%	1% Decrease		6.50%
Net Pension Liability	$	2,192,708	Net Pension Liability	$	2,214,599
Current Discount Rate		7.65%	Current Discount Rate		7.50%
Net Pension Liability	$	1,307,464	Net Pension Liability	$	1,229,008
1% Increase		8.65%	1% Increase		8.50%
Net Pension Liability	$	576,592	Net Pension Liability	$	410,987

***Pension Plan Fiduciary Net Position* –** Detailed information about all pension plan fiduciary net positions is available in the separately issued CalPERS financial reports.

Note 9 - Post-Employment Health Care Benefits

Plan Description

For employees hired before July 1, 2010, the District provides retiree medical coverage to eligible current employees and one dependent as defined by the plan. Under the Plan, retired employees who attain age 55 with at least ten years of service are eligible to receive benefits until reaching age 65. The District pays 100% of the health insurance benefits' monthly premium. The dependent of an eligible retiree is also eligible to receive benefits from this plan, and benefits continue until they are Medicare eligible or are no longer considered a dependent under the Patient Protection and Affordable Care Act (PPACA). When the retired employee reaches age 65 the retired employee and the dependent are no longer covered. In accordance with Montecito Sanitary District Board of Directors action taken on June 4, 2010, any employee hired by the District after July 1, 2010 is not eligible for post-employment health care benefits.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and its board of directors. The required contribution is based on projected pay-as-you-go financing requirements. Currently, the District has $101,274 of unrestricted net position set aside to be used to fund the post-employment health care obligation, and plans to set aside $15,000 each July until adequate funds have been established. The District pays 100% of costs on behalf of the eligible participants.

Annual OPEB Cost and Net OPEB Obligation

The District's OPEB cost is calculated based on the *annual required contribution of the employer* (ARC), 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 amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District accrued the net OPEB obligation of $87,174 and $73,585 as of June 30, 2016 and 2015, which is included on the Statement of Net Position with accrued salaries and benefits. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation for plan benefits for the years ended June 30, 2016 and 2015:

Net OPEB obligation as of July 1, 2014	$ 60,136
Annual required contribution	55,071
Contributions made	(41,622)
Net OPEB obligation as of June 30, 2015	73,585
Annual required contribution	56,365
Contributions made	(42,776)
Net OPEB obligation as of June 30, 2016	$ 87,174

Note 9 - Post-Employment Health Care Benefit (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 2016 and the two preceding fiscal years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/14	$ 63,147	66%	$ 60,136
06/30/15	55,071	76%	73,585
06/30/16	56,365	76%	87,174

Funded Status and Funding Progress

As of June 30, 2016, the actuarial accrued liability for benefits was $326,549, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $376,723, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 87% based on the valuation date of March 1, 2015.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and 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 is presented on the following page, and presents multi-year trend information about whether the actuarial value of 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 and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the CalPERS retirement rates for the 2% at 55 pension formula.

Marital status – Marital status of members at the calculation date. To the extent not provided 80% of retirees were assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

Note 9 - **Post-Employment Health Care Benefits (Continued)**

Mortality – Life expectancies were based on CalPERS mortality for Miscellaneous employees.

Turnover – CalPERS turnover for Miscellaneous employees were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was assumed at 4 percent per year.

Inflation rate – The expected long-term inflation rate of 2.75 percent was used.

Payroll growth rate – The expected long-term payroll growth rate of 2.75 percent was used.

Discount rate – The expected long-term discount rate of 4.5 percent was used.

In addition, the entry age normal actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. A closed eleven year amortization period was used in the 2012 and 2015 valuations. An open ten year amortization period was used for any residual UAAL in the 2015 valuation.

Note 10 - **Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disaster.

The District participates in the California Sanitation Risk Management Authority (CSRMA), which arranges for and provides general liability, property damage, workers' compensation and employee dishonesty liability insurance to its member agencies. The District pays a premium commensurate with the level of coverage requested.

Note 11 - **Subsequent Events**

Subsequent events have been evaluated through November 14, 2016 the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

MONTECITO SANITARY DISTRICT
A COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
LAST 10 YEARS*

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF MONTECITO SANITARY DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY

	Miscellaneous Classic		Miscellaneous PEPRA	
	2016	**2015**	**2016**	**2015**
Valuation date	June 30, 2014	June 30, 2013	June 30, 2014	N/A
Measurement date	June 30, 2015	June 30, 2014	June 30, 2015	N/A
Proportion of the net pension liability	0.0190%	0.0198%	0.0000%	0.0000%
Proportionate share of the net pension liability	$ 1,307,568	$ 1,229,008	$ (104)	$ -
Covered - employee payroll	$ 1,398,498	$ 1,065,779	$ 52,291	$ -
Proportionate share of the net pension liability as percentage of covered-employee payroll	93.50%	115.32%	-0.20%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	82.56%	83.46%	103.19%	0.00%

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, 2014 valuation date.

Changes of Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

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

MONTECITO SANITARY DISTRICT
A COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
LAST 10 YEARS*

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF MONTECITO SANITARY DISTRICT'S CONTRIBUTIONS

	Miscellaneous Classic		Miscellaneous PEPRA	
	2016	2015	2016	2015
Contractually required contribution (actuarially determined)	$ 177,451	$ 137,531	$ 3,697	$ 3,012
Contributions in relation to the actuarially determined contributions	$ 177,451	$ 137,531	$ 3,697	$ 3,012
Contribution deficiency (excess)	-	-	-	-
Covered-employee payroll	$ 1,466,549	$ 1,364,409	$ 59,492	$ 48,193
Contributions as a percentage of covered-employee payroll	12.10%	10.08%	6.21%	6.25%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2015-16 were derived from the June 30, 2013 funding valuation report.

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

MONTECITO SANITARY DISTRICT
OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Simplified Entry Age (b)	Unfunded AAL (UAAL) (b -a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
3/1/2012	$ 0	$ 411,233	$ 411,233	0%	$ 589,472	70%
3/1/2015	$ 0	$ 326,549	$ 326,549	0%	$ 376,723	87%

Notes to Schedule:

This information is intended to help users assess the District's OPEB plan's status on a going-concern basis and assess progress made in accumulating assets to pay benefits when due.

SUPPLEMENTARY INFORMATION

MONTECITO SANITARY DISTRICT

BOARD OF DIRECTORS

NAME	POSITION	TERM EXPIRES
Warner Owens	President	December 2016
Judith M. Ishkanian	Vice President	December 2018
Thomas Kern	Treasurer	December 2016
Jeff Kerns	Secretary	December 2016
Robert Williams	Director	December 2018

MONTECITO SANITARY DISTRICT
STATEMENT OF OPERATING EXPENSES - BY DEPARTMENT
For the Fiscal Year Ended June 30, 2016

	Collection	Treatment	Disposal	Administrative	2016	2015
Salaries and Benefits:						
Salaries	$ 563,259	$ 563,403	$ -	$ 466,004	$ 1,592,666	$ 1,477,811
Stand-by pay	29,146	35,120	-	-	64,266	61,864
Overtime	4,643	7,353	-	-	11,996	5,906
Retirement contribution	57,414	60,979	-	47,917	166,310	189,650
Payroll tax	41,489	44,629	-	34,934	121,052	112,794
Group insurance	153,613	135,099	-	60,612	349,324	360,731
Total Salaries and Benefits	849,564	846,583	-	609,467	2,305,614	2,208,756
Supplies and Services:						
Insurance	25,020	30,676	-	5,920	61,616	48,861
Maintenance	84,722	338,089	-	4,142	426,953	493,102
Operating supplies	3,324	3,459	-	874	7,657	5,598
Office supplies	2,327	2,100	-	11,303	15,730	15,727
Memberships	891	4,649	-	28,158	33,698	30,794
Employee/Community goodwill	109	179	-	4,050	4,338	4,295
Miscellaneous	39	-	-	41,877	41,916	7,806
Office expense	768	95	-	658	1,521	2,174
Legal services	-	-	-	10,769	10,769	26,054
Consulting services	-	-	-	29,542	29,542	28,100
NPDES permit expenses	-	43,168	-	-	43,168	81,968
Other professional services	7,150	-	-	46,680	53,830	36,879
Administrative fees	1,825	1,057	-	16,877	19,759	18,646
Research and monitoring	-	33,557	-	-	33,557	16,213
Contract services	39,330	46,006	38,314	4,940	128,590	143,385
Publications and notices	-	-	-	585	585	605
Minor equipment purchases	5,525	4,617	-	1,443	11,585	7,793
Training and safety	9,021	18,502	-	2,229	29,752	27,960
Travel and meeting costs	704	4,111	-	7,202	12,017	11,099
Fuel and oil	9,765	4,127	-	-	13,892	17,513
Utilities and telephone	26,531	130,376	-	11,834	168,741	179,822
Depreciation	536,399	555,140	8,072	21,598	1,121,209	1,053,453
Total Supplies and Services	753,450	1,219,908	46,386	250,681	2,270,425	2,257,847
Totals, June 30, 2016	$ 1,603,014	$ 2,066,491	$ 46,386	$ 860,148	$ 4,576,039	
Totals, June 30, 2015	$ 1,544,078	$ 2,127,289	$ 51,437	$ 743,799		$ 4,466,603

MONTECITO SANITARY DISTRICT
STATEMENT OF OPERATING EXPENSES - BY DEPARTMENT
For the Fiscal Year Ended June 30, 2015

	Collection	Treatment	Disposal	Administrative	2015	2014
Salaries and Benefits:						
Salaries	$ 523,409	$ 519,076	$ -	$ 435,326	$ 1,477,811	$ 1,328,199
Stand-by pay	28,260	33,604	-	-	61,864	59,300
Overtime	1,270	4,636	-	-	5,906	9,336
Retirement contribution	66,499	67,051	-	56,100	189,650	201,049
Payroll tax	41,405	44,328	-	27,061	112,794	103,400
Group insurance	154,360	150,238	-	56,133	360,731	338,034
Total Salaries and Benefits	815,203	818,933	-	574,620	2,208,756	2,039,318
Supplies and Services:						
Insurance	19,385	24,950	-	4,526	48,861	46,565
Maintenance	62,561	425,720	-	4,821	493,102	208,417
Operating supplies	2,292	2,706	-	600	5,598	219,295
Office supplies	3,341	3,548	-	8,838	15,727	14,917
Memberships	8,131	10,013	-	12,650	30,794	24,546
Employee/Community goodwill	103	72	-	4,120	4,295	3,272
Miscellaneous	20	7,786	-	-	7,806	-
Office expense	951	248	-	975	2,174	1,382
Legal services	-	-	-	26,054	26,054	16,477
Consulting services	-	-	-	28,100	28,100	28,851
NPDES permit expenses	-	81,968	-	-	81,968	60,700
Other professional services	15,943	-	-	20,936	36,879	47,441
Administrative fees	2,040	1,456	-	15,150	18,646	18,130
Research and monitoring	-	16,213	-	-	16,213	28,771
Contract services	42,355	54,227	43,365	3,438	143,385	132,391
Publications and notices	-	-	-	605	605	745
Minor equipment purchases	1,643	3,136	-	3,014	7,793	9,144
Training and safety	8,869	15,021	-	4,070	27,960	19,634
Travel and meeting costs	3,586	1,531	-	5,982	11,099	11,784
Fuel and oil	10,627	6,886	-	-	17,513	17,622
Utilities and telephone	28,863	138,978	-	11,981	179,822	166,894
Depreciation	518,165	513,897	8,072	13,319	1,053,453	938,997
Total Supplies and Services	728,875	1,308,356	51,437	169,179	2,257,847	2,015,975
Totals, June 30, 2015	$ 1,544,078	$ 2,127,289	$ 51,437	$ 743,799	$ 4,466,603	
Totals, June 30, 2014	$ 1,332,596	$ 1,835,003	$ 63,200	$ 824,494		$ 4,055,293