MONTECITO SANITARY DISTRICT

June 30, 2018 and 2017

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, 2018 and 2017, 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 financial position of the District as of June 30, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 2 and Note 12 to the basic financial statements, Montecito Sanitary District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year ending June 30, 2018. The adoption of this standard required retrospective application resulting in a $109,640 reduction of net position as of July 1, 2017. Our opinion is not modified with respect to this matter. Because all of the information required to restate the prior year was not available at the time the financial statements were available to be issued, prior year values are not presented in a comparable manner.

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 14, the California Public Employees' Retirement System Schedule of Montecito Sanitary District's Proportionate Share of the Net Pension Liability on page 43, the California Public Employees' Retirement System Schedule of Montecito Sanitary District's Contributions on page 44, and the Other Postemployment Benefits (OPEB) Plan – Schedule of Changes in the Net OPEB Liability and Related Ratios on page 45 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 46 through 48 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 46 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 26, 2018

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) 2017-2018 and 2016-2017. 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 2017-2018 was approximately 616,000 gallons per day (gpd).

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

In May 2017 the District refunded the COPs by using $1,121,862 available cash, $957,824 reserve funds, and issuing new 2017 Sewer Refunding Revenue Bonds in the amount of $10,020,000. This refunding will result in savings of approximately $4 million due to favorable interest rates obtained, elimination of the need for a reserve fund, and shortening of the term of the debt by seven years.

In the early morning hours of January 9th, 2018, Montecito experienced the devastating Thomas Fire Debris Flow event, which destroyed property, closed the freeway, and claimed 23 lives. On January 11th, 2018 the Board of Directors held an Emergency Meeting and declared a District emergency. At this emergency meeting the Board approved unanimously to authorize General Manager Gabriel to issue purchase orders specific to this emergency in excess of $10,000, to be ratified by the Board at following Board meetings.

$1,500,000 was transferred from LAIF reserves to the District's operating account to pay for disaster related expenses. A claim in the amount of $1,577,818 was made to FEMA for documented disaster related expenses. All reimbursement amounts are to be deposited back into the LAIF reserve account upon receipt.

The District currently serves 3,034 residential connections and 38 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, an Engineering Manager and a Lab and Pretreatment Manager. The District had 16 full-time authorized positions in FY 2017-2018 and 15 in FY 2016-2017.

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.
- 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

- The District’s net position increased 8.63% or $2,205,695 to $27,771,485 in fiscal year 2017-2018. In the prior year, the District’s net position increased 7.81% or $1,853,027 to $25,565,790.
- The District’s operating revenues decreased by 3.06% and operating expenses increased by 5.78% in FY 2017-2018. In the prior year, operating revenues increased by 45.17% and operating expenses increased by 5.06%.

Financial Analysis of the District

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

	June 30, 2018	June 30, 2017	June 30, 2016	% Change FY 2017-2018 and 2016-2017	% Change FY 2016-2017 and 2015-2016
Assets:					
Current assets	$ 14,770,800	$ 12,218,080	$ 10,791,655	20.89%	13.22%
Noncurrent assets:					
Restricted assets	1,819,022	4,036,623	1,605,053	-54.94%	151.49%
Capital assets	26,022,049	26,000,975	26,452,489	0.08%	-1.71%
Total Assets	42,611,871	42,255,678	38,849,197	0.84%	8.77%
Deferred Outflows of Resources:					
Deferred pensions	801,283	612,510	190,156	30.82%	222.11%
Liabilities:					
Current liabilities	3,083,962	4,504,523	805,236	-31.54%	459.40%
Long term liabilities	12,287,846	12,480,227	14,219,027	-1.54%	-12.23%
Total Liabilities	15,371,808	16,984,750	15,024,263	-9.50%	13.05%
Deferred Inflows of Resources:					
Deferred pensions	171,457	211,044	302,327	-18.76%	-30.19%
Deferred gain on refunding debt	98,404	106,604	-	-7.69%	100.00%
Total Deferred Inflows	269,861	317,648	302,327	-15.04%	5.07%
Net Position:					
Net investment in capital assets	15,609,587	14,054,681	14,178,864	11.06%	-0.88%
Restricted	-	388,975	871,745	-100.00%	-55.38%
Unrestricted	12,161,898	11,122,134	8,662,154	9.35%	28.40%
Total Net Position	$ 27,771,485	$ 25,565,790	$ 23,712,763	8.63%	7.81%

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

FY 2017-18 Restricted Assets consist of Miramar Lift Station construction funds.

The following is a summary of the District's statement of revenues, expense and changes in net position for the years ended June 30, 2018 and 2017:

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016	% Change FY 2017-2018 and 2016-2017	% Change FY 2016-2017 and 2015-2016
Operating revenues	$ 6,650,774	$ 6,860,704	$ 4,725,993	-3.06%	45.17%
Operating expenses	5,085,375	4,807,497	4,576,039	5.78%	5.06%
Operating income	1,565,399	2,053,207	149,954	-23.76%	1269.22%
Nonoperating revenue	1,984,768	617,874	614,636	221.23%	0.53%
Nonoperating expense	1,648,039	838,802	176,512	96.48%	375.21%
Non-operating income	336,729	(220,928)	438,124	252.42%	-150.43%
Excess of revenue over expenses	1,902,128	1,832,279	588,078	3.81%	211.57%
Capital contributions	413,207	20,748	62,764	1891.55%	-66.94%
Change in net position	2,315,335	1,853,027	650,842	24.95%	184.71%
Net position, beginning of year	25,565,790	23,712,763	23,061,921	7.81%	2.82%
Prior period adjustment	(109,640)	-	-	-100.00%	0.00%
Net position, beginning of year, as restated	25,456,150	23,712,763	23,061,921	7.35%	2.82%
Net position, end of year	$ 27,771,485	$ 25,565,790	$ 23,712,763	8.63%	7.81%

FY 2017-18 Nonoperating revenues include accrued FEMA reimbursements for January 9, 2018 Debris Flow disaster, property tax allocation, and interest.

FY 2017-18 Nonoperating expenses include January 9, 2018 Debris Flow disaster expenditures. Certain costs related to the disaster such as salaries and professional services are included operating expenses.

FY 2017-18 Capital contributions include sewer main extension reimbursements for Sierra Vista and Romero Canyon, and accrued FEMA reimbursement on capital repairs.

FY 2017-18 Prior period adjustment for GASB75 implementation of OPEB reporting requirements.

Sources of Revenue

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

Revenue Category	2017-2018	2016-2017	2015-2016	% Change FY 2017-2018 and 2016-2017	% Change FY 2016-2017 and 2015-2016
Service charges	$ 6,224,822	$ 5,766,321	$ 4,516,762	8.0%	27.7%
Connection fees	346,379	1,042,193	177,438	-66.8%	487.4%
Other services	79,573	52,190	31,793	52.5%	64.2%
Operating revenue	6,650,774	6,860,704	4,725,993	-3.1%	45.2%
Investment income	82,045	64,347	75,919	27.5%	-15.2%
Property taxes	590,994	553,527	520,131	6.8%	6.4%
Other revenue	-	-	18,586	0.0%	-100.0%
Grant revenue for disaster costs	1,311,729	-	-	100.0%	0.0%
Nonoperating revenue	1,984,768	617,874	614,636	221.2%	0.5%
Total revenue	$ 8,635,542	$ 7,478,578	$ 5,340,629	15.5%	40.0%

Grant revenue for disaster costs in 2017-2018 includes accrued FEMA reimbursement for January 9, 2018 Debris Flow disaster.

Sewer Service Charge (SSC)

The major source of revenue for the District is the Sewer Service Charges (SSC). The fiscal year (FY) 2017-2018 sewer service charges revenue increased approximately 8.0% from the prior FY 2016-2017. The District's total annual SSC revenue for FY 2017-2018 was $6,224,822; which amounted to 72.1% of the total revenues and 93.6% of the total operating revenue. The District's total annual SSC revenue for FY 2016-2017 was $5,766,321; which amounted to 77.1% of the total revenues and 84.0% 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 annual property tax statements.

Future Rate Increases

On May 9, 2016 the Board of Directors approved a 3-year planned rate increase structure that went into effect beginning in FY 2016-17 and will run through FY 2018-19. All rate increases were validated and approved by following the procedures and requirements of Proposition 218. At this time there are no future planned rate increases.

Connection Fees

The connection fees collected on District permits are charges for connection to the District's sanitary sewer system, necessary to cover or recoup infrastructure costs incurred to provide service. Connection fees collected for the FY 2017-2018 and FY 2016-2017 were $346,379 and $1,042,193, respectively. The decrease in connection fees received in FY 2017-2018 is reflected in decreased operating revenues on page 8. The increase in connection fees in FY 2016-2017 from FY 2015-2016 was due to payments related to large projects such as Casa Dorinda and Miramar Rosewood Resort.

The District's Governing Board of Directors voted to increase the connection fees to $8,400 per dwelling unit effective January 1, 2018 with Resolution No. 2017-906.

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. The Santa Barbara County Pool consists of Sewer Service Charges, Property Tax Income, and Interest. The LAIF account consists of originally funded reserves and interest. District practice has been to draw from the Santa Barbara County Pool for operating funds, however $1,500,000 in funding for the January 9, 2018 Debris Flow disaster was drawn from the LAIF reserve to be used for disaster related expenses. All disaster reimbursements from FEMA and CalOES will be transferred back into LAIF upon receipt.

Interest revenues received within FY 2017-2018 from the two investment pools was $155,463. Interest earned from the COP monies was $318. Investment income for the FY 2017-2018 also reflects a fair market value adjustment of ($73,736) 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 2017-2018 this property tax revenue amounted to $590,994.

Operating Expenses

The District's operating expenses (not including depreciation) for FY 2017-2018 were $3,903,742 and for FY 2016-2017 were $3,682,017. This is an overall increase for FY 2017-2018 in actual operating expenses of 6.0%. For FY 2016-2017 there was an increase in actual operating expenses of 6.6%. Depreciation expense for FY 2017-2018 was $1,181,633 and for FY 2016-2017 was $1,125,480.

Expenditure increases or decreases in fiscal year 2017-2018 versus fiscal year 2016-2017 were as follows:

Expense Category	Expenses FY 2017/2018	Expenses FY 2016/2017	FY 2017/2018 Expense Increase (Decrease)	Difference	Comments/Justification
Personnel (Salaries, Payroll Taxes, WC Insurance, and Benefits)	$ 2,792,547	$ 2,555,497	$ 237,050	9.3%	Increase in FY17-18 GASB68 Pension calculation and unfunded liability payment
Pooled Liability and Other CSRMA Insurance Programs	73,010	63,730	9,280	14.6%	Deductible payment on insurance claim
Maintenance, Repairs, Operating Supplies/Equip, and Contracted Services	546,125	610,615	(64,490)	-10.6%	FY16-17 included computer upgrades not in current year
Utilities, Telephone, Fuel and Oil	183,575	188,603	(5,028)	-2.7%	Thomas Fire Debris Flow evacuations/generator usage
Research & Monitoring	31,605	22,206	9,399	42.3%	New incubators and suspended solids meter
Office Expenses, Special Projects, and Misc. Administrative Costs	30,692	22,150	8,542	38.6%	Sewer System modeling project
Professional Services, Administrative Fees, and Memberships	210,263	181,580	28,683	15.8%	Upgrade exchange server; Engineering services following Debris Flow
Training, Safety and Travel Expenses	35,925	37,636	(1,711)	-4.5%	Less staff travel
Subtotals	**3,903,742**	**3,682,017**	**221,725**	**6.0%**	
Depreciation	1,181,633	1,125,480	56,153	5.0%	New assets added
Totals	**$ 5,085,375**	**$ 4,807,497**	**$ 277,878**	**5.8%**	

Expenditure increases or decreases in fiscal year 2016-2017 versus fiscal year 2015-2016 were as follows:

Expense Category	Expenses FY 2016/2017	Expenses FY 2015/2016	FY 2016/2017 Expense Increase (Decrease)	Difference	Comments/Justification
Personnel (Salaries, Payroll Taxes, WC Insurance, and Benefits)	$ 2,555,497	$ 2,305,614	$ 249,883	10.8%	Hiring of Engineering Manager, COLA increases
Pooled Liability and Other CSRMA Insurance Programs	63,730	61,616	2,114	3.4%	Slight increase in premiums
Maintenance, Repairs, Operating Supplies/Equip, and Contracted Services	610,615	574,785	35,830	6.2%	Computer upgrades including Autocad, GIS, remote desktop applications
Utilities, Telephone, Fuel and Oil	188,603	182,633	5,970	3.3%	Increase in water bill, cell phone reimbursements
Research & Monitoring	22,206	33,557	(11,351)	-33.8%	Decrease in lab consumables and small equipment
Office Expenses, Special Projects, and Misc. Administrative Costs	22,150	64,090	(41,940)	-65.4%	FY15-16 included Sewer Service Rate Study
Professional Services, Administrative Fees, and Memberships	181,580	190,766	(9,186)	-4.8%	Decrease in legal and engineering services
Training, Safety and Travel Expenses	37,636	41,769	(4,133)	-9.9%	Decrease in certification/licensing fees
Subtotals	**3,682,017**	**3,454,830**	**227,187**	**6.6%**	
Depreciation	1,125,480	1,121,209	4,271	0.4%	Comparable
Totals	**$ 4,807,497**	**$ 4,576,039**	**$ 231,458**	**5.1%**	

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 to seek funding through the issuance of COPs. 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 service expected and mandated by federal and state regulations, and to ensure the environmental health and safety of the community 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. All of those funds were spent on Board approved Mission Critical Projects by June 30, 2016. The COPs were refunded in May 2017, and therefore there is no liability for them on the balance sheet at year end 2018.

2017 Sewer Refunding Revenue Bonds – California Special Districts Association (CSDA) Finance Corporation

The 2007 Certificates of Participation (COPs) used for capital improvement projects became eligible for "Current Refunding" after the initial call date in April 2017. In January 2017 the District engaged Fieldman, Rolapp & Associates, independent financial advisors, to analyze the opportunity for refunding the 2007 COPs. The analysis showed the District could decrease the maturity term by seven years, remove the requirement for a reserve fund, and take advantage of lower interest rates, resulting in savings of approximately $4 million. In May 2017 the District refunded the COPs by using $1,121,862 available cash, $957,824 reserve funds, and issuing new 2017 Sewer Refunding Revenue Bonds in the amount of $10,020,000 (see Note 6). During the fiscal year ending June 30, 2018, the District made principal payments totaling $595,000 against the debt. As of June 30, 2018 the remaining principal balance was $9,425,000 and unamortized premium balance was $889,059.

Annual Depreciation Funding

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, 2018 there was $6,427,539 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.

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's entire financial position. These statements 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 basic 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.

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/Clerk to the Board, 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, 2018 and 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and investments (Note 2 and 3)	$ 13,056,662	12,139,200
Receivables	185,052	39,747
Grant receivable (net of allowance of $55,000)	1,460,271	-
Prepaid insurance	68,815	39,133
Total current assets	14,770,800	12,218,080
Restricted Assets:		
Cash and investments (Note 2 and 3)	1,819,022	4,036,623
Total restricted assets	1,819,022	4,036,623
Capital Assets:		
Depreciable:		
Plant and equipment	45,935,386	44,561,281
Less accumulated depreciation	(20,138,205)	(18,982,407)
	25,797,181	25,578,874
Non-depreciable:		
Construction in progress	118,368	315,601
Land and improvements	106,500	106,500
Net capital assets (Note 2 and 4)	26,022,049	26,000,975
Total Assets	42,611,871	42,255,678
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pensions (Note 8)	772,653	612,510
Deferred post-employment health care benefits (Note 9)	28,630	-
Total deferred outflows of resources	801,283	612,510
Total assets and deferred outflows of resources	$ 43,413,154	$ 42,868,188

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF NET POSITION
June 30, 2018 and 2017

	2018	2017
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 110,651	$ 53,310
Accrued salaries and benefits	75,799	62,285
Accrued interest	372,375	60,280
Customer deposits	131,115	86,000
Current portion of long-term debt (Note 6)	575,000	595,000
Miramar project deposit (Note 11)	1,819,022	3,647,648
Total current liabilities	3,083,962	4,504,523
Long-Term Liabilities:		
Compensated absences payable (Note 5)	211,667	202,193
Long-term debt, net of current portion (Note 6)	9,739,059	10,388,147
Net pension liability (Note 8)	2,122,293	1,801,193
Post-employment health care benefits liability (Note 9)	214,827	88,694
Total long-term liabilities	12,287,846	12,480,227
Total Liabilities	15,371,808	16,984,750
DEFERRED INFLOWS OF RESOURCES		
Deferred pensions (Note 8)	171,457	211,044
Deferred gain on refunding debt	98,404	106,604
Total deferred inflows of resources	269,861	317,648
Total liabilities and deferred inflows of resources	15,641,669	17,302,398
NET POSITION		
Net investment in capital assets	15,609,587	14,054,681
Restricted	-	388,975
Unrestricted, designated for retirement benefits obligation	132,053	116,651
Unrestricted, designated for capital replacement	6,427,539	5,399,643
Unrestricted	5,602,306	5,605,840
Total Net Position	$ 27,771,485	$ 25,565,790

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Years ended June 30, 2018 and 2017

	2018	2017
Operating Revenues:		
Service charges	$ 6,224,822	$ 5,766,321
Connection fees	346,379	1,042,193
Other services	79,573	52,190
Total operating revenues	6,650,774	6,860,704
Operating Expenses:		
Sewage collection	1,712,932	1,614,504
Sewage treatment	2,175,941	2,160,587
Sewage disposal	46,944	48,245
Administrative	1,149,558	984,161
Total operating expenses	5,085,375	4,807,497
Income from operations	1,565,399	2,053,207
Nonoperating Revenue (Expense):		
Investment income	82,045	64,347
Property taxes	590,994	553,527
Other income (expense)	(62,667)	(225,774)
Disaster relief and recovery expense	(1,314,885)	-
Grant reimbursements for disaster relief and recovery	1,311,729	-
Interest expense	(270,487)	(613,028)
Total non-operating revenue (expense)	336,729	(220,928)
Excess of revenue over expenses	1,902,128	1,832,279
Capital contributions		
Contributed subsurface lines	264,665	20,748
Grant reimbursements for emergency capital costs	148,542	-
Total capital contributions	413,207	20,748
Change in net position	2,315,335	1,853,027
Net position, beginning of year, as previously stated	25,565,790	23,712,763
Effect of prior period adjustment as a result of a change in accounting policy (Note 12)	(109,640)	-
Net position, beginning of year, as restated	25,456,150	-
Net position, end of year	$ 27,771,485	$ 25,565,790

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Years ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Cash received from customers	$ 4,743,024	$ 10,520,807
Cash payments to vendors for goods and services	(771,441)	(1,313,632)
Cash payments for employees services and benefits	(2,668,526)	(2,551,308)
Net cash provided by operating activities	1,303,057	6,655,867
Cash Flows from Noncapital Financing Activities:		
Property taxes	590,994	553,527
Payments for disaster relief and recovery	(1,314,885)	-
Other	(65,043)	(225,774)
Net cash provided (used) by noncapital financing activities	(788,934)	327,753
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(1,193,233)	(673,966)
Proceeds on disposal	2,375	18,649
Interest payments	(354,048)	(618,358)
Extension reimbursements	264,665	20,748
Principal payments on long term debt	(595,000)	(12,895,000)
Issuance of long term debt	-	10,983,147
Net cash used by capital and related financing activities	(1,875,241)	(3,164,780)
Cash Flows from Investing Activities:		
Investment income received	60,979	58,728
Net cash provided by investing activities	60,979	58,728
Net increase (decrease) in cash and restricted cash	(1,300,139)	3,877,568
Cash and restricted cash – beginning of year	16,175,823	12,298,255
Cash and restricted cash – end of year	$ 14,875,684	$ 16,175,823
Reconciliation to Statement of Net Position:		
Cash and investments	$ 13,056,662	$ 12,139,200
Restricted cash and investments	1,819,022	4,036,623
	$ 14,875,684	$ 16,175,823

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Years ended June 30, 2018 and 2017

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,565,399	$ 2,053,207
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,181,633	1,125,480
Gain on disposal	-	(18,649)
Change in assets and liabilities:		
Accounts receivable	(124,239)	(8,896)
Prepaid insurance	(29,682)	34,088
Deferred pension outflow	(155,877)	(422,354)
Accounts payable	57,341	4,857
Accrued salaries and benefits	13,514	2,839
Accrued interest	312,095	(226,057)
Customer deposits	45,115	40,000
Miramar restricted deposit	(1,828,626)	3,647,648
Compensated absences	9,474	19,737
Net pension liability	321,100	493,729
Post-employment health care benefits	(16,403)	1,520
Deferred pension inflow	(47,787)	(91,282)
Net cash provided by operating activities	$ 1,303,057	$ 6,655,867

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

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).

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 a private business enterprise, where the intent of the District is that the costs, including depreciation, of providing goods and services 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.

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)

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.

Receivables

Receivables are primarily comprised of sewer service fees collected by the County of Santa Barbara and interest earned on investments but not yet paid.

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.

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.

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.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the District that is applicable to a future reporting period.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period.

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:

Note 2 – Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

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.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition – Property Taxes and Services Charges (Continued)

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.

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.

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.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

Grant Receivable and Revenue

The District recognizes grant revenue when the qualifying expenditures are incurred, all eligibility requirements have been met, and collection of the grant funds is probable. Receipt of funds under the grant is dependent on the approval of submitted expenditures. An allowance for estimated disallowed costs is reflected in the receivable balance. Grant revenue and receivable is related to the disaster assistance as a result of the Montecito Debris Flow event.

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.

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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the total OPEB liability of the District and additions to/deductions from the District's OPEB liability have been determined on the same basis. For this purpose, MSD recognizes benefit payments when due and payable in accordance with the benefit terms.

Implementation of New Accounting Pronouncements

For the year ended June 30, 2018, the District implemented Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement No. 45 and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

Note 2 – Summary of Significant Accounting Policies (Continued)

Implementation of New Accounting Pronouncements (Continued)

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 were effective for fiscal years beginning after June 15, 2017.

Future Governmental Accounting Standards Board (GASB) Pronouncements

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

Statement No. 83	*"Certain Asset Retirement Obligations"*	The requirements of this statement are effective for periods beginning after June 15, 2018. (FY 18/19)
Statement No. 84	*"Fiduciary Activities"*	The requirements of this statement are effective for periods beginning after December 15, 2018. (FY 19/20)
Statement No. 87	*"Leases"*	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)
Statement No. 88	*"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements"*	The requirements of this statement are effective for periods beginning after June 15, 2018. (FY 18/19)
Statement No. 89	*"Accounting for Interest Cost Incurred Before the End of a Construction Period"*	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)

Note 3 – Cash and Investments

Cash and investments are classified in the accompanying financial statements at June 30, 2018 and 2017 as follows:

	June 30, 2018	June 30, 2017
Unrestricted:		
Cash and investments, undesignated	$ 6,497,070	$ 6,622,906
Cash designated for retirement benefits	132,053	116,651
Cash designated for capital replacement	6,427,539	5,399,643
Restricted cash for capital replacement	-	388,975
Restricted cash for Miramar Project	1,819,022	3,647,648
Total cash and investments	$ 14,875,684	$ 16,175,823

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2018 and 2017 consist of the following:

	June 30, 2018	June 30, 2017
Cash on hand	$ 250	$ 250
Deposits held with financial institutions	2,015,226	3,945,874
Cash with fiscal agent	756,125	664,986
Local Agency Investment Fund	187,463	1,666,021
Santa Barbara County Investment Pool	11,916,620	9,898,692
Total cash and investments	$ 14,875,684	$ 16,175,823

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.

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.

Note 3 – Cash and Investments (Continued)

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).

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, 2018 and 2017.

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, 2018 and 2017:

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

	June 30, 2018				
Investment Type	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Local Agency Investment Fund	$ 187,463	$ 187,463	$ -	$ -	$ -
Santa Barbara County Investment Pool	11,916,620	11,916,620	-	-	-
Total Investments	$ 12,104,083	$ 12,104,083	$ -	$ -	$ -

	June 30, 2017				
Investment Type	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Local Agency Investment Fund	$ 1,666,021	$ 1,666,021	$ -	$ -	$ -
Santa Barbara County Investment Pool	9,898,692	9,898,692	-	-	-
Total Investments	$ 11,564,713	$ 11,564,713	$ -	$ -	$ -

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.

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, 2018 and 2017 for each investment type.

Note 3 – Cash and Investments (Continued)

Investment Type	2018 Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End AAA	AA	Not Rated
Local Agency Investment Fund	$ 187,463	N/A	$ 187,463	$ -	$ -	$ -
Santa Barbara County Investment Pool	11,916,620	N/A	11,916,620	-	-	-
Total Investments	$ 12,104,083		$ 12,104,083	$ -	$ -	$ -

Investment Type	2017 Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End AAA	AA	Not Rated
Local Agency Investment Fund	$ 1,666,021	N/A	$ 1,666,021	$ -	$ -	$ -
Santa Barbara County Investment Pool	9,898,692	N/A	9,898,692	-	-	-
Total Investments	$ 11,564,713		$ 11,564,713	$ -	$ -	$ -

Fair Value of Investments

The following investments are recognized at amortized cost at June 30, 2018 and 2017, respectively.

	June 30, 2018	June 30, 2017
Local Agency Investment Fund	$ 187,463	$ 1,666,021
Santa Barbara County Investment Pool	11,916,620	9,898,692
Total Investments	$ 12,104,083	$ 11,564,713

Note 4 – Schedule of Capital Assets

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2018, is shown below:

	Balance July 1, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Subsurface Lines	$26,774,194	$ 263,402	$ -	$ 339,768	$27,377,364
Collection Facilities	3,979,300	41,772	(14,773)	246,387	4,252,686
Treatment Facilities	12,949,177	24,290	(11,062)	484,321	13,446,726
Disposal Facilities	532,466	-	-	-	532,466
Administrative Facilities	326,144	-	-	-	326,144
	44,561,281	329,464	(25,835)	1,070,476	45,935,386
Accumulated Depreciation	(18,982,407)	(1,181,633)	25,835	-	(20,138,205)
	25,578,874	(852,169)	-	1,070,476	25,797,181
Construction in Progress	315,601	873,243	-	(1,070,476)	118,368
Land and Improvements	106,500	-	-	-	106,500
Net capital assets	$26,000,975	$ 21,074	$ -	$ -	$26,022,049

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2017, is shown below:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Subsurface Lines	$26,697,391	$ -	$ -	$ 76,803	$26,774,194
Collection Facilities	4,342,603	-	(363,303)	-	3,979,300
Treatment Facilities	12,810,654	-	(143,039)	281,562	12,949,177
Disposal Facilities	532,466	-	-	-	532,466
Administrative Facilities	579,874	-	(253,730)	-	326,144
	44,962,988	-	(760,072)	358,365	44,561,281
Accumulated Depreciation	(18,616,999)	(1,125,480)	760,072	-	(18,982,407)
	26,345,989	(1,125,480)	-	358,365	25,578,874
Construction in Progress	-	673,966	-	(358,365)	315,601
Land and Improvements	106,500	-	-	-	106,500
Net capital assets	$26,452,489	$ (451,514)	$ -	$ -	$26,000,975

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. Employees are entitled to accumulate Personal Time Off (PTO) at a rate of six days per year. Accumulated PTO cannot exceed six days. Vacation and PTO 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. 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, 2017	Additions	Retirements/ Amortization	Balance June 30, 2018
2017 Sewer Refunding Revenue Bonds	$ 10,020,000	$ -	$ (595,000)	$ 9,425,000
Unamortized premiums	963,147	-	(74,088)	889,059
Total 2017 Sewer Refunding Revenue Bonds	10,983,147	-	(669,088)	10,314,059
Net long-term debt	$ 10,983,147	$ -	$ (669,088)	$ 10,314,059

CSDA Finance Corporation Certificates of Participation 2007 Series UU

The CSDA Finance Corporation Certificates of Participation 2007 Series UU ("2007 COPs") were issued March 1, 2007 in the aggregate principal amount of $14,765,000.

Note 6 – Long-Term Debt (Continued)

CSDA Finance Corporation Certificates of Participation 2007 Series UU (Continued)

Interest was payable semi-annually each January 1 and July 1, commencing July 1, 2007. During the fiscal year ended June 30, 2017, interest expense was $558,078.

On May 3, 2017 the District deposited $12,797,633 with an escrow agent to provide for payment when due (through July 1, 2017) of all principal and interest with respect to the 2007 COPs. The deposit amount was obtained by using $1,121,862 available cash, $957,824 reserve funds, and through the issuance of new 2017 Sewer Refunding Revenue Bonds. On July 1, 2017, the final payment from the escrow account was made, and the entire outstanding aggregate principal amount and interest of the 2007 COPs was refunded.

2017 Sewer Refunding Revenue Bonds

The 2017 Sewer Refunding Revenue Bonds ("2017 Bonds") were issued May 1, 2017 in the aggregate principal amount of $10,020,000 and a premium of $963,147. The costs of issuance and the underwriter's discount were $165,000 and $100,200, respectively. The Bonds consist of serial certificates in the principal amount of $10,020,000 bearing interest rates ranging from 2-5%, with the final installment payment due July 1, 2030. Interest is payable semi-annually each January 1 and July 1, commencing July 1, 2017.

The District is required to use the proceeds from the bonds to 1) prepay the District's obligations under the installment purchase contract, dated as of March 1, 2007, between the District and the CSDA Finance Corporation, and 2) to pay certain costs of issuing the 2017 Bonds.

The refunding resulted in decreased total debt service payments from $19,409,316 to $12,805,980. This decreased cash flow created an economic gain of approximately $2,091,000 when discounted at the 2017 Bonds' effective interest rate of 2.7436644%. Total annual requirements to amortize the 2017 Bonds are as follows:

Fiscal Year	Principal	Interest	Total
FY 2018-2019	$ 575,000	$ 353,625	$ 928,625
FY 2019-2020	590,000	336,150	926,150
FY 2020-2021	605,000	315,200	920,200
FY 2021-2022	635,000	290,400	925,400
FY 2022-2023	655,000	264,600	919,600
FY 2023-2024 through 2027-2028	3,725,000	864,300	4,589,300
FY 2028-2029 through 2030-2031	2,640,000	120,300	2,760,300
Total	$ 9,425,000	$ 2,544,575	$ 11,969,575

Debt service payments in any one fiscal year will not exceed $940,200.

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. The District makes no employer contributions into this plan.

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 and therefore are not reflected in the financial statements of the District.

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.

Note 8 – Defined Benefit Pension Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2018 and 2017 are summarized as follows:

	For the Year Ended June 30, 2018		For the Year Ended June 30, 2017	
	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%	7.00%	6.25%
Required employer contribution rates	8.92%	6.53%	8.88%	6.56%
Required employer contribution rates for payment on all UAL amortization bases	5.44%	0.13%	4.85%	0.00%

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.

The District's contribution to the Plan for the years ended June 30, 2018 and 2017 were $227,170 and $207,913, respectively. Of the total contributions made for the years ended June 30, 2018 and 2017, $80,292 and $63,362, respectively, were required contributions for the unfunded liability.

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, 2018 and 2017, the District reported a liability of $2,122,293 and $1,801,193, respectively, for its proportionate shares of the net pension liability of all Plans. The net pension liability of all of the Plans is measured as of June 30, 2017, 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, 2016 rolled forward to June 30, 2017 using standard update procedures.

Note 8 – Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2018, the net pension liability of all of the Plans is measured as of June 30, 2017, 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, 2016 rolled forward to June 30, 2017 using standard update procedures.

The District's proportion of the net pension liability was based on a projection of their long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for all Plans with an actuarial valuation date of June 30, 2016 and 2015 (and measurement date of June 30, 2017 and 2016, respectively) were as follows:

For the Year Ended June 30, 2018

	Miscellaneous
Proportion - June 30, 2016	0.05185%
Proportion - June 30, 2017	0.05384%
Change - Increase (Decrease)	0.00199%

For the Year Ended June 30, 2017

	Miscellaneous
Proportion - June 30, 2015	0.04766%
Proportion - June 30, 2016	0.05185%
Change - Increase (Decrease)	0.00419%

For the years ended June 30, 2018 and 2017, the District recognized pension earnings (expense) of $348,539 and $188,006, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 227,170	$ -	$ 207,913	$ -
Differences between actual and expected experience	2,959	(42,398)	4,990	-
Changes in assumptions	367,184	(27,998)	-	(61,241)
Changes in employer's proportion and difference between the employer's contributions and the employer's proportionate share of contributions	92,298	(101,061)	80,866	(149,803)
Net differences between projected and actual earnings on plan investments	83,042	-	318,741	
	$ 772,653	$ (171,457)	$ 612,510	$ (211,044)

Note 8 – Defined Benefit Pension Plan (Continued)

Employer contributions of $227,170 reported at June 30, 2018 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, 2019. During the fiscal year ended June 30, 2018, $207,913 of employer contributions that was reported in deferred outflows of resources was recognized as a reduction to the net pension liability.

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
2019	$ 62,333
2020	228,983
2021	132,012
2022	(49,302)
2023	-
Thereafter	-
	$ 374,026

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

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
	Miscellaneous	Miscellaneous
Valuation Date	30-Jun-16	30-Jun-15
Measurement Date	30-Jun-17	30-Jun-16
Actual Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:		
Discount Rate	7.15%	7.65%
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	7.15%	7.65%
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, 2016 and 2015 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. The discount rate was reduced from 7.65% to 7.15% during the measurement period ended June 30, 2017. Deferred outflows and inflows of resources for changes in assumptions represent the unamortized portion of the changes in assumptions related to prior measurement periods. Further details of the Experience Study can be found on the CalPERS website.

Note 8 – Defined Benefit Pension Plan (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.15 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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.

The table below reflects the long-term expected real rate of return by asset class at June 30, 2018 and 2017, respectively.

	For the Year Ended June 30, 2018			For the Year Ended June 30, 2017		
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	47.00%	4.90%	5.38%	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.80%	2.27%	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.60%	1.39%	6.00%	0.45%	3.36%
Private Equity	12.00%	6.60%	6.63%	10.00%	6.83%	6.95%
Real Estate	11.00%	2.80%	5.21%	10.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	3.90%	5.36%	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.40%	-0.90%	1.00%	-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

Note 8 – Defined Benefit Pension Plan (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents 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, 2018			For the Year Ended June 30, 2017		
Miscellaneous			Miscellaneous		
1% Decrease		6.15%	1% Decrease		6.65%
Net Pension Liability	$	3,332,635	Net Pension Liability	$	2,873,866
Current Discount Rate		7.15%	Current Discount Rate		7.65%
Net Pension Liability	$	2,122,293	Net Pension Liability	$	1,801,193
1% Increase		8.15%	1% Increase		8.65%
Net Pension Liability	$	1,119,885	Net Pension Liability	$	914,682

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.

Employees Covered

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Participating active employees	3
Inactive employees currently receiving benefits	3
Total	6

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

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 $132,053 of designated 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.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

	OPEB Plan
Actual Cost Method	Entry-Age Actuarial Cost Method in accordance with the requirements of GASB Statement No. 75
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.75%
Salary Increases (1)	2.75%
Investment Rate of Return	3.50%
Mortality	2009 CalPERS Active Mortality for Miscellaneous Employees; 2009 CalPERS Retiree Mortality for Miscellaneous Employees
Pre-Retirement Turnover	2009 CalPERS Turnover for Miscellaneous Employees
Healthcare Trend Rate	4% per year

(1) Benefits are not dependent upon salary

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 through June 30, 2017.

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

Discount Rate

The discount rate used to measure the total OPEB liability as 3.5%. The projection of cash flows used to determine the discount rate assumed that District contributions will be sufficient to fully fund the obligation over a period not to exceed 30 years. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

The District accrued the net OPEB obligation of $214,827 and $88,694 as of June 30, 2018 and 2017, 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, 2018 and 2017:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (a) - (b)
Balance at June 30, 2017 *(Measurement Date June 30, 2016)*	$ 231,230	$ -	$ 231,230
Changes Recognized for the Measurement Period:			
Service cost	8,823	-	8,823
Interest on Total OPEB Liability	7,668	-	7,668
Contributions - Employer	-	32,894	(32,894)
Net investment income	-	-	-
Administrative expense	-	-	-
Benefit Payments & Refunds	(32,894)	(32,894)	-
Net Changes	(16,403)	-	(16,403)
Balance at June 30, 2018 *(Measurement Date June 30, 2017)*	$ 214,827	$ -	$ 214,827

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

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

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017.

Net OPEB Liability		
1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
$ 226,444	$ 214,827	$ 203,569

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017.

Net OPEB Liability		
Trend 1% Lower (3.0%)	Valuation Trend (4.0%)	Trend 1% Higher (5.0%)
$ 205,940	$ 214,827	$ 221,844

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

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of $16,403. Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. At June 30, 2018, the District reported deferred outflows of resources of $28,630 related to contributions made subsequent to the measurement date. This will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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 – Commitments and Contingencies

During the year, the District entered into an agreement to manage the construction costs for a lift station to serve the Miramar property. The construction cost is estimated to be approximately $5,695,000. This cost is being paid out of a separate account which has been funded by the Miramar property (see Note 3 for restricted cash amounts related to the Miramar Project). The District has recorded an offsetting liability in the same amount. As of June 30, 2018, expenses incurred for this project were approximately $3,995,000.

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

Note 12 – Prior Period Adjustment as a Result of a Change in Accounting Principle

A prior period adjustment was made to beginning net position to reflect the prior period costs related to the implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

The restatement of beginning net position is summarized as follows:

Net position at July 1, 2017, as originally stated	$ 25,565,790
Prior period adjustments:	
Post-employment health care benefits liability	(142,535)
Deferred outflow of post-employment benefits	32,895
Net prior period adjustment	(109,640)
Net position at July 1, 2017, as restated	$ 25,456,150

Because all of the information required to restate prior year was not available at the time the financial statements were available to be issued, prior year values are not presented in a comparable manner.

Note 13 – Reclassifications

Certain reclassifications have been made to prior year amounts in order to conform to current year presentation.

Note 14 – Subsequent Events

Subsequent events have been evaluated through November 26, 2018 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

	2018	2017	2016	2015
Valuation date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.0214%	0.0208%	0.0190%	0.0198%
Proportionate share of the net pension liability	$ 2,122,293	$ 1,801,193	$ 1,307,464	$ 1,229,008
Covered payroll	$ 1,669,379	$ 1,534,968	$ 1,450,789	$ 1,065,779
Proportionate share of the net pension liability as percentage of covered payroll	127.13%	117.34%	90.12%	115.32%
Plan fiduciary net position as a percentage of the total pension liability	75.88%	77.39%	82.57%	83.46%

Notes to Schedule:

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

Net Pension liability as a percentage of covered payroll demonstrates the relative size of the unfunded liability by expressing it in terms of current personnel expenditures.

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

	As of June 30,			
	2018	**2017**	**2016**	**2015**
Contractually required contribution (actuarially determined)	$ 227,170	$ 207,913	$ 181,148	$ 140,543
Contributions in relation to the actuarially determined contributions	$ 227,170	$ 207,913	$ 181,148	$ 140,543
Contribution deficiency (excess)		-	-	-
Covered payroll	$ 1,729,391	$ 1,669,379	$ 1,534,968	$ 1,450,789
Contributions as a percentage of covered payroll	13.14%	12.45%	11.80%	9.69%

Notes to Schedule:

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

MONTECITO SANITARY DISTRICT
OTHER POSTEMPLOYMENT BENEFITS PLAN
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018
LAST 10 YEARS*

		2018
Total OPEB liability:		
Service cost	$	8,823
Interest on the total OPEB liability		7,668
Benefit payments		(32,894)
Net change in total OPEB liability		(16,403)
Total OPEB liability - beginning		231,230
Total OPEB liability - ending (a)	$	214,827
Fiduciary Net Position		
Employer contributions	$	32,894
Net investment income		-
Administrative expense		-
Benefit payments		(32,894)
Net change in fiduciary net position		-
Total fiduciary net position- beginning		-
Total fiduciary net position - ending (b)	$	-
Net OPEB asset - ending (a) - (b)	$	214,827
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%
Covered - employee payroll	$	384,664
Net OPEB asset as a percentage of covered-employee payroll		55.85%
Measurement date		06/30/17
Valuation date		06/30/17

Notes to Schedule:

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

SUPPLEMENTARY INFORMATION

MONTECITO SANITARY DISTRICT

BOARD OF DIRECTORS

NAME	POSITION	TERM EXPIRES
Judith M. Ishkanian	President	December 2018
Robert Williams	Vice President	December 2018
Jeff Kerns	Secretary	December 2020
Thomas Kern	Treasurer	December 2020
Warner Owens	Director	December 2020

On November 14, 2018 Thomas Bollay was appointed to fill the vacancy created by the October 15, 2018 resignation of Director Warner Owens. Mr. Bollay will serve out the rest of Mr. Owens term to December 2020.

MONTECITO SANITARY DISTRICT
STATEMENT OF OPERATING EXPENSES - BY DEPARTMENT
For the Fiscal Year Ended June 30, 2018

	Collection	Treatment	Disposal	Administrative	2018	2017
Salaries and Benefits:						
Salaries	$ 534,646	$ 661,047	$ -	$ 603,988	$ 1,799,681	$ 1,704,763
Stand-by pay	16,470	16,470	-	-	32,940	32,762
Overtime	8,457	18,644	-	297	27,398	22,101
Retirement contribution	159,870	151,451	-	140,089	451,410	292,211
Payroll tax	44,904	42,001	-	49,052	135,957	127,526
Group insurance	132,645	115,247	-	97,269	345,161	376,134
Total Salaries and Benefits	896,992	1,004,860	-	890,695	2,792,547	2,555,497
Supplies and Services:						
Insurance	26,004	40,989	-	6,017	73,010	63,730
Maintenance	82,854	279,541	-	4,233	366,628	433,847
Operating supplies	2,540	4,534	-	1,203	8,277	6,936
Office supplies	4,389	3,435	-	9,049	16,873	15,923
Memberships	1,335	1,335	-	31,541	34,211	34,680
Employee/Community goodwill	194	-	-	347	541	4,310
Miscellaneous	-	-	-	-	-	136
Office expense	28	47	-	950	1,025	1,359
Legal services	-	-	-	12,002	12,002	6,215
Consulting services	-	-	-	29,761	29,761	25,109
NPDES permit expenses	-	37,258	-	-	37,258	48,399
Other professional services	13,063	-	-	61,169	74,232	46,198
Administrative fees	3,316	1,513	-	17,970	22,799	20,979
Research and monitoring	-	31,605	-	-	31,605	22,206
Contract services	61,526	34,684	38,872	9,823	144,905	133,411
Publications and notices	-	-	-	510	510	422
Minor equipment purchases	6,652	3,682	-	15,981	26,315	36,421
Training and safety	9,403	11,127	-	4,248	24,778	23,023
Travel and meeting costs	-	2,446	-	8,701	11,147	14,613
Fuel and oil	8,904	7,343	-	-	16,247	15,529
Utilities and telephone	29,044	124,105	-	14,179	167,328	173,074
Special projects	6,000	-	-	5,743	11,743	-
Depreciation	560,688	587,437	8,072	25,436	1,181,633	1,125,480
Total Supplies and Services	815,940	1,171,081	46,944	258,863	2,292,828	2,252,000
Totals, June 30, 2018	$ 1,712,932	$ 2,175,941	$ 46,944	$ 1,149,558	$ 5,085,375	
Totals, June 30, 2017	$ 1,614,504	$ 2,160,587	$ 48,245	$ 984,161		$ 4,807,497

MONTECITO SANITARY DISTRICT
STATEMENT OF OPERATING EXPENSES - BY DEPARTMENT
For the Fiscal Year Ended June 30, 2017

	Collection	Treatment	Disposal	Administrative	2017	2016
Salaries and Benefits:						
Salaries	$ 536,532	$ 618,315	$ -	$ 549,916	$ 1,704,763	$ 1,592,666
Stand-by pay	16,230	16,532	-	-	32,762	64,266
Overtime	3,855	18,246	-	-	22,101	11,996
Retirement contribution	99,686	104,366	-	88,159	292,211	166,310
Payroll tax	44,351	48,058	-	35,117	127,526	121,052
Group insurance	160,183	140,880	-	75,071	376,134	349,324
Total Salaries and Benefits	860,837	946,397	-	748,263	2,555,497	2,305,614
Supplies and Services:						
Insurance	26,606	31,081	-	6,043	63,730	61,616
Maintenance	92,211	336,544	-	5,092	433,847	426,953
Operating supplies	2,779	3,299	-	858	6,936	7,657
Office supplies	2,504	2,051	-	11,368	15,923	15,730
Memberships	1,204	1,317	-	32,159	34,680	33,698
Employee/Community goodwill	183	-	-	4,127	4,310	4,338
Miscellaneous	39	-	-	97	136	41,916
Office expense	47	58	-	1,254	1,359	1,521
Legal services	-	-	-	6,215	6,215	10,769
Consulting services	-	-	-	25,109	25,109	29,542
NPDES permit expenses	-	48,399	-	-	48,399	43,168
Other professional services	1,122	-	-	45,076	46,198	53,830
Administrative fees	2,238	1,061	-	17,680	20,979	19,759
Research and monitoring	-	22,206	-	-	22,206	33,557
Contract services	48,576	41,968	40,173	2,694	133,411	128,590
Publications and notices	-	-	-	422	422	585
Minor equipment purchases	4,797	2,520	-	29,104	36,421	11,585
Training and safety	8,002	8,465	-	6,556	23,023	29,752
Travel and meeting costs	3,190	3,465	-	7,958	14,613	12,017
Fuel and oil	10,444	5,085	-	-	15,529	13,892
Utilities and telephone	28,815	130,957	-	13,302	173,074	168,741
Depreciation	520,910	575,714	8,072	20,784	1,125,480	1,121,209
Total Supplies and Services	753,667	1,214,190	48,245	235,898	2,252,000	2,270,425
Totals, June 30, 2017	$ 1,614,504	$ 2,160,587	$ 48,245	$ 984,161	$ 4,807,497	
Totals, June 30, 2016	$ 1,603,014	$ 2,066,491	$ 46,386	$ 860,148		$ 4,576,039