

# GOLETA WATER DISTRICT

GOLETA, CALIFORNIA

## Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016





## **Mission**

**To provide an adequate supply of quality water at the most reasonable cost to the present and future customers within the Goleta Water District**

**GOLETA WATER DISTRICT**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2017 AND 2016**

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**GOLETA WATER DISTRICT  
BOARD OF DIRECTORS  
AS OF JUNE 30, 2017**

<u>Name</u>	<u>Title</u>	<u>Elected/Appointed</u>	<u>Current Term</u>
Rick Merrifield	President	Elected	12/16 - 12/20
Meg West	Vice President	Elected	12/14 - 12/18
Jack Cunningham	Director	Elected	12/14 - 12/18
Lauren Hanson	Director	Elected	12/16 - 12/20
Bill Rosen	Director	Elected	12/16 - 12/20

John McInnes, General Manager

David Matson, Assistant General Manager

Francis Chan, Administrative Manager/CFO

Tom Bunosky, Operations Manager

Ryan Drake, Water Supply and Conservation Manager

Daniel Brooks, Chief Engineer

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**GOLETA WATER DISTRICT  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Introductory Section:</b>	
Letter of Transmittal .....	1
<b>Financial Section:</b>	
Independent Auditor's Report .....	4
Management's Discussion and Analysis (Unaudited) .....	6
Basic Financial Statements:	
Statements of Net Position .....	13
Statements of Revenues, Expenses, and Changes in Net Position .....	14
Statements of Cash Flows .....	15
Notes to the Basic Financial Statements .....	17
Required Supplementary Information (Unaudited) .....	45
<b>Statistical Information Section:</b>	
Statistical Section – Table of Contents .....	48
Changes in Net Position by Component – Previous Ten Fiscal Years .....	49
Operating Revenues by Source – Previous Ten Fiscal Years .....	51
Operating Expenses by Activity – Previous Ten Fiscal Years .....	52
Non-Operating Revenues and Expenses – Previous Ten Fiscal Years .....	53
Revenue Base – Previous Ten Fiscal Years .....	54
Customers by Type – Previous Ten Fiscal Years .....	55
Revenue Rates – Previous Ten Fiscal Years .....	56
Ten Largest Water Users – Current Fiscal Year versus Fiscal Year 2007-08 .....	57
Ratio of Outstanding Debt by Type – Previous Ten Fiscal Years .....	58
Pledged-Revenue Coverage – Previous Ten Fiscal Years .....	59
Demographics and Economic Statistics – Previous Ten Fiscal Years .....	60
Operating and Capacity Indicators – Previous Ten Fiscal Years .....	61
<b>List of Acronyms:</b>	
List of Acronyms and Abbreviations .....	62

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## **INTRODUCTORY SECTION**

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November 27, 2017

The Honorable Board of Directors and Customers of Goleta Water District:

The Comprehensive Annual Financial Report (CAFR) of the Goleta Water District (District) for the fiscal year (FY) ended June 30, 2017 provides the Board of Directors, customers, and the investment community with detailed information about the financial condition and operating results of the District. District staff worked collectively and followed guidelines set forth by the Governmental Accounting Standards Board to prepare this report. This CAFR is presented in conformity with generally accepted accounting principles (GAAP).

Management assumes full responsibility for the completeness and reliability of the information contained in this report. The District operates within a comprehensive framework of internal controls and these controls have been designed to provide appropriate assurance that the basic financial statements will be free from material misstatements.

The objective of the independent audit was to provide reasonable assurance, and not absolute assurance, that the financial statements of the District were free of material misstatements. Brown Armstrong Accountancy Corporation, independent auditors, has issued an unmodified ("clean") opinion that the District's financial statements for the fiscal years ended June 30, 2017 and 2016 are presented fairly in conformity with GAAP.

The Management Discussion and Analysis (MD&A) immediately follows the Independent Auditor's Report and provides a narrative introduction, overview, and analysis of the financial statements. The MD&A should be read in conjunction with the financial statements.

## **Overview**

During FY 2016-17, the District strengthened its financial condition through continued implementation of the Board-adopted 5-year Financial Plan. The revenue environment has remained stable and is supported by rate adjustments needed to address the costs of providing ongoing water service to District customers.

The State of California experienced the driest four-year period on record and with the much needed rainfall this past winter and above average snow packs in the California Sierras, Governor Jerry Brown declared an end to state's historic drought in April 2017. Unfortunately, the Goleta/Santa Barbara region remains one of the few areas/counties in California that is still enduring the drought. Although the intensity of the drought has been downgraded from "exceptional" to "moderate", the District's customers continue to conserve water, meeting local conservation targets and exceeding state requirements. As part of the District's plan to address this historic drought and its related financial impact, the Board of Directors reviewed, held public hearings, tabulated protest letters, and adopted an Ordinance to enact new rates and temporary drought surcharges effective July 1, 2015.

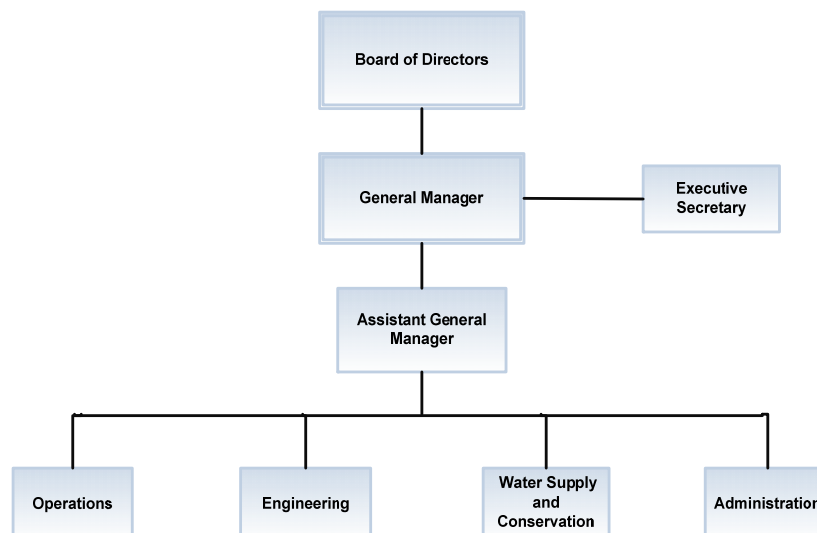
During FY 2016-17, the District operated within the Stage III Water Shortage Emergency, which is consistent with the requirements of the District's Drought Preparedness and Water Shortage Contingency Plan.

As the District and its customers collectively work towards reducing water usage during the drought, the District continues to manage costs and meet its commitment to build a cash reserve, while simultaneously investing in critical capital assets to increase the sustainability of District operations and seek alternative solutions to meet its customers ongoing demands.

### District Profile

Established November 17, 1944, the Goleta Water District encompasses an area extending along the south coast of Santa Barbara County west from the Santa Barbara city limits to El Capitan. The District, which spans approximately 29,000 acres (45 square miles), is bound on the south by the ocean and on the north by the foothills of the Santa Ynez Mountains. The District provides water service to approximately 87,000 people through 270 miles of pipeline via 16,540 individual customer accounts. The District manages a complex set of treatment and distribution systems, along with a water supply portfolio that includes Lake Cachuma, an adjudicated ground water basin, recycled water, and the State Water Project.

The District operates under the general direction of an elected five-member Board of Directors (Board), who serve four-year terms. Elections for two or three directors are held every two years. The Board employs a General Manager to oversee approximately 65 employees. Staffing is organized into four departments including operations, engineering, water supply and conservation, and administration.



### Economic Conditions

The local economy in the Goleta area is stable and diverse, where large employers include the University of California Santa Barbara (UCSB), regional health providers, Goleta Unified School District, and providers in the hospitality industry. The District's service area is also home to a diverse business sector including space age research firms, telecommunications, medical research, national security, light manufacturing, retail and wholesale trade, and corporate offices of multinational companies. The agricultural sector is another significant water user, with local production focusing primarily on avocados and lemons.

The Goleta area economy continues to be resilient as evidenced by improving retail/office vacancy rates and the addition of new service accounts, primarily from the completion of development projects. Goleta's June 2017 unemployment rate was 2.5%, which continues to be below that of Santa Barbara County, California and National levels. Overall revenues are influenced by these economic conditions, particularly since the District receives no taxes and collects the majority of its operating revenue through user charges.

## Climate Conditions

The Goleta area has a mild climate, with high temperatures normally within ten degrees of 70° year-round and low temperatures that rarely fall below 40°. Annual rainfall typically averages 18 inches, though it varies from year to year. Such weather variability influences District revenues as conservation-minded customers are quick to reduce water use when cool and wet weather conditions occur. In FY 2016-17, Goleta's precipitation levels were above its average weather patterns for the first time in six years, with a cumulative rainfall of 23.23 inches, or 129% of normal levels. During this prolonged period of drought conditions, the District declared a Stage II Water Shortage Emergency with a 25% conservation target on September 9, 2014 followed by a Stage III Water Shortage Emergency declaration on May 12, 2015, which targets a 35% district-wide reduction in water usage. The District continues to operate under a Stage III Water Shortage Emergency, as the above average rainfall from this past year was not sufficient to offset the drought conditions from the last six years. Achieving the target water reduction is necessary to preserve water supplies; however, it will be challenging to do so unless favorable weather patterns persist and drought conditions continue to abate. The Santa Barbara Region recorded the fourth warmest year on record for the 12 months ended June 30, 2017 (warmest and second warmest being 2015 and 2016, respectively), according to the National Oceanic and Atmospheric Administration's Climatological Rankings Report.

## Financial Planning

The District operates under an annual Budget that is adopted by its Board of Directors in accordance with its established short and long term financial plans. Actual financial results are reviewed throughout the year to ensure the District's goals are met, and revenues and expenditures are balanced. Together, these foundational documents and oversight activities help ensure reliable and cost-effective service delivery for District customers, and support the financial achievements described in this CAFR. Some of the notable accomplishments for FY 2016-17 included:

- Secured 2,500 acre feet of supplemental water supply through two separate exchange agreements that enabled the District to avoid declaring a Stage IV Water Shortage Emergency.
- Completed an update to the District's Water Supply Management Plan to provide a strategy for enabling the District to determine the most effective approaches for using available water supplies under both dry (drought), average, and wet conditions.
- Completed upgrades and rehabilitation of various well sites that increased groundwater production to meet customer demands, as the current year represented the second consecutive year that groundwater production provided the majority of potable water.
- Completed updates to the District's Groundwater Management Plan to reflect dynamic conditions in groundwater levels throughout the Goleta Basin and plan for future Basin recovery efforts.
- Completed updates to the District's Urban Water Management Plan to reflect revised supply projections in future years and account for long-term projected water demands in the Goleta Valley.

Looking ahead, the District will continue implementing projects and programs to ensure reliable and sustainable water service for all District customers.

Thank you to the Board of Directors for its leadership and support of our efforts to plan and implement the financial management practices needed to fulfill the policy goals set each year.

Respectfully submitted,



John McInnes  
General Manager



David Matson  
Assistant General Manager



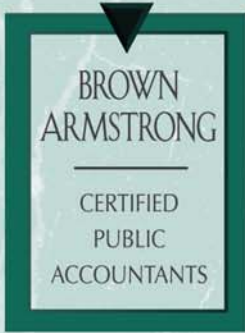
Francis Chan  
Chief Financial Officer

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## **FINANCIAL SECTION**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Goleta Water District  
Goleta, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Goleta Water District (District), as of and for the year ended June 30, 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. The prior year comparative information has been derived from the District's 2016 financial statements and, in our report dated November 2, 2016, we expressed an unmodified opinion on the basic financial statements.

### 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; 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of net pension liability, schedule of contributions, and schedule of funding status – other post-employment benefits obligation, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section 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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bakersfield, California  
November 27, 2017

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

**GOLETA WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016**

This annual report consists of a series of financial statements, including the *Statement of Net Position*; the *Statement of Revenues, Expenses, and Changes in Net Position*; and the *Statement of Cash Flows*. These statements were completed using the accrual basis of accounting, which recognizes a full year of revenues and expenses regardless of when cash is received or paid. Each statement provides information about the activities and performance of the District using the best practice of governmental accounting methods similar to those used by private sector companies.

- *The Statement of Net Position* summarizes District investments (assets), deferred outflows of resources and deferred inflows of resources, as well as its obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing liquidity and financial flexibility.
- *The Statement of Revenues, Expenses, and Changes in Net Position* is a record of District revenue and expenses. Providing a measure of the District's financial performance over the year, this statement can also be used to determine District cost recovery through its rates and other charges, illustrating overall resource management efficacy and credit worthiness.
- *The Statement of Cash Flows* provides information about the District's cash receipts and cash payments. The statement reflects net changes in cash resulting from operations, investments, debt service, and non-operating income.

### **Summary Analysis**

The District's net position, or the difference between assets, deferred outflows of resources, deferred inflows of resources, and liabilities, measures the financial health of the organization. Over time, increases or decreases in District net position also indicate the relative fiscal sustainability of the policy choices that govern administrative operations. It is important to keep these indicators in context with other non-financial factors such as changes in economic conditions, population growth, climate, zoning, or the regulatory environment. Since financial statements include a year-over-year comparison, this Management's Discussion and Analysis (MD&A) presents three years of financial information. Specific attention is placed on comparing fiscal year (FY) 2017 to FY 2016; however, analysis is provided comparing FY 2016 to FY 2015 when significant.

Overall during FY 2017 and FY 2016, the District continued to improve its financial stability by managing expenditures to ensure the cash flow goals established in the 5-year financial plan were achieved, while meeting the challenges of the ongoing drought. Coupled with the result of these actions, the District was able to invest in a number of critical infrastructure projects outlined in the Infrastructure Improvement Plan (IIP).

### **Financial Highlights**

- During FY 2017, the District's Net Position decreased \$175,556 (0.3%) to \$51,888,316 from \$52,063,872, the Net Position at the end of FY 2016. Operating Revenues decreased by \$1,069,287, Operating Expenses increased by \$3,587,089, and Unrestricted Cash and Cash Equivalents decreased by \$5,573,578 when compared to FY 2016. The FY 2017 decrease in Net Position is a reflection of the District's challenges of maintaining and enhancing its infrastructure despite customer conservation efforts related to the ongoing drought. FY 2016 Operating Revenues increased by \$8,992,869, Operating Expenses increased by \$3,923,305 and the District increased Unrestricted Cash and Cash Equivalents by \$1,337,840 when compared to FY 2015.
- Water Consumption Sales decreased by \$1,238,793 (4.2%) in FY 2017 and increased by \$9,783,034 (48.9%) in FY 2016. The decrease in FY 2017 was the result of District customers' adherence to the previously declared Stage III Water Shortage Emergency water use restrictions combined with cooler and an above average rainfall season. The increase in FY 2016 Water

Sales was primarily the result of the District's Board of Directors (the Board) adoption of a rate increase and the implementation of a water consumption related surcharge associated with the ongoing drought. On May 5, 2015, the District declared a Stage III Water Shortage Emergency, with a 35% conservation target, and this declaration was effective throughout FY 2017. Each water shortage emergency stage has associated water use restrictions to achieve the conservation target.

- Monthly Service Charges increased by \$210,474 (2.5%) in FY 2017 and decreased by \$985,045 (10.4%) in FY 2016. The increase in FY 2017 was primarily due to a 3% rate increase effective July 1, 2016, that was partially offset by some customers qualifying for a lower tier meter charges as their conservation efforts expanded. For FY 2016, the District Board adopted a new rate structure that charged customers a tiered monthly service rate based on individual monthly usage instead of a 12-month rolling average. The decrease in FY 2016 was primarily due to residential and commercial customers qualifying for a lower tier meter charges as they conserve and consume less water.
- New Water Supply Charge Revenue decreased by \$112,413 (74.6%) in FY 2017 and \$2,289,154 (93.8%) in FY 2016. For both FY 2017 and FY 2016, the revenue was derived solely from new recycled water accounts which is in contrast to FY 2015 when New Water Supply Revenue was primarily related to the acceleration of new water supply payments in response to the Board's September 9, 2014 Resolution directing the temporary denial of applications for new and additional service connections for potable water beginning October 1, 2014. This Resolution is still in place and no new or additional service connections for potable water are being issued.
- Operating Expenses, before Depreciation, increased by \$3,587,089 (12.0%) in FY 2017 and by \$3,923,305 (15.1%) in FY 2016. The increase in FY 2017 is due to higher maintenance costs for the distribution system, water treatment costs, pension expenses, and legal fees. The FY 2016 increase in operating costs was due to increased water supply costs and legal expenses incurred to protect the District's water supply and defend rates litigation.

**Condensed Statement of Net Position – Analysis:**

	2017	2016	Current Year Increase/ (Decrease)	2015
<b>Assets:</b>				
Current assets	\$ 23,618,696	\$ 28,769,546	\$ (5,150,850)	\$ 29,823,305
Non-current assets	3,592,428	3,606,570	(14,142)	3,633,366
Capital assets, net	96,754,070	92,790,125	3,963,945	86,877,670
Total assets	123,965,194	125,166,241	(1,201,047)	120,334,341
<b>Deferred outflows of resources:</b>	5,912,274	4,219,617	1,692,657	3,828,397
<b>Liabilities:</b>				
Current liabilities	6,233,892	8,192,336	(1,958,444)	5,234,121
Non-current liabilities	71,145,981	68,452,670	2,693,311	68,447,457
Total liabilities	77,379,873	76,645,006	734,867	73,681,578
<b>Deferred inflows of resources:</b>	609,279	676,980	(67,701)	2,573,360
<b>Net position:</b>				
Net investment in capital assets	46,966,900	41,777,503	5,189,397	34,662,860
Restricted for debt service	2,812,643	2,786,769	25,874	2,774,572
Restricted cash and cash equivalents	1,473,268	1,145,312	327,956	4,008,904
Unrestricted	635,505	6,354,288	(5,718,783)	6,461,464
Total net position	\$ 51,888,316	\$ 52,063,872	\$ (175,556)	\$ 47,907,800

- Current Assets decreased during FY 2017 by \$5,150,850 (17.9%) primarily due to a \$5,245,622 decrease in Cash and Cash Equivalents and a \$429,785 decrease in Water-in-Storage Inventory which was partially offset by a \$637,837 increase in Prepaid Expenses to the Central Coast Water Authority (CCWA). The decrease in Cash and Cash Equivalents is due to lower revenues combined with higher capital expenditures (see Net Capital Assets below for additional discussion). The decrease in Water-in-Storage Inventory is primarily due to the use of previously purchased supplemental water. The increase in Prepaid Expenses to CCWA is primarily due to increased variable operations and maintenance and State Water delivery charges at CCWA due to the continuing drought.
- Net Capital Assets increased \$3,963,945 (4.3%) during FY 2017 primarily due to improvements to the water treatment facility and District wells and installation of new digital meters. Net Capital Assets increased \$5,912,455 (6.8%) during FY 2016 primarily due to the completion of several water treatment plant upgrades, and the rehabilitation of nine District wells that enabled the District to produce groundwater. The District also replaced and upgraded over 750 meters (meter sizes less than 2 inch) and initiated projects that will further improve efficiency and increase capacity of groundwater production.
- Deferred Outflows of Resources increased \$1,692,657 (40.1%) during FY 2017 and increased \$391,220 (10.2%) during FY 2016 primarily due to the increase in deferred pension costs.
- Current Liabilities decreased \$1,958,444 (23.9%) during FY 2017 primarily due to the payment of two large contractor invoices for work related to rehabilitating the District's wells. These invoices represented services incurred during May and June 2016 (FY 2016) and they were paid in July 2016 (FY 2017). Current Liabilities increased \$2,958,215 (56.5%) during FY 2016 due to the receipt of the two large contractor invoices noted above.
- Non-Current Liabilities increased during FY 2017 by \$2,693,311 (3.9%) primarily due to an increase in the Net Pension Liability and Other Post-Employment Benefits partially offset by a reduction in outstanding debt.
- Deferred Inflows of Resources decreased \$67,701 (10.0%) during FY 2017 and by \$1,896,380 (73.7%) in FY 2016 due to changes in the deferred pension costs.
- During FY 2017, Unrestricted Net Position decreased by \$5,718,783 (90.0%) when compared to the end of FY 2016 primarily due to the District's investments in capital assets (see related increase in Net Position – Net Investment in Capital Assets).

## Condensed Statement of Revenues, Expenses, and Changes in Net Position – Analysis:

	2017	2016	Current Year Increase/ (Decrease)	2015
<b>Revenues:</b>				
Operating revenues	\$ 37,807,585	\$ 38,876,872	\$ (1,069,287)	\$ 29,884,003
Non-operating revenues	209,259	297,247	(87,988)	2,567,957
Total revenues	<u>38,016,844</u>	<u>39,174,119</u>	<u>(1,157,275)</u>	<u>32,451,960</u>
<b>Expenses:</b>				
Operating expenses	33,407,576	29,820,487	3,587,089	25,897,182
Depreciation	4,834,866	4,384,529	450,337	4,154,508
Non-operating expenses	2,204,410	2,014,595	189,815	2,161,792
Total expenses	<u>40,446,852</u>	<u>36,219,611</u>	<u>4,227,241</u>	<u>32,213,482</u>
Net income (loss) before capital contributions	(2,430,008)	2,954,508	(5,384,516)	238,478
Capital contributions	2,254,452	1,201,564	1,052,888	2,151,549
Change in net position	(175,556)	4,156,072	(4,331,628)	2,390,027
Net position, beginning of year	<u>52,063,872</u>	<u>47,907,800</u>	<u>4,156,072</u>	<u>45,517,773</u>
Net position, end of year	<u>\$ 51,888,316</u>	<u>\$ 52,063,872</u>	<u>\$ (175,556)</u>	<u>\$ 47,907,800</u>

- District Total Operating Revenues in FY 2017 decreased \$1,069,287 (2.8%) with a \$1,238,793 decrease in Water Consumption Sales and a \$42,711 decrease in Other Charges and Services offset by a \$210,474 increase in Monthly Service Charges.
  - The \$1,238,793 (4.2%) decrease in Water Consumption Sales was primarily the result of customers adhering to the District's previously declared Stage III Water Shortage Emergency use restrictions and the cooler winter combined with an above average rainfall season. This decrease in usage was partially offset by a 3% rate increase that went into effect July 1, 2016.
  - Monthly Service Charges increased by \$210,474 (2.5%) in FY 2017. The increase in FY 2017 was primarily due to a 3% rate increase effective July 1, 2016, that was partially offset by some residential and commercial customers qualifying for a lower tier meter charges as they continue to conserve during the ongoing drought. As part of the Board's 2015 adoption of a new rate structure to encourage conservation, the Monthly Service Charges is determined based on a tiered monthly service rate on individual monthly usage instead of a 12-month rolling average.
- District Total Operating Revenues in FY 2016 increased \$8,992,869 (30.1%) from FY 2015 as a result of a rate increase and the implementation of a water consumption related surcharge, associated with the ongoing drought. The District declared a Stage II Water Shortage Emergency with a 25% conservation target on September 9, 2014, followed by the District's Stage III Water Shortage Emergency declaration on May 5, 2015 with a 35% conservation target.
- District non-operating revenues in FY 2017 decreased \$87,988 (29.6%) from FY 2016 and decreased \$2,270,710 (88.4%) in FY 2016 from FY 2015 primarily due to fluctuations in New Water Supplies Charges that require one-time payments to obtain new water service. In FY 2017 and FY 2016, the revenue was derived solely from new recycled water accounts. In FY 2015, New Water Supply Charges of \$2,439,835 were related to the acceleration of payments to ensure water entitlements in response to the Board's September 9, 2014 Resolution directing the

**Condensed Statement of Revenues, Expenses and Changes in Net Position – Analysis** (continued):

temporary denial of applications for new and additional service connections for potable water beginning on October 1, 2014. This Resolution is still in place and no new or additional service connections for potable water are being issued.

- District Operating Expenses, excluding depreciation, increased \$3,587,089 (12.0%) in FY 2017 when compared to FY 2016 primarily due to the following:
  - Source of Supply costs were lower than FY 2016 by \$416,899 (2.4%) and includes amounts paid to the Central Coast Water Authority (CCWA), Cachuma Operation and Maintenance Board (COMB), Cachuma Conservation Release Board (CCRB), and the Goleta Sanitary District (GSD) for recycled water, well operations, and maintenance project costs. The decrease was primarily due to less supplemental water purchased in FY 2017 partially offset by an increase in Water Conservation Programs.
  - Water treatment costs increased \$282,627 (11.9%) primarily related to additional efforts needed to balance between the use of lake delivered verses groundwater production of water, which requires different levels of chemicals and monitoring. Additionally, recent fires surrounding the lake watershed have negatively impacted the lake's water quality necessitating more analyses and monitoring.
  - Transmission and distribution costs increased \$598,856 (17.3%) as a result of higher repairs and maintenance on District infrastructures.
  - Customer accounts costs increased by \$10,058 (0.7%) primarily as a result of an \$82,858 increase in personnel costs offset by a \$74,453 reduction in the provision for uncollectible customer accounts.
  - General and administration costs increased by \$3,112,447 (60.5%) primarily due to increased Pension and Post-Employment Benefit costs of \$3,251,255 as a result of updated actuarial analyses, increased legal fees of \$328,298, offset by a \$333,187 reduction in personnel expense. The increase in legal fees is attributable to actions by the District to protect the District's water supply and defend rates litigation.
- District Operating Expenses, excluding depreciation, increased \$3,923,305 (15.1%) in FY 2016 when compared to FY 2015 primarily due to the following:
  - Source of Supply increased \$2,463,082 (16.5%) primarily due to \$1,154,832 in higher COMB (which included the emergency pumping expenditures due to the low levels of Lake Cachuma) and CCRB costs; \$821,459 in higher CCWA and State Water Project costs (including the consumed portion of the 2,500 acre-feet water exchange program); and \$126,193 higher in Recycled Water processing.
  - Water treatment costs increased \$405,144 (20.5%) primarily related to addressing the mix of water supply as mentioned above. The expenditure components include \$231,093 higher personnel related costs; \$122,922 higher chemical and filtering costs and water quality testing; and a \$100,675 increase in facilities and security expenses.
  - Transmission and distribution costs decreased \$108,908 (3.1%) as a result of decreased water system-related repair and maintenance activities.
  - Customer accounts costs increased by \$103,805 (7.7%) primarily as a result of increased billing service fees.
  - General and administration costs increased by \$1,060,182 (26.0%) due to increased legal fees of \$1,675,832 and a \$211,231 increase in Engineering Department expenses offset against \$888,528 reduction in pension expense as a result of updated actuarial analysis. The increase in legal fees is attributable to actions by the District to protect the District's water supply and defend rates litigation.

**Condensed Statement of Revenues, Expenses and Changes in Net Position – Analysis** (continued):

- District capital contributions in FY 2017 increased \$1,052,888 (87.6%) primarily due to higher customer/developer contributed assets to the District as several multi-family residential and commercial properties were completed during the year.
- District capital contributions in FY 2016 decreased \$949,985 (44.2%) primarily due to lower customer/developer contributed assets to the District and a non-recurring State of California (State) grant of \$500,000 that was reflected in FY 2015 to help offset the construction and operational costs associated with the Lake Cachuma Emergency Pump Facility Project.

**Capital Assets – Analysis:**

	Balance 2016	Additions	Transfer/ Deletions	Balance 2017
<b>Capital assets:</b>				
Non-depreciable assets	\$ 11,892,043	\$ 9,668,371	\$ (7,192,812)	\$ 14,367,602
Depreciable assets	152,638,975	6,362,053	(65,834)	158,935,194
Accumulated depreciation	<u>(71,740,893)</u>	<u>(4,834,866)</u>	<u>27,033</u>	<u>(76,548,726)</u>
Total capital assets, net	<u>\$ 92,790,125</u>	<u>\$ 11,195,558</u>	<u>\$ (7,231,613)</u>	<u>\$ 96,754,070</u>
	Balance 2015	Additions	Transfer/ Deletions	Balance 2016
<b>Capital assets:</b>				
Non-depreciable assets	\$ 9,976,006	\$ 10,278,542	\$ (8,362,505)	\$ 11,892,043
Depreciable assets	146,157,714	8,431,528	(1,950,267)	152,638,975
Accumulated depreciation	<u>(69,256,050)</u>	<u>(4,384,529)</u>	<u>1,899,686</u>	<u>(71,740,893)</u>
Total capital assets, net	<u>\$ 86,877,670</u>	<u>\$ 14,325,541</u>	<u>\$ (8,413,086)</u>	<u>\$ 92,790,125</u>

At June 30, 2017 and 2016, the District's capital investment, net of accumulated depreciation, totaled \$96,754,070 and \$92,790,125, respectively, increasing from \$86,877,670 at June 30, 2015. Capital asset investments include: non-depreciable assets (land, land rights, and construction-in-process projects) and depreciable assets (water treatment plant, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, and vehicles). Throughout FY 2017 and FY 2016, the District continued to fund capital improvements to the existing production and distribution systems, as well as other property, plant, and equipment. Some of the larger capital additions during the two-year period were rehabilitations and restarting groundwater production for all nine of the District wells; replacing over 1,700 large and small meters; and initiating a pilot program for advance metering infrastructure, improvements to the water treatment facility, and completing several developer/customer initiated development projects.



## Debt Analysis:

	Balance 2016	Adjustments/ Additions	Principal Payments/ Deletions	Balance 2017
<b>Debt:</b>				
Certificates of Participation, Net	<u>\$ 52,278,259</u>	<u>\$ -</u>	<u>\$ (1,387,742)</u>	<u>\$ 50,890,517</u>
	Balance 2015	Adjustments/ Additions	Principal Payments/ Deletions	Balance 2016
<b>Debt:</b>				
Certificates of Participation, Net	<u>\$ 53,641,081</u>	<u>\$ -</u>	<u>\$ (1,362,822)</u>	<u>\$ 52,278,259</u>

During FY 2017 and FY 2016, net long-term debt decreased by \$1,387,742 and \$1,362,823 due to scheduled principal repayments of \$1,105,000 and \$1,065,000, respectively, and the amortization of the related debt costs (see Note 9 - Long-Term Debt Included in Non-Current Liabilities for additional detail).

## Conditions Affecting Current Financial Position

Management has noted certain items as potential issues that may affect its current financial position in the footnotes to the financial statements (see Note - 14 Commitments and Contingencies for additional detail).

## Notes to the Basic Financial Statements

The notes following the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

## Requests for Information

This financial report is designed to provide District officers, investors, customers, stakeholders, and other interested parties with an overview of the District's financial condition, as well as insight into current fiscal practices and overall management oversight. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District Administrative Manager/CFO at 4699 Hollister Avenue, Goleta, CA 93110-1999.

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## **BASIC FINANCIAL STATEMENTS**

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**GOLETA WATER DISTRICT  
STATEMENTS OF NET POSITION  
JUNE 30, 2017  
(WITH COMPARATIVE TOTALS)**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,452,829	\$ 12,026,409
Restricted - cash and cash equivalents	1,473,268	1,145,312
Accrued interest receivable	28,948	20,303
Accounts receivable - water sales and services, net	5,537,272	5,258,095
Accounts receivable - other	288,314	552,803
Water-in-storage inventory	494,191	923,976
Materials and supplies inventory	655,517	824,720
Prepaid source of supply costs	8,462,996	7,825,159
Prepaid expenses and other deposits	225,361	192,769
	<u>23,618,696</u>	<u>28,769,546</u>
<b>NON-CURRENT ASSETS</b>		
Restricted - investments	3,427,576	3,405,386
Prepaid water supply renegotiation costs, net	122,463	153,079
Prepaid bond insurance premiums, net	42,389	48,105
Capital assets, not being depreciated	14,367,602	11,892,043
Depreciable capital assets, net	82,386,468	80,898,082
	<u>100,346,498</u>	<u>96,396,695</u>
Total Non-Current Assets	<u>100,346,498</u>	<u>96,396,695</u>
Total Assets	<u>123,965,194</u>	<u>125,166,241</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding	1,103,347	1,265,636
Deferred pension cost	4,808,927	2,953,981
	<u>5,912,274</u>	<u>4,219,617</u>
Total Deferred Outflows of Resources	<u>5,912,274</u>	<u>4,219,617</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	2,214,144	4,321,641
Accrued wages and related payables	400,225	354,631
Customer advances and deposits	1,503,340	1,453,700
Accrued interest payable on certificates of participation	614,933	618,617
Long-term liabilities - due within one year:		
Compensated absences	351,250	338,747
Certificates of participation payable	1,150,000	1,105,000
	<u>6,233,892</u>	<u>8,192,336</u>
Total Current Liabilities	<u>6,233,892</u>	<u>8,192,336</u>
<b>NON-CURRENT LIABILITIES</b>		
Long-term liabilities - due in more than one year:		
Compensated absences	998,434	950,251
Other post employment benefits payable	5,688,646	5,307,183
Net pension liability	14,718,384	11,021,977
Certificates of participation payable	49,740,517	51,173,259
	<u>71,145,981</u>	<u>68,452,670</u>
Total Non-Current Liabilities	<u>71,145,981</u>	<u>68,452,670</u>
Total Liabilities	<u>77,379,873</u>	<u>76,645,006</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension cost	609,279	676,980
<b>NET POSITION</b>		
Net investment in capital assets	46,966,900	41,777,503
Restricted for debt service	2,812,643	2,786,769
Restricted cash and cash equivalents	1,473,268	1,145,312
Unrestricted	635,505	6,354,288
	<u>\$ 51,888,316</u>	<u>\$ 52,063,872</u>
Total Net Position	<u>\$ 51,888,316</u>	<u>\$ 52,063,872</u>

See accompanying notes to the basic financial statements.

**GOLETA WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS)**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Water consumption sales	\$ 28,532,348	\$ 29,771,141
Monthly service charges	8,734,422	8,523,948
Conveyance charges	124,603	122,860
Other charges and services	416,212	458,923
	<u>37,807,585</u>	<u>38,876,872</u>
<b>OPERATING EXPENSES</b>		
Source of supply	16,972,892	17,389,791
Water treatment	2,666,658	2,384,031
Transmission and distribution	4,057,736	3,458,880
Customer accounts	1,456,875	1,446,817
General and administrative	8,253,415	5,140,968
	<u>33,407,576</u>	<u>29,820,487</u>
Operating income before depreciation	4,400,009	9,056,385
Depreciation expense	<u>(4,834,866)</u>	<u>(4,384,529)</u>
Net operating income (loss)	<u>(434,857)</u>	<u>4,671,856</u>
<b>NON-OPERATING REVENUE (EXPENSE)</b>		
Interest and investment earnings	129,423	105,392
New water supply charges	38,268	150,681
Interest expense - long-term debt	(2,129,278)	(1,978,264)
Amortization expense	(36,331)	(36,331)
Loss on disposition of capital assets, net	(38,801)	-
Other non-operating revenues, net	41,568	41,174
	<u>(1,995,151)</u>	<u>(1,717,348)</u>
Net income (loss) before capital contributions	<u>(2,430,008)</u>	<u>2,954,508</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Capital contributions	<u>2,254,452</u>	<u>1,201,564</u>
Total capital contributions	<u>2,254,452</u>	<u>1,201,564</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	(175,556)	4,156,072
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>52,063,872</u>	<u>47,907,800</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 51,888,316</u>	<u>\$ 52,063,872</u>

See accompanying notes to the basic financial statements.

**GOLETA WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS)**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers for water sales and services	\$ 39,134,575	\$ 38,908,491
Cash paid to employees for salaries and wages	(9,434,810)	(11,220,954)
Cash paid to vendors and suppliers for materials and services	<u>(23,848,633)</u>	<u>(16,362,325)</u>
Net cash provided by operating activities	<u>5,851,132</u>	<u>11,325,212</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(7,676,523)	(9,528,063)
Proceeds from new water supply charges	38,268	150,681
Principal paid on long-term debt	(1,105,000)	(1,065,000)
Interest paid on long-term debt	<u>(2,452,089)</u>	<u>(2,491,309)</u>
Net cash used in capital and related financing activities	<u>(11,195,344)</u>	<u>(12,933,691)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(22,190)	(9,535)
Interest and investment earnings	<u>120,778</u>	<u>92,262</u>
Net cash provided by investing activities	<u>98,588</u>	<u>82,727</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(5,245,624)</u>	<u>(1,525,752)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>13,171,721</u>	<u>14,697,473</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 7,926,097</u>	<u>\$ 13,171,721</u>
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$ 6,452,829	\$ 12,026,409
Restricted assets - cash and cash equivalents	<u>1,473,268</u>	<u>1,145,312</u>
<b>Total Cash and Cash Equivalents</b>	<u>\$ 7,926,097</u>	<u>\$ 13,171,721</u>

See accompanying notes to the basic financial statements.

**GOLETA WATER DISTRICT  
STATEMENTS OF CASH FLOWS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS)**

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	<u>\$ (434,857)</u>	<u>\$ 4,671,856</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	4,834,866	4,384,529
Other non-operating revenue	41,568	41,174
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable - water sales and services, net	(279,177)	(1,232,081)
Accounts receivable - other	264,489	285,983
Water-in-storage inventory	429,785	(302,988)
Materials and supplies inventory	169,203	(168,022)
Prepaid Central Coast Water Authority source of supply costs	(637,837)	968,923
Prepaid expenses and other deposits	(32,592)	(10,678)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,107,497)	2,616,174
Accrued wages and related payables	45,594	113,146
Customer advances and deposits	1,341,678	977,717
Compensated absences	60,686	75,531
Other post-employment benefits payable	381,463	450,168
Net pension	1,773,760	(1,546,220)
Total adjustments	<u>6,285,989</u>	<u>6,653,356</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,851,132</u>	<u>\$ 11,325,212</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Capital Contributions	<u>\$ 962,417</u>	<u>\$ 395,724</u>
Disposition of Assets	<u>\$ (38,801)</u>	<u>\$ -</u>
Capitalized Interest on Capital Asset Additions	<u>\$ 198,673</u>	<u>\$ 373,197</u>

See accompanying notes to the basic financial statements.



**GOLETA WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Operations of the Reporting Entity**

Established on November 17, 1944, the Goleta Water District (the District) encompasses an area extending along the south coast of Santa Barbara County west from the Santa Barbara city limits to El Capitan. The District is governed by a five-member Board of Directors who serve overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary governmental units are financially accountable. The District is financially accountable if it appoints a voting majority of the component unit's governing body and: 1) it is able to impose its will on that component unit, or 2) there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Goleta Water District Financing Corporation (the Corporation) was incorporated in May 1993. The Corporation is a California nonprofit public benefit corporation formed to assist the District by acquiring, constructing, operating, and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District and as such has no employees or other operations. Although the Corporation is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations. No separate financial statements are prepared for the Corporation.

**Basis of Accounting and Measurement Focus**

The District operates as a utility enterprise and the accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of the related cash flows.

The District is accounted for as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are water sales and related services. Operating expenses for the District include water purchases, water production, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses consist of new water supply charges, grant funding, investment income, interest expense, and other miscellaneous revenues.

**Basic Financial Statements**

The basic financial statements are comprised of the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; the Statements of Cash Flows, and the Notes to the Basic Financial Statements.

## **NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

### **Net Position**

In the Statements of Net Position, net position is classified in the following categories:

- *Net investment in capital assets* – This amount is the District’s net investment in its various capital assets and includes capital assets net of accumulated depreciation and capital-related deferred outflows of resources and reduced by capital-related borrowings and deferred inflows of resources.
- *Restricted for debt service* – This amount is restricted for various bond issues and is not available for the general needs of the District. These funds must be maintained at specific levels and are restricted by certain bond covenants.
- *Restricted cash and cash equivalents* – This amount is restricted for custodial costs due to third parties for customer funded capital projects and specific capital projects, which are eligible for funding from restricted bond proceeds.
- *Unrestricted* – This amount of unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted.

### **New Accounting Pronouncements**

The following GASB Statements were implemented in the current financial statements:

**GASB Statement No. 74** – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The provisions in GASB Statement No. 74 are effective for fiscal years beginning after June 15, 2016.

**GASB Statement No. 77** – *Tax Abatement Disclosures*. The requirements of GASB Statement No. 77 are effective for reporting periods beginning after December 15, 2015.

**GASB Statement No. 78** – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The requirements of GASB Statement No. 78 are effective for reporting periods beginning after December 15, 2015.

**GASB Statement No. 79** – *Certain External Investment Pools and Pool Participants*. The requirements of GASB Statement No. 79 are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015.

**GASB Statement No. 80** – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The requirements of GASB Statement No. 80 are effective for reporting periods beginning after June 15, 2016.

**GASB Statement No. 82** – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The requirements of GASB Statement No. 82 are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

There was no effect on the District’s accounting or financial reporting as a result of implementing the standards listed above.

## **NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

### **Assets, Liabilities, and Net Position**

#### **1. Use of Estimates**

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

#### **2. Cash and Cash Equivalents**

Cash and cash equivalents are generally considered to be short-term, highly liquid investments with a maturity of three months or less from the purchase date. Substantially all of the District's cash is invested in interest bearing accounts.

#### **3. Investments and Investment Policy**

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

In accordance with the District's investment policy, the Board of Directors delegates the investment authority of the District to the General Manager. In accordance with the Government Code, collateral established as security for District funds will be those securities specified by law as eligible for collateral for deposits of local public agencies. Investment of District moneys not required for immediate expenditure will be made in securities or other certificates of indebtedness as provided for by law for the investment of public funds.

#### **4. Accounts Receivable and Allowance for Uncollectible Accounts**

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the provision for doubtful accounts and the write-off of those accounts.

#### **5. Federal and State Capital and Operating Grants**

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the Statement of Net Position and as capital grant contribution or operating grant revenue, as appropriate, on the Statement of Revenues, Expenses, and Changes in Net Position.

#### **6. Water-in-Storage Inventory**

On October 1 of each year, the District is entitled to 9,322 acre-feet of water as a result of District participation in the Cachuma Lake Project. The actual annual allocation is subject to availability. If all of the available allocation is not used in the current year, it is stored for use in the following year. In addition, the District may purchase water from other agencies to meet its customers' demand. The amount of unused purchased water is also stored. The District has its own facilities for storing water in which stored water carries no cost. This stored water is subject to loss through evaporation, natural disasters, dam ruptures, excess rainfall, and dam spillage at the various facilities. The losses are not covered by insurance.

## **NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

### **Assets, Liabilities, and Net Position (Continued)**

#### **7. Materials and Supplies Inventory**

Materials and supplies inventory consists primarily of water meters, pipe, and pipe fittings for construction and repair of District water transmission and distribution systems. Inventory is valued at cost using the weighted average method. Inventory items are charged to expense at the time that individual items are consumed or capitalized when individual items are used in internally constructed projects.

#### **8. Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

#### **9. Restricted Assets**

Certain assets of the District are restricted in use by ordinance or debt covenant, and accordingly are shown as restricted assets on the accompanying Statement of Net Position. Certificates of Participation (COP) reserve funds and construction funds set aside from COP proceeds are restricted for future debt service payments and construction projects. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

#### **10. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Interest and indirect costs incurred during the construction phase of capital assets are reflected in the capitalized value of the asset constructed. Contributed capital assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Transmission and distribution system	20-50 years
Recycled water system	33 1/3 years
Water treatment plant/equipment	10-30 years
Wells	25 years
Pumping equipment	25 years
Structures and improvements	15-50 years
Other plant and equipment	5-25 years
Capitalized interest	50 years

#### **11. Prepaid Water Supply Renegotiation Costs**

Renegotiation costs represent the capital portion of expenses incurred by the Cachuma Project Authority (CPA) on behalf of the District and others in order to renegotiate the Lake Cachuma water supply contract with the U.S. Bureau of Reclamation. A new agreement was developed in April 1996, and renegotiation costs are amortized over the term of the new contract, which is 25 years.

## **NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

### **Assets, Liabilities, and Net Position (Continued)**

#### **12. Prepaid Bond Insurance Premiums**

Prepaid bond insurance premium issuance costs are amortized using the straight-line method over the remaining life of the respective debt service.

#### **13. Deferred Outflows of Resources and Deferred 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 will sometimes report 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. The District has two items that qualify for reporting in this category. They are the deferred charge on the deferred financing and deferred pension reported in the District's Statement of Net Position. See Notes 7 and 12 for a detailed listing.

In addition to liabilities, the Statement of Net Position will sometimes report 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. The District has one item, deferred pension, reported in the District's Statement of Net Position. See Notes 7 and 12 for further description of the deferred inflows of resources recognized.

#### **14. Compensated Absences**

District personnel policies provide for accumulation of vacation, sick leave, and compensated time-off. Liabilities for vacation, sick leave, and compensated time-off are recorded when benefits are earned to the extent it is probable that benefits will result in termination payments. Cash payment of unused vacation, a percentage of earned sick time, and compensated time-off is available to qualified employees when retired or terminated.

#### **15. Customer Advances and Deposits**

Customer advances represent deposits received in aid of construction, which are refundable if the applicable construction costs are less or do not take place. Customer advances are reclassified to contributed capital when the applicable construction project is completed.

#### **16. Water Sales**

Water sales are normally billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

#### **17. New Water Supply Charges**

New water supply charge revenue was described in previous years as capacity charges. All new water service connections are subject to the new water supply charge, a one-time charge, currently \$45,361 per acre-foot for potable water. The purpose is to recover a portion of the costs associated with the additional cost to obtain new water supplies necessary to provide the additional service. The conditions letter issued by the District to the applicant pursuant to District Code Section 5.08.20 (F) includes the amount of the new water supply charge for the new service. The new water supply charge must be paid prior to issuance of a Can and Will Serve Letter or application of approval at the date of this reporting period. The formula for determining this charge, described in the District's Code at Appendix A (12), is based on the type of project and required service size. Project types include

## **NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

### **Assets, Liabilities, and Net Position (Continued)**

#### **17. New Water Supply Charges (Continued)**

single-family residential, multiple-family residential, landscape and recreation irrigation, agricultural irrigation, commercial and other nonresidential users, and expanded service to existing structures or users. This charge varies for potable, non-potable, and recycled water service. Due to the ongoing drought, the Board Resolution that was passed on September 9, 2014, which became effective on October 1, 2014, banning any new or additional service connections for potable water is still in place and no new or additional service connections for potable water are being issued.

#### **18. Capital Contributions**

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies, or by real estate developers desiring services that require capital expenditures to connect to the District's transmission and distribution system.

#### **19. Budgetary Policies**

The District adopts an annual budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period.

#### **20. Reclassifications**

Certain prior year balances may have been reclassified in order to conform to current year presentation. These reclassifications had no effect upon reported net position

#### **21. Future GASB Statements**

The GASB statements listed below will be implemented in future financial statements:

**GASB Statement No. 75** – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions in GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

**GASB Statement No. 81** – *Irrevocable Split-Interest Agreements*. The requirements of GASB Statement No. 81 are effective for periods beginning after December 15, 2016.

**GASB Statement No. 83** – *Certain Asset Retirement Obligations*. The requirements of GASB Statement No. 83 are effective for periods beginning after June 15, 2018.

**GASB Statement No. 84** – *Fiduciary Activities*. The requirements of GASB Statement No. 84 are effective for periods beginning after December 15, 2018.

**GASB Statement No. 85** – *Omnibus 2017*. The requirements of GASB Statement No. 85 are effective for periods beginning after June 15, 2017.

**GASB Statement No. 86** – *Certain Debt Extinguishment Issues*. The requirements of GASB Statement No. 86 are effective for periods beginning after June 15, 2017.

**GASB Statement No. 87** – *Leases*. The requirements of GASB Statement No. 87 are effective for periods beginning after December 15, 2019.

The above future GASB statements are not expected to have a material effect on the District's financial statements.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments as of June 30 are classified in the accompanying financial statements as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 6,452,829	\$ 12,026,407
Restricted - cash and cash equivalents	1,473,268	1,145,312
Restricted - investments	<u>3,427,576</u>	<u>3,405,386</u>
 Total Cash and Investments	 <u>\$ 11,353,673</u>	 <u>\$ 16,577,105</u>

Cash and investments as of June 30 consist of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 1,100	\$ 800
Deposits with financial institutions	7,924,997	13,170,919
Investments	<u>3,427,576</u>	<u>3,405,386</u>
 Total Cash and Investments	 <u>\$ 11,353,673</u>	 <u>\$ 16,577,105</u>

**Investments Authorized by the California Government Code and the District’s Investment Policy**

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held the by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District’s investment policy.

<u>Authorized Investment Types*</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Time Deposits, Non-Negotiable	5 years	None	None
Money Market Mutual Funds	N/A	20%	None
Santa Barbara County Pooled Investment Fund	N/A	None	None
State of California’s Local Agency Investment Fund (LAIF)	N/A	None	None
Local Government Investment Pools (Joint Power Authority Pools)	N/A	None	None

\*Excluding amounts held by the bond trustees that are not subject to California Government Code restrictions.

## NOTE 2 – CASH AND INVESTMENTS (Continued)

### Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustees is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Types</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Obligations	None	None	None
Bankers Acceptances	None	None	None
Commercial Paper	180 days	30%	10%
Corporate Bonds, Debentures, and Notes	None	None	None
Interest Bearing Accounts - State or National			
Banks or State or National Savings and Loans	None	None	None
LAIF	None	None	None
Money Market Mutual Funds	None	None	None
Investment Contracts	None	None	None

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District's deposits may not be returned to it. 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).

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 deposits or investments, other than the following provision for deposits: 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 market 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District has deposits with various banks with various bank balances as of June 30, 2017 and 2016. Of the bank balances, up to \$250,000 per institution are federally insured. The remaining \$2,098,640 and \$2,220,082 on deposit in excess of the federally insured amount was collateralized with securities held by the pledging financial institutions agent at June 30, 2017 and 2016, respectively.

### Fair Value of Investments

The District measures and records its investments using fair value measurement guidelines established by GAAP. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

At June 30, 2017 and 2016, the District had no investments that are required to be disclosed in the three-tiered fair value hierarchy.



**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**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 its fair value are to changes in market interest rates. During FY 2017 and FY 2016, the District managed its liquidity needs by investing only in short-term securities. 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 date.

Restricted investments at June 30, 2017, consisted of the following:

	Amount	Remaining Maturity (in Months)				
		12 Months or Less	13 to 24 Months	25 to 60 Months	25 to 60 Months	More than 60 Months
Held by Bond Trustee:						
California State Treasurer - LAIF	\$ 3,427,576	\$ 3,427,576	\$ -	\$ -	\$ -	\$ -
Total	\$ 3,427,576	\$ 3,427,576	\$ -	\$ -	\$ -	\$ -

Restricted investments at June 30, 2016, consisted of the following:

	Amount	Remaining Maturity (in Months)				
		12 Months or Less	13 to 24 Months	25 to 60 Months	25 to 60 Months	More than 60 Months
Held by Bond Trustee:						
California State Treasurer - LAIF	\$ 3,405,386	\$ 3,405,386	\$ -	\$ -	\$ -	\$ -
Total	\$ 3,405,386	\$ 3,405,386	\$ -	\$ -	\$ -	\$ -

**Credit Risk**

Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings were obtained from Standard and Poor's (S&P) Ratings Services. Presented is the minimum legal rating required, where applicable, by the California Government Code or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings at June 30, 2017, consisted of the following:

Investment Type	Amount	Minimum Legal Rating	Exempt from Disclosure	S&P Rating		
				AAA	AA-	BB-
Held by Bond Trustee:						
California State Treasurer - LAIF	\$ 3,427,576	Not rated	\$ 3,427,576	\$ -	\$ -	\$ -
Total	\$ 3,427,576		\$ 3,427,576	\$ -	\$ -	\$ -

Credit ratings at June 30, 2016, consisted of the following:

Investment Type	Amount	Minimum Legal Rating	Exempt from Disclosure	S&P Rating		
				AAA	AA-	BB-
Held by Bond Trustee:						
California State Treasurer - LAIF	\$ 3,405,386	Not rated	\$ 3,405,386	\$ -	\$ -	\$ -
Total	\$ 3,405,386		\$ 3,405,386	\$ -	\$ -	\$ -

**NOTE 2 – CASH AND INVESTMENTS** (Continued)

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. 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 other than money market funds which are limited to 20% of the District's portfolio at the time of initial purchase. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

Issuer	Investment Type	Reported Amounts	
		2017	2016
Held by Bond Trustee:			
California State Treasurer - LAIF	LAIF	\$ 3,427,576	\$ 3,405,386

**NOTE 3 – ACCOUNTS RECEIVABLE – WATER SALES AND SERVICES, NET**

The balance at June 30 consists of the following:

	2017	2016
Accounts receivable - water sales and services	\$ 5,615,417	\$ 5,355,465
Allowance for uncollectable accounts	(78,145)	(97,370)
Accounts Receivable - Water Sales and Services, Net	<u>\$ 5,537,272</u>	<u>\$ 5,258,095</u>

Customer bills are generated and mailed in cycles. As a result of the monthly billing cut-offs, accruals of \$729,917 and \$543,524 for the FY 2017 and FY 2016, respectively, were recorded to accrue revenues for bills not recorded and mailed by the fiscal year-end. Bills were produced and mailed subsequent to the fiscal year-end.

The District extends credit to customers in the normal course of operations. When customer accounts are deemed uncollectible, the District uses the allowance method for the provision for doubtful accounts and the write-off of those accounts.

**NOTE 4 – PREPAID CENTRAL COAST WATER AUTHORITY SOURCE OF SUPPLY COSTS**

In 1991, the voters of the District elected to participate in the State Water Project (SWP). As a result, the District joined in the formation of the Central Coast Water Authority (CCWA) in August 1991. The purpose of the CCWA is to provide for the financing, construction, operation, and maintenance of certain local (non-state owned) facilities required to deliver water from the SWP to certain water purveyors and users in Santa Barbara County.

Each project participant, including the District, has entered into a Water Supply Agreement to provide for the development, financing, construction, operation, and maintenance of the CCWA Project. The purpose of the Water Supply Agreement is to assist in carrying out the purposes of CCWA with respect to the CCWA Project by: (1) requiring CCWA to sell, and the Santa Barbara Project participants to buy, a specified amount of water from CCWA ("take or pay"); and (2) assigning the project participant's entitlement rights in the SWP to CCWA. Although the District does have an ongoing financial interest pursuant to the Water Supply Agreement between the District and CCWA, the District does not have an equity interest in the CCWA Project.

**NOTE 4 – PREPAID CENTRAL COAST WATER AUTHORITY SOURCE OF SUPPLY COSTS**

(Continued)

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

CCWA is composed of eight voting members, all of which are public agencies. CCWA was organized and exists under a joint exercise of power agreement among the various participating public agencies. The Board of Directors of CCWA is made up of one representative from each participating entity. Votes for the Board of Directors of CCWA are approximately apportioned between the entities based upon each entity’s allocation of State water entitlement. The District’s share of the project, based upon number of acre-feet of water, is 17.2%.

Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

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

Per CCWA, the District’s estimated payments for State Water infrastructure for the next ten fiscal years are summarized below:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 9,078,465
2019	8,769,883
2020	8,883,407
2021	9,118,009
2022	9,254,663
2023-2027	<u>36,441,916</u>
Total	<u>\$ 81,546,343</u>

Additional information and complete financial statements for the CCWA are available at [www.ccwa.com](http://www.ccwa.com) or for public inspection, at 255 Industrial Way, Buellton, CA, Monday through Friday, between the hours of 8 a.m. and 5 p.m.

**NOTE 5 – CAPITAL ASSETS**

Changes in capital assets for the current year were as follows:

	Balance 2016	Additions/ Transfers	Deletions/ Transfers	Balance 2017
Capital Assets, not being depreciated:				
Land and land improvements	\$ 549,325	\$ 1,667,661	\$ -	\$ 2,216,986
Construction-in-process	11,342,718	8,000,710	(7,192,812)	12,150,616
Total Capital Assets, not being depreciated	11,892,043	9,668,371	(7,192,812)	14,367,602
Depreciable Capital Assets:				
Transmission and distribution system	64,191,721	4,802,132	(60,622)	68,933,231
Recycled water system	24,930,517	15,704	-	24,946,221
Water treatment plant/equipment	38,175,970	234,548	-	38,410,518
Wells	11,787,337	668,677	-	12,456,014
Pumping equipment	2,331,389	51,553	-	2,382,942
Structures and improvements	3,738,533	255,313	-	3,993,846
Other plant and equipment	5,212,652	334,126	(5,212)	5,541,566
Capitalized interest	2,270,856	-	-	2,270,856
Total Depreciable Capital Assets	152,638,975	6,362,053	(65,834)	158,935,194
Accumulated Depreciation:				
Transmission and distribution system	(30,946,408)	(1,644,364)	21,823	(32,568,949)
Recycled water system	(17,269,898)	(808,307)	-	(18,078,205)
Water treatment plant/equipment	(12,804,775)	(1,317,647)	-	(14,122,422)
Wells	(3,739,533)	(518,713)	-	(4,258,246)
Pumping equipment	(688,880)	(94,546)	-	(783,426)
Structures and improvements	(1,761,318)	(142,742)	-	(1,904,060)
Other plant and equipment	(4,251,142)	(263,130)	5,210	(4,509,062)
Capitalized interest	(278,939)	(45,417)	-	(324,356)
Total Accumulated Depreciation	(71,740,893)	(4,834,866)	27,033	(76,548,726)
Total Depreciable Capital Assets, Net	80,898,082	1,527,187	(38,801)	82,386,468
Total Capital Assets, Net	\$ 92,790,125	\$ 11,195,558	\$ (7,231,613)	\$ 96,754,070

**NOTE 5 – CAPITAL ASSETS** (Continued)

Changes in capital assets for the prior year were as follows:

	Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
Capital Assets, not being depreciated:				
Land and land improvements	\$ 549,325	\$ -	\$ -	\$ 549,325
Construction-in-process	9,426,681	10,278,542	(8,362,505)	11,342,718
Total Capital Assets, not being depreciated	9,976,006	10,278,542	(8,362,505)	11,892,043
Depreciable Capital Assets:				
Transmission and distribution system	61,517,021	2,674,700	-	64,191,721
Recycled water system	24,930,517	-	-	24,930,517
Water treatment plant/equipment	36,595,710	1,634,597	(54,337)	38,175,970
Wells	10,325,519	2,435,621	(973,803)	11,787,337
Pumping equipment	2,067,705	690,322	(426,638)	2,331,389
Structures and improvements	3,081,085	660,698	(3,250)	3,738,533
Other plant and equipment	5,369,301	335,590	(492,239)	5,212,652
Capitalized interest	2,270,856	-	-	2,270,856
Total Depreciable Capital Assets	146,157,714	8,431,528	(1,950,267)	152,638,975
Accumulated Depreciation:				
Transmission and distribution system	(29,447,397)	(1,499,011)	-	(30,946,408)
Recycled water system	(16,462,552)	(807,346)	-	(17,269,898)
Water treatment plant/equipment	(11,656,571)	(1,202,541)	54,337	(12,804,775)
Wells	(4,283,457)	(427,888)	971,812	(3,739,533)
Pumping equipment	(1,038,274)	(77,244)	426,638	(688,880)
Structures and improvements	(1,637,794)	(126,774)	3,250	(1,761,318)
Other plant and equipment	(4,496,483)	(198,308)	443,649	(4,251,142)
Capitalized interest	(233,522)	(45,417)	-	(278,939)
Total Accumulated Depreciation	(69,256,050)	(4,384,529)	1,899,686	(71,740,893)
Total Depreciable Capital Assets, Net	76,901,664	4,046,999	(50,581)	80,898,082
Total Capital Assets, Net	\$ 86,877,670	\$ 14,325,541	\$ (8,413,086)	\$ 92,790,125

In FY 2017, major capital asset additions during the year included improvements to the District's water treatment facility, continued improvements to District wells, and installation of new meters. A portion of these additions were transferred out of construction-in-process upon completion of these various projects.

In FY 2016, major capital asset additions during the year included various projects and upgrades to District transmission and distribution systems as well as upgrades to increase water production from the District's wells. The District also replaced over 900 meters that were less than 2 inches during the fiscal year. A portion of these additions were transferred out of construction-in-process upon completion of these various projects.

The amount of interest costs capitalized in FY 2017 and FY 2016 was \$198,673 and \$373,197, respectively. Total interest costs incurred before capitalized interest during FY 2017 and FY 2016 were \$2,327,951 and \$2,351,461, respectively.

**NOTE 5 – CAPITAL ASSETS (Continued)****Construction-In-Process**

The District has been involved in various construction projects throughout the fiscal year. The balances of the various construction projects that comprise the construction-in-process balances at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
General Wells Upgrade and Management	\$ 914,024	\$ 3,106,841
Berkeley Well Project Upgrade	1,876,083	338,025
Shirrel Well Upgrade	1,489,214	301,056
San Marcos Well Upgrade	949,908	160,536
San Ricardo Booster Pump	797,123	166,470
Airport Well Upgrade	486,239	212,989
Corona Del Mar Access Platform	460,777	-
San Antonio Well Upgrades	392,753	-
7000 Hollister Mixed Use (Westar)	373,619	367,082
Anita Well Upgrade	366,788	150,898
El Camino Well Upgrades	275,509	-
Copper Service Line Replacements	236,193	-
San Marcos Filter Vessel Upgrade	227,516	-
Cavaletto Tree Farm Development	206,379	-
Villages at Los Carneros	167,278	431,842
University of California, Santa Barbara San Joaquin Apartments	153,578	-
BPS Upgrade	151,157	-
Barger Canyon Relocation	150,619	-
Corona Del Mar – Sludge Bed Construction	-	1,644,696
Smart Meter Pilot Program	-	1,153,862
SBD #2 Sand Replacement	-	289,837
DEV-Haskells Landing (Residences at Sandpiper)	-	255,320
University of California, Santa Barbara Sierra Madre	-	254,879
Digital Data Warehouse	-	194,698
Santa Barbara Corp Well Upgrade	-	170,217
Various Other Minor Projects	2,475,859	2,143,470
	<u>2,475,859</u>	<u>2,143,470</u>
Total Construction-in-Process	<u>\$ 12,150,616</u>	<u>\$ 11,342,718</u>

**NOTE 6 – PREPAID BOND INSURANCE PREMIUMS**

The prepaid balance relates to the bond insurance issuance costs for the 2014 Series A COP. The prepaid charges are being amortized over a 10 year period, consistent with the terms of the COP. The prepaid charges net balances are as follows.

The balance at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>
Prepaid charges	\$ 48,105	\$ 53,820
Amortization	<u>(5,716)</u>	<u>(5,715)</u>
Prepaid Charges, Net	<u>\$ 42,389</u>	<u>\$ 48,105</u>

**NOTE 7 – DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES**

The deferred outflows of resources balance at June 30, 2017, consists of:

	Balance 2016	Additions/ Adjustments	Amortization/ Deletions	Balance 2017
Deferred charge from 2010 refunding	\$ 1,213,579	\$ -	\$ (163,972)	\$ 1,049,607
Deferred charge from 2014 refunding	52,057	1,683	-	53,740
Deferred pension - contributions	2,050,356	-	(391,411)	1,658,945
Deferred pension - differences between actual and expected experience	55,021	-	(12,927)	42,094
Deferred pension - proportionate share of investment return	-	2,688,861	-	2,688,861
Deferred pension - change in actual vs. proportional contributions	689,625	-	(270,598)	419,027
Deferred pension - adjustments due to differences in proportions	158,979	-	(158,979)	-
Deferred Outflows of Resources	<u>\$ 4,219,617</u>	<u>\$ 2,690,544</u>	<u>\$ (838,908)</u>	<u>\$ 5,912,274</u>

The deferred inflows of resources balance at June 30, 2017, consists of:

	Balance 2016	Additions/ Adjustments	Amortization/ Deletions	Balance 2017
Deferred pension - proportionate share of investment return	\$ 156,431	\$ -	\$ (156,431)	\$ -
Deferred pension - change in assumptions	520,549	-	(3,924)	516,625
Deferred pension - adjustments due to differences in proportions	-	92,654	-	92,654
Deferred Inflows of Resources	<u>\$ 676,980</u>	<u>\$ 92,654</u>	<u>\$ (160,355)</u>	<u>\$ 609,279</u>

**NOTE 8 – COMPENSATED ABSENCES**

Changes to compensated absences for 2017 were as follows:

Balance 2016	Earned	Taken	Balance 2017	Current Portion	Long-Term Portion
<u>\$ 1,288,998</u>	<u>\$ 951,627</u>	<u>\$ (890,941)</u>	<u>\$ 1,349,684</u>	<u>\$ 351,250</u>	<u>\$ 998,434</u>

Changes to compensated absences for 2016, were as follows:

Balance 2015	Earned	Taken	Balance 2016	Current Portion	Long-Term Portion
<u>\$ 1,213,467</u>	<u>\$ 955,268</u>	<u>\$ (879,737)</u>	<u>\$ 1,288,998</u>	<u>\$ 338,747</u>	<u>\$ 950,251</u>

## **NOTE 9 – LONG-TERM DEBT INCLUDED IN NON-CURRENT LIABILITIES**

Changes in long-term debt amounts for the current year were as follows:

	<u>Balance 2016</u>	<u>Additions/ (Deletions)</u>	<u>Principal Payments/ Amortization</u>	<u>Balance 2017</u>
Debt:				
2010A Certificates of Participation	\$ 33,915,000	\$ -	\$ -	\$ 33,915,000
2014A Certificates of Participation	<u>16,940,000</u>	<u>-</u>	<u>(1,105,000)</u>	<u>15,835,000</u>
Total Debt	50,855,000	-	(1,105,000)	49,750,000
Unamortized Premium, Net	<u>1,423,259</u>	<u>-</u>	<u>(282,742)</u>	<u>1,140,517</u>
Total Net Debt	52,278,259	-	(1,387,742)	50,890,517
Less Current Portion	<u>(1,105,000)</u>	<u>(1,150,000)</u>	<u>1,105,000</u>	<u>(1,150,000)</u>
Net Long-Term Debt	<u>\$ 51,173,259</u>	<u>\$ (1,150,000)</u>	<u>\$ (282,742)</u>	<u>\$ 49,740,517</u>

### **2003 Refunding Certificates of Participation Payable**

The 2003 COP in the amount of \$47,000,000 were executed on October 16, 2003. The funds were used to refund the 1993 Goleta Water District Refunding Revenue COP and to finance certain improvements to the District's water supply, treatment, and distribution systems.

The 2003 COP has been fully refunded with the issuance of the \$33,915,000 2010 Series A Revenue COP followed by the issuance of the \$19,050,000 2014 Series A Revenue COP. For financial reporting purposes, the refunded portion of 2003 COP has been defeased and not reported in these financial statements.

Following are the three capital improvement projects financed from the COP proceeds:

- Upgrades and improvements to the District's Corona del Mar Treatment Plant, which were needed to meet state and federal water quality standards;
- Replacement and enlargement of the Patterson Reservoir, which were needed to add additional water storage capacity; and
- Rehabilitation of six Aquifer Storage and Recovery (ASR) wells, which were necessary to meet demand during droughts, peak use periods, and emergencies.

### **2010 Series A Certificates of Participation Payable**

On August 26, 2010, the District issued the \$33,915,000 2010 Series A Revenue COP to (i) refund a portion of the 2003 COP; (ii) refund outstanding bank loans and related financing costs; (iii) refund outstanding amounts under a loan contract with the State Water Resources Control Board; (iv) fund \$5,000,000 of improvements to the water system; (v) fund a reserve; and (vi) pay related costs of execution and delivery of the 2010 Series A COP.

The advanced refund of the 2003 COP resulted in an economic loss of approximately \$1.7 million and a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1.6 million. The difference, reported in the accompanying financial statements as Deferred Outflows of Resources, is being charged to interest through the fiscal year ended June 30, 2025, using the straight-line method.



**NOTE 9 – LONG-TERM DEBT INCLUDED IN NON-CURRENT LIABILITIES** (Continued)

**2010 Series A Certificates of Participation Payable** (Continued)

Interest is payable semi-annually on March 1st and September 1st of each year commencing March 1, 2012, with interest rates ranging from 4.25% to 5.00%. Principal payments are scheduled to commence on September 1, 2025, and continue through September 1, 2035. The revenue COP is secured by a pledge of the District's revenues.

The capital improvement projects financed from \$5,000,000 of the COP proceeds include:

- Cathedral Oaks Highway 101 overcrossing;
- Old Town Goleta waterline replacement;
- Santa Barbara County El Embarcadero system improvements;
- San Antonio well site purchase;
- Anita Wellhead treatment plant;
- Relocation of the Goleta Beach recycled waterline;
- Recycled water booster pump controls rebuild; and
- Other critical treatment plant and infrastructure replacements.

Annual debt service payments are as follows:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 1,649,738	\$ 1,649,738
2019	-	1,649,738	1,649,738
2020	-	1,649,738	1,649,738
2021	-	1,649,738	1,649,738
2022	-	1,649,738	1,649,738
2023-2027	4,915,000	8,032,813	12,947,813
2028-2032	14,520,000	5,453,731	19,973,731
2033-2036	14,480,000	1,492,500	15,972,500
Total	<u>\$ 33,915,000</u>	<u>\$ 23,227,734</u>	<u>\$ 57,142,734</u>
Total Non-Current	<u>\$ 33,915,000</u>		

**2014 Series A Certificates of Participation Payable**

On January 22, 2014, the District issued the \$19,050,000 2014 Series A Revenue COP to (i) refund a portion of the 2003 Revenue Certificates of Participation; (ii) fund \$5,540,575 of improvements to the water system; and (iii) pay related costs of execution and delivery of the 2014 Series A COP.

The advanced refund resulted in an economic loss of approximately \$199,495 and a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$40,865. The difference, reported in the accompanying financial statements as Deferred Outflows of Resources, is being charged to interest through the fiscal year ended June 30, 2025, using the straight-line method.

Interest is payable semi-annually on June 1st and December 1st of each year commencing June 1, 2014, with interest rates ranging from 2.00% to 5.00%. Principal payments commenced on December 1, 2014, and continue through December 1, 2024. The revenue COP is secured by a pledge of District revenues.

The capital improvement projects financed from \$5,540,575 of the COP proceeds include:

- Improvements to the Corona del Mar Water Treatment Plant for process enhancements;
- Distribution system reliability improvements, including booster systems upgrades, new valves, system interconnection improvements, and mainline replacements;

**NOTE 9 – LONG-TERM DEBT INCLUDED IN NON-CURRENT LIABILITIES** (Continued)

- Meter replacements;
- Well augmentations to support groundwater pumping and injection capabilities;
- Renewable energy generating projects; and
- Other critical treatment plant and infrastructure replacements.

Annual debt service payments are as follows:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,150,000	\$ 757,250	\$ 1,907,250
2019	1,200,000	704,250	1,904,250
2020	1,260,000	642,750	1,902,750
2021	1,315,000	578,375	1,893,375
2022	1,380,000	511,000	1,891,000
2023-2025	<u>9,530,000</u>	<u>731,000</u>	<u>10,261,000</u>
Total	<u>15,835,000</u>	<u>\$ 3,924,625</u>	<u>\$ 19,759,625</u>
Less current portion	<u>(1,150,000)</u>		
Total Non-Current	<u>\$ 14,685,000</u>		

**NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PAYABLE**

In addition to the pension benefits described in Note 12, the District provides OPEB.

**Plan Description – Eligibility**

The District administers its post-employment benefits plan (OPEB Plan), a single-employer defined benefit plan. The following requirements must be satisfied for employees hired on or before August 12, 2014, in order to be eligible for lifetime post-employment medical benefits: (1) Attainment of age 50, (2) 5 years of consecutive full-time service, and (3) Retirement from the California Public Employees' Retirement System (CalPERS) and from the District (the District must be the last employer prior to retirement). Employees hired after August 12, 2014, have the same eligibility criteria except they must be at least 52 years of age, have 10 years of service, and are eligible to receive \$20 per month for each year of service toward the purchase of their own health care benefits until reaching age 65.

Participants in the OPEB Plan consisted of the following members as of June 30:

	<u>2017</u>	<u>2016</u>
Active plan members	63	64
Retirees and beneficiaries receiving benefits	<u>51</u>	<u>49</u>
Total Plan Membership	<u>114</u>	<u>113</u>

**NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PAYABLE** (Continued)

**Plan Description – Benefits**

The District offers post-employment health care, dental care, and vision care benefits to retired employees who satisfy the eligibility rules. Retirees hired on or before August 12, 2014, may enroll in any plan available through the District and Association of California Water Agencies Joint Powers Insurance Authority (JPJA), but are not eligible to change plans. Retirees hired after August 12, 2014, who satisfy the eligibility criteria will receive \$20 per month for each year of service toward the purchase of their own health care benefits until reaching age 65. The benefit provisions and the contribution requirements of OPEB Plan members and the District are established and may be amended by the Board of Directors and the Service Employees International Union Local 620 (SEIU).

**Funding Policy**

The District is required to contribute the Annual Required Contribution (ARC) of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 11.2% of the annual covered payroll.

The District contributes a fixed amount for health care benefits, a fixed amount for dental care, and 100% of the premium for vision. The District will pay 100% of the cost of the post-employment benefit plan. The District funds the Plan on a pay-as-you-go basis and records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost.

**Annual OPEB Cost and Net OPEB Obligation**

The balance at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>
Annual OPEB expense:		
ARC	\$ 840,416	\$ 850,507
Interest on net OPEB obligation	238,823	218,566
Adjustment to annual required contribution	<u>(271,245)</u>	<u>(225,908)</u>
Total Annual OPEB Expense	807,994	843,165
Change in net OPEB payable obligation:		
Age adjusted contributions made	<u>(426,531)</u>	<u>(392,997)</u>
Total Change in Net OPEB Payable Obligation	381,463	450,168
OPEB Payable - Beginning of Fiscal Year	<u>5,307,183</u>	<u>4,857,015</u>
OPEB Payable - End of Fiscal Year	<u>\$ 5,688,646</u>	<u>\$ 5,307,183</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for FY 2017 and the two preceding years were as follows:

**NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PAYABLE** (Continued)

**Three-Year History of Net OPEB Obligation**

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2017	\$ 807,994	\$ 426,531	52.8%	\$ 5,688,646
2016	843,165	392,997	46.6%	5,307,183
2015	843,865	380,653	45.1%	4,857,015

**Funded Status and Funding Progress of the OPEB Plan**

Using the most recent actuarial valuation dated July 1, 2017, the following is the funded status of the OPEB Plan:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Plan Assets (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
7/1/2017	\$ 15,797,381	-	\$ 15,797,381	0%	\$ 7,478,078	211.25%

**Actuarial Methods and Assumptions**

In FY 2017, the District retained a professional actuary to independently assess the District's OPEB liability. The actuarial methods and assumptions were updated, including techniques designed to reduce short-term volatility in AAL and the actuarial value of assets, consistent with the long-term perspective of the calculations. The required supplemental Schedule of Funding Progress immediately following the notes presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and OPEB Plan members to that point.

Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 60. At retirement, 80% of retirees are assumed to be married, and marital status is adjusted to reflect mortality. Life expectancy was based on the CalPERS mortality for miscellaneous employees. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using the CalPERS turnover rate of miscellaneous employees for other employees.

Based on the number of OPEB Plan participants, GASB Statement No. 45 requires the District to examine the existing liability for retiree benefits as well as future annual expected premium costs triennially. The District's Actuarial Study of Retiree Health Liabilities was last prepared on July 31, 2017, and a revaluation is not required until July 1, 2020, unless a major Plan change is likely to cause a material change in accrual costs and/or liabilities.

**NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PAYABLE** (Continued)

**Actuarial Methods and Assumptions** (Continued)

The following is a summary of the actuarial assumptions and methods used by a certified actuary when determining District OPEB obligations:

Valuation date	July 1, 2017
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	24 years as of the valuation date
Actuarial assumptions:	
Investment rate of return	4.50%
Projected salary increase	2.75%
Inflation - discount rate	2.75%
Individual salary growth	2.75%
Trend	4.00%

**NOTE 11 – DEFERRED COMPENSATION PROGRAM**

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Actual employee contributions for FY 2017 and FY 2016 were \$235,275 and \$237,234, respectively. Market value of all Plan assets held in trust by the District's Program at June 30, 2017 and 2016, amounted to \$3,929,903 and \$3,347,377, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this Plan, the assets and related liabilities are not shown on the Statement of Net Position.

**NOTE 12 – DEFINED BENEFIT PENSION PLAN**

A. General Information about the Pension Plan (Plan)

**Plan Description** – All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous (all other) Employee Pension Plan, a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and the District's 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.

**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 or their beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law.

**NOTE 12 – DEFINED BENEFIT PENSION PLAN** (Continued)

A. General Information about the Pension Plan (Continued)

On August 9, 2011, as a result of negotiations with SEIU, a two-tiered retirement program was introduced similar to programs instituted by other agencies participating in CalPERS. On January 1, 2013, the State of California implemented legislation setting a new maximum benefit, a lower-cost pension formula with requirements to work longer in order to reach full retirement age, and a cap on the amount used to calculate a pension for new members hired on or after January 1, 2013, creating a three-tier retirement program for the District. On August 27, 2014, as a result of negotiations with SEIU, the District initiated a three-year process to require employees to pay their full normal share of pension costs with employee cost increases effective January 1, 2015, January 1, 2016, and January 1, 2017.

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

- All employees hired prior to January 1, 2012, are members of the CalPERS 2.7% at 55 Risk Pool Retirement Plan for which the employee contribution rate is 8% of their annual covered salaries. Effective January 1, 2016 through January 1, 2017, employees in this retirement plan pay 5.66% of their annual covered salaries and the District makes the remaining required employee contribution; thereafter, employees in this retirement plan pay the full share of 8%.
- Employees hired during calendar year 2012 or employees hired on or after January 1, 2013, who have been in the CalPERS systems are members of the CalPERS 2.0% at 55 Risk Pool Retirement Plan for which the employee contribution rate is 7% of their annual covered salaries. Effective January 1, 2016 through January 1, 2017, employees in this retirement plan pay 5% of their annual covered salaries and the District makes the remaining required employee contribution; thereafter, employees in this retirement plan pay 7% of their annual covered salaries.
- Employees hired on or after January 1, 2013, who have not previously participated in the CalPERS system or who have been out of the CalPERS system for more than six months are members of the CalPERS 2.0% at 62 Risk Pool Retirement Plan for which the employee contribution rate is 6.25% of their annual covered salaries. Employees in this plan pay the full employee contribution.
- Effective January 1, 2017, all other employees are required to pay up to 50% of the normal costs of their pension benefit; up to a maximum 8% of the contribution rate.

**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 the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	<u>Miscellaneous</u>
Contributions - Employer	\$ 1,658,945
Contributions - Employee (Paid by Employer)	\$ 68,568

**NOTE 12 – DEFINED BENEFIT PENSION PLAN** (Continued)

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

As of June 30, 2017, the District reported its proportionate share of the net pension liability of \$14,718,384.

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2015 and 2016, was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015	0.45%
Proportion - June 30, 2016	0.42%
Change - Decrease	-0.03%

For the year ended June 30, 2017, the District recognized a pension expense of \$3,432,705. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 1,658,945	\$ -
Differences between Actual and Expected Experience	42,094	-
Changes in Assumptions	-	516,625
Change in Employer's Proportion	-	92,654
Difference between the Employer's Contributions and Proportionate Share of Contributions	419,027	-
Differences between Projected and Actual Earnings on Plan Investments	<u>2,688,861</u>	<u>-</u>
Total	<u>\$ 4,808,927</u>	<u>\$ 609,279</u>

The \$1,658,945 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>	
2018	\$ 298,311
2019	320,700
2020	1,225,245
2021	696,447
2022	<u>-</u>
Total	<u>\$ 2,540,703</u>

**NOTE 12 – DEFINED BENEFIT PENSION PLAN** (Continued)

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions** (Continued)

**Actuarial Assumptions** – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% <sup>(1)</sup>
Mortality	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract cost of living adjustment up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

<sup>(1)</sup> Net of pension plan investment expenses, including inflation.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

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

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require the District's Board of Directors action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed its methodology.



**NOTE 12 – DEFINED BENEFIT PENSION PLAN** (Continued)

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions** (Continued)

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

Asset Class	Current Target Allocation	Real Return Years 1 - 10 <sup>(1)</sup>	Real Return Years 11+ <sup>(2)</sup>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

<sup>(1)</sup> An expected inflation of 2.5% used for this period.

<sup>(2)</sup> An expected inflation of 3.0% used for this period.

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease Net Pension Liability	\$ 21,615,551
Current Discount Rate Net Pension Liability	\$ 14,718,384
1% Increase Net Pension Liability	\$ 9,018,217

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

## **NOTE 13 – 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 disasters. The District is a member of the Association of California Water Agencies/JPIA (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017, the District participated in the liability and property programs and Worker's Compensation Program of the ACWA/JPIA as follows:

General and auto liability, and public officials and employees' errors and omissions: Total risk financing pooled self-insurance limits of \$5,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers in the amount of \$171 million which increases the limits on the insurance coverage noted above.

In addition to the above, the District has retained the following insurance coverage:

Employee dishonesty coverage up to \$100,000 per occurrence includes public employee dishonesty, forgery, or alteration and computer fraud coverage; and Excess Crime Coverage for up to \$1,000,000 per occurrence.

Property loss coverage: Total risk financing pooled self-insurance limits of \$100,000 subject to a \$10,000 deductible per occurrence. ACWA/JPIA has purchased coverage for its members with a total policy limit (all members) of \$150 million.

Boiler and machinery coverage: Total risk financing pooled self-insurance limits of \$100,000 per occurrence, subject to various deductibles depending on the type of equipment.

Workers' compensation insurance up to California statutory limits for all work related injuries and illnesses covered by California law. The ACWA/JPIA liability limit is \$2 million per accident/disease. ACWA/JPIA has purchased excess coverage for its members with a total policy limit (all members) from \$2 million to Statutory Limits.

Liabilities include an amount for claims that have been incurred but not reported (IBNR). IBNR claims payable as of June 30, 2017 and 2016, were \$2,182 and \$132,523, respectively.

## **NOTE 14 – COMMITMENTS AND CONTINGENCIES**

### **Goleta West Conduit Project**

The California State Health Department requires that all surface water supplied to customers be filtered and meet certain requirements as part of the treatment process. Currently, the District supplies treated surface water to customers on its Goleta West Conduit. The water is not filtered, does not meet the Health Department's requirements and therefore, cannot be used for domestic consumption. In order to provide potable water to these customers for domestic consumption the District currently provides bottled water. A pipeline, booster pump station, and reservoir might be built in the future depending on regulations and requirements of the Environmental Protection Agency (EPA) and State Health Department. The District has completed an analysis of treatment alternatives for necessary system improvements to provide filtered potable water to these customers which could be used for domestic consumption. The cost was found to be prohibitive for the limited number of customers.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES** (Continued)

**The Cachuma Lake Project – Seismic Safety of Bradbury Dam**

On December 19, 1994, the U.S. Bureau of Reclamation (Bureau), the owner of Bradbury Dam, issued a letter indicating that, as part of the ongoing Safety of Dams evaluation of Bradbury Dam, the Bureau determined that dam failure would likely occur during a large earthquake. The Bureau further determined that there was a risk to the downstream public should failure occur when the reservoir is above Elevation 750 feet. Immediate actions were needed to reduce this risk. Foundation modifications have been completed, and the reservoir can now be operated safely at Elevation 750 feet, which is the design capacity of the reservoir.

The total cost of the seismic modification project as proposed by the Bureau was \$45.3 million. The Member Units are required to collectively contribute 15% of the project's total cost for a total obligation of \$6.8 million. The amount and manner in which costs are apportioned among Member Units is according to the following: the obligation is split 48.7% municipal and industrial and 51.3% irrigation with a fifty year total repayment period beginning October 2002. The District's share is based on the same 36.25% which is applied to the Cachuma Lake Project entitlement. The District was required to make annual payments of \$59,765 through October 2015, \$94,847 commencing October 2016 through 2026, and \$35,082 commencing October 2027 through 2051 to finance the project. The District's future obligations are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 94,847
2019	94,847
2020	94,847
2021	94,847
2022	94,847
Thereafter	<u>1,351,908</u>
Total	<u>\$ 1,826,143</u>

**The Cachuma Lake Project – Seismic Safety of Lauro Dam**

On December 19, 1994, the U.S. Bureau of Reclamation (Bureau), the owner of Lauro Dam, issued a letter indicating that, as part of the ongoing Safety of Dams evaluation of Lauro Dam, the Bureau determined that dam failure would likely occur during a large earthquake. The Bureau further determined that there was a risk to the downstream public, including potential loss of life and reduction of the available water supply. Immediate actions were needed to reduce this risk. Modifications have been completed, and the reservoir can now be operated safely at a crest height of 137 feet.

The total cost of the seismic modification project as proposed by the Bureau was \$6.73 million. The Member Units are required to collectively contribute 15% of the project's total cost for a total obligation of \$1,009,737. The amount and manner in which costs are apportioned among Member Units is according to the following: the obligation is split 49.3% municipal and industrial and 50.7% irrigation with a fifty-year total repayment period beginning October 2008. The District's share is based on the same 40.42% which is applied to the Cachuma Lake Project entitlement. The District is required to make annual payments of \$19,161 through October 2057 to finance the project. The District's future obligations are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 19,161
2019	19,161
2020	19,161
2021	19,161
2022	19,161
Thereafter	<u>334,327</u>
Total	<u>\$ 430,132</u>

## **NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)**

### **Construction Contracts**

The District has a variety of agreements with private parties relating to the installation, improvement, or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from advances for construction. At June 30, 2017, the District held \$350,990 related to such agreements.

### **Goleta Sanitary District Recycled Water Facility**

Since 1995, as an environmental sustainability effort, the District has delivered recycled water to certain users in the community. This is done under the Agreement for Construction and Operation of the Goleta Sanitary District/Goleta Water District Wastewater Reclamation Project, by and between the District and the Goleta Sanitary District, dated October 15, 1990, and as amended by Amendment No. 1, Amendment No. 2, and Amendment No. 3 thereto. The Recycled Water Project has a capacity of approximately 3,000 acre-feet per year and the District is currently delivering approximately 1,000 acre-feet per year to the University of California at Santa Barbara, several golf courses, and other users previously using potable water for irrigation purposes. Per the agreement, the distribution system is owned and operated by the District, separate from the reclamation plant which is owned and operated by the Goleta Sanitary District. While the District has capitalized the assets associated with the distribution and recognizes the associated depreciation in these financial statements, the financial statements have not included any liability associated with replacing the reclamation plant.

### **Non-Exchange Financial Guarantee**

On July 25, 2014, the District guaranteed \$2,016,000 of the seven year \$3,200,000 line-of-credit of the Cachuma Operations and Maintenance Board (COMB), a legally separate entity in which the District is a member agency. On July 25, 2014, COMB secured two loans: (1) \$2,000,000 non-revolving line-of-credit and (2) \$1,200,000 revolving line-of-credit to finance an emergency pumping project to cause and allow the pumping of water through installation of a floating platform system mounted to the existing lake inlet tower as the water levels at Lake Cachuma continue to diminish due to the current severe drought conditions. Both lines-of-credit mature on July 25, 2021, with quarterly interest payments. In the event that COMB is unable to make a payment, the District will be required to make that payment up to its guarantee amount of \$2,016,000.

### **Litigation**

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes that there are no legal matters that will materially affect its financial statements.

## **NOTE 15 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 27, 2017, which is the date the financial statements were issued. There are no reportable events through this date.

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

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**GOLETA WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**A COST-SHARING DEFINED BENEFIT PENSION PLAN  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
AS OF JUNE 30, 2017  
LAST 10 YEARS\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the Net Pension Liability	0.42%	0.45%	0.41%
Proportionate Share of the Net Position Liability	\$ 14,718,384	\$ 11,021,977	\$ 10,119,961
Covered-Employee Payroll	\$ 7,478,078	\$ 6,435,748	\$ 5,917,488
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	196.82%	171.26%	171.02%
Plan's Fiduciary Net Position	\$ 10,923,476,287	\$ 10,896,036,068	\$ 10,639,461,174
Plan's Total Pension Liability	\$ 14,397,353,530	\$ 13,639,503,084	\$ 13,110,948,452
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.87%	79.89%	81.15%

\* Fiscal year 2015 was the 1<sup>st</sup> year of implementation; therefore, only three years are shown.

Notes to Schedule:

Benefit changes: There have been no benefit changes.

Changes in assumptions: There have been no changes in assumptions.

**GOLETA WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**A COST SHARING DEFINED BENEFIT PENSION PLAN  
SCHEDULE OF CONTRIBUTIONS  
AS OF JUNE 30, 2017  
LAST 10 YEARS\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 2,077,972	\$ 1,584,725	\$ 1,319,331
Contributions in Relation to the Actuarially Determined Contributions	<u>1,658,945</u>	<u>2,050,356</u>	<u>1,319,331</u>
Contribution Deficiency (Excess)	<u>\$ 419,027</u>	<u>\$ (465,631)</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 7,478,078	\$ 6,435,748	\$ 5,917,488
Contributions as a Percentage of Covered-Employee Payroll	22.18%	31.86%	22.30%

\* Fiscal year 2015 was the 1<sup>st</sup> year of implementation; therefore, only three years are shown.

**Notes to Schedule:**

Valuation Date: June 30, 2015

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of payroll
Asset Valuation Method	Market Value
Inflation	2.75%
Salary Increases	3.0%, average, including inflation of 2.75%
Investment rate of return	7.50%, net of administrative expense
Retirement age	55 - 62 yrs.
Mortality	Derived using CalPERS' Membership Data for all Funds



**GOLETA WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**SCHEDULE OF FUNDING STATUS – OTHER POST-EMPLOYMENT BENEFITS OBLIGATION**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Plan Assets (b)	Unfunded Actuarial Accrued Liability (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
7/1/2017	\$ 15,797,381	\$ -	\$ 15,797,381	0.00%	\$ 7,478,078	211.25%
7/1/2014	\$ 9,964,857	\$ -	\$ 9,964,857	0.00%	\$ 6,387,131	156.02%
7/1/2011	\$ 8,151,680	\$ -	\$ 8,151,680	0.00%	\$ 5,104,324	159.70%
6/30/2010	\$ 16,079,140	\$ -	\$ 16,079,140	0.00%	\$ 5,051,116	318.33%
6/30/2009	\$ 15,530,050	\$ -	\$ 15,530,050	0.00%	\$ 4,623,141	335.92%

**Note:**

This Schedule of Funding Status is presented for the years that an actuarial study has been prepared from the effective date of GASB Statement No. 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or more often if there are significant changes to the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed based on the year ending June 30, 2020.

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**STATISTICAL INFORMATION SECTION**

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**GOLETA WATER DISTRICT  
STATISTICAL SECTION  
UNAUDITED**

The statistical section of the Comprehensive Annual Financial Report presents detailed information for context, and to better understand the information contained in the financial statements, note disclosures, and required supplementary information.

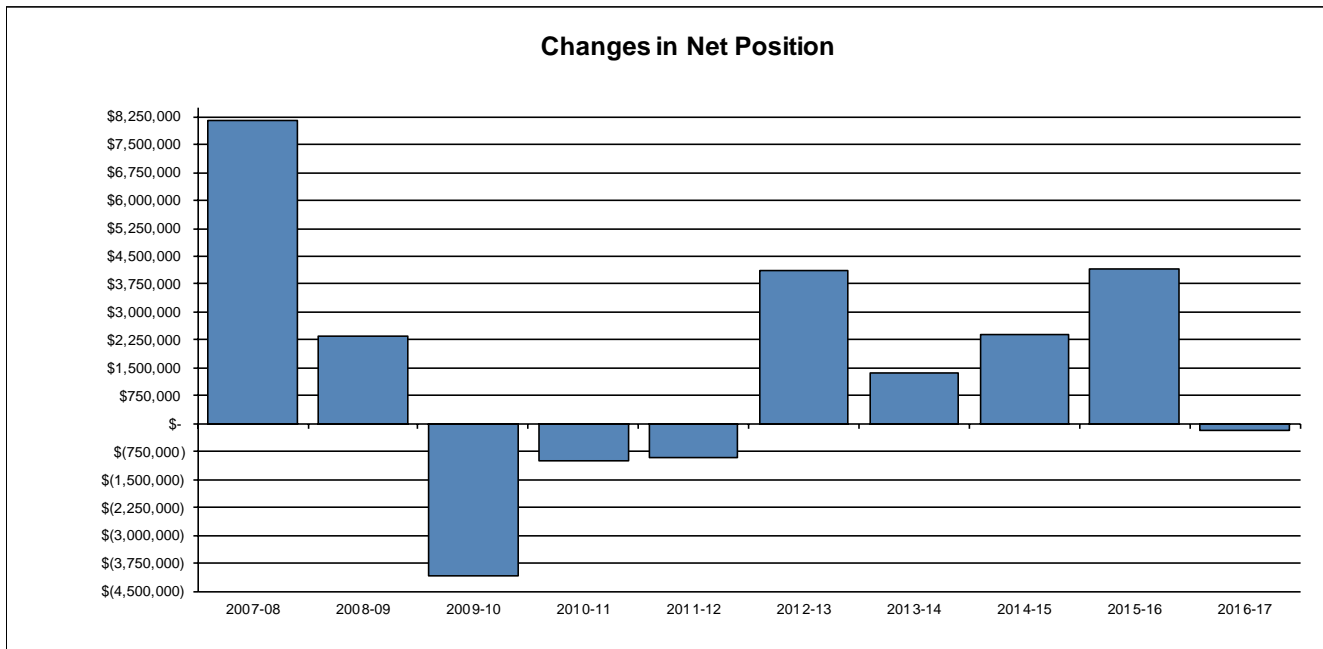
**Table of Contents**

<b>Financial Trends</b>	49-53
Provides historical context to help the reader understand how District financial performance has changed over time.	
<b>Revenue Capacity</b>	54-57
Helps the reader assess the District's most significant sources of revenue.	
<b>Debt Capacity</b>	58-59
Informs the reader regarding the affordability of District debt and its ability to assume additional debt in the future.	
<b>Demographic Information</b>	60
Offers indicators to help the reader understand the community environment within which the District operates.	
<b>Operating Information</b>	61
Contains staffing levels and infrastructure data to help the reader understand how the District provides its services.	

**GOLETA WATER DISTRICT  
CHANGES IN NET POSITION BY COMPONENT  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

**Schedule 1**

<b>Description</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11 <sup>(3)</sup></b>	<b>2011-12 <sup>(2)</sup></b>
Changes in net position:					
Operating revenues (see Schedule 2)	\$ 26,147,078	\$ 25,245,709	\$ 23,875,390	\$ 22,975,387	\$ 27,136,533
Operating expenses (see Schedule 3)	(20,806,256)	(22,717,232)	(22,829,750)	(19,107,945)	(21,051,673)
Depreciation and amortization	(1,620,145)	(3,951,664)	(4,639,138)	(4,640,497)	(4,230,480)
<b>Operating income (loss)</b>	<b>3,720,677</b>	<b>(1,423,187)</b>	<b>(3,593,498)</b>	<b>(773,055)</b>	<b>1,854,380</b>
Net non-operating revenue (expense) (see Schedule 4)	3,541,627	3,510,204	(1,734,390)	(481,665)	(3,085,787)
<b>Net income (loss) before capital contributions</b>	<b>7,262,304</b>	<b>2,087,017</b>	<b>(5,327,888)</b>	<b>(1,254,720)</b>	<b>(1,231,407)</b>
Capital contributions	875,732	277,963	1,246,321	287,292	348,495
<b>Changes in net position</b>	<b>\$ 8,138,036</b>	<b>\$ 2,364,980</b>	<b>\$ (4,081,567)</b>	<b>\$ (967,428)</b>	<b>\$ (882,912)</b>
Net position by component:					
Net investment in capital assets <sup>(1)</sup>	\$ 41,625,111	\$ 42,404,294	\$ 41,984,446	\$ 31,738,373	\$ 31,456,427
Restricted	3,459,351	3,670,054	3,389,233	11,580,096	10,765,472
Unrestricted	7,942,304	9,317,398	5,936,500	8,551,029	8,764,687
<b>Total net position</b>	<b>\$ 53,026,766</b>	<b>\$ 55,391,746</b>	<b>\$ 51,310,179</b>	<b>\$ 51,869,498</b>	<b>\$ 50,986,586</b>



**Notes:**

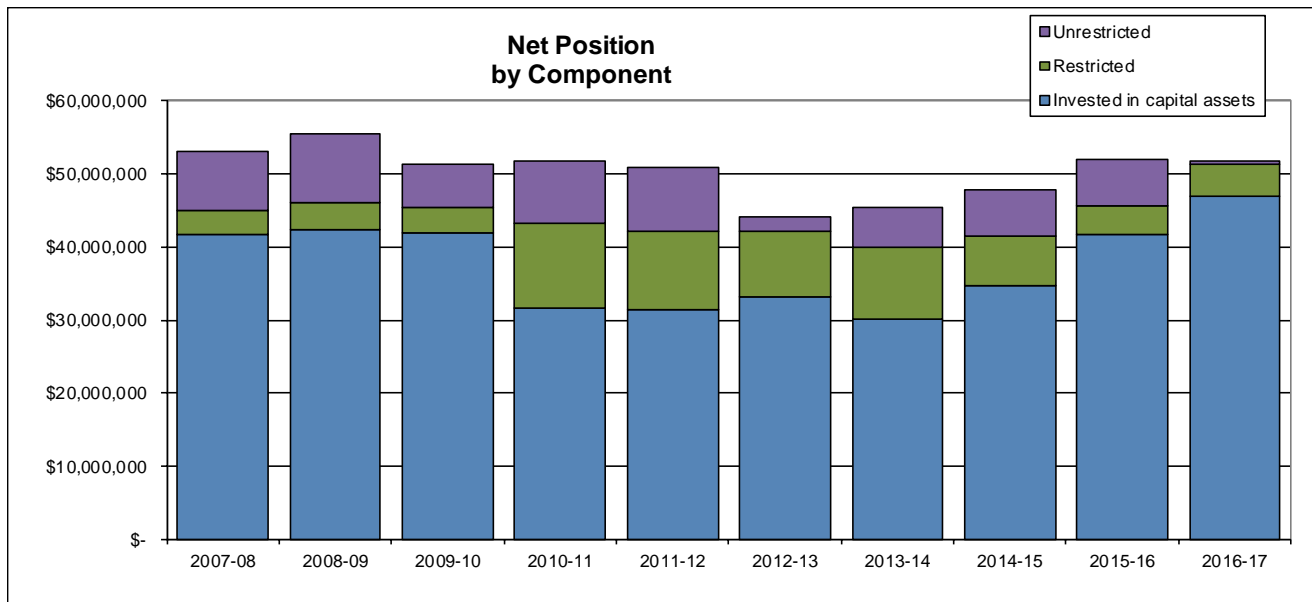
- (1) Net of related debt.
- (2) Restated.
- (3) In fiscal year 2012-13, the District recorded a prior period adjustment to properly capitalize interest costs incurred during the construction phase of capital assets for the fiscal years 2005-06 through 2012-13. This schedule has not been revised to reflect the restated amounts for fiscal years 2005-06 through 2009-10. Instead, the cumulative effect of the restatement on net position for these years of \$1,526,747 is included in the FY 2010-11 net position balance.
- (4) The District implemented GASB Statement No. 68, and No. 71 and as a result, there was a Prior Period Adjustment to establish the Net Pension Liability of \$10,948,888 that was reflected in FY 12-13 since it is included in the Management's Discussion and Analysis section.

**Source:** Goleta Water District Audited Financial Statements.

**GOLETA WATER DISTRICT  
CHANGES IN NET POSITION BY COMPONENT (Continued)  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

**Schedule 1  
(Continued)**

<b>Description</b>	<b>2012-13 <sup>(2) (4)</sup></b>	<b>2013-14 <sup>(4)</sup></b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Changes in net position:					
Operating revenues (see Schedule 2)	\$ 31,475,922	\$ 33,868,570	\$ 29,884,003	\$ 38,876,872	\$ 37,807,585
Operating expenses (see Schedule 3)	(22,431,761)	(26,209,042)	(25,897,182)	(29,820,487)	(33,407,576)
Depreciation and amortization	(4,291,712)	(4,387,462)	(4,154,508)	(4,384,529)	(4,834,866)
<b>Operating income (loss)</b>	4,752,449	3,272,066	(167,687)	4,671,856	(434,857)
Net non-operating revenue (expense) (see Schedule 4)	(1,690,426)	(2,208,005)	406,165	(1,717,348)	(1,995,151)
<b>Net income (loss) before capital contributions</b>	3,062,023	1,064,061	238,478	2,954,508	(2,430,008)
Capital contributions	1,049,478	304,512	2,151,549	1,201,564	2,254,452
<b>Changes in net position</b>	<b>\$ 4,111,501</b>	<b>\$ 1,368,573</b>	<b>\$ 2,390,027</b>	<b>\$ 4,156,072</b>	<b>\$ (175,556)</b>
Net position by component:					
Net investment in capital assets <sup>(1)</sup>	\$ 33,186,044	\$ 30,052,804	\$ 34,662,860	\$ 41,777,503	\$ 46,966,900
Restricted	9,038,018	10,007,211	6,783,476	3,932,081	4,285,911
Unrestricted	1,925,137	5,457,758	6,461,464	6,354,288	635,505
<b>Total net position</b>	<b>\$ 44,149,199</b>	<b>\$ 45,517,773</b>	<b>\$ 47,907,800</b>	<b>\$ 52,063,872</b>	<b>\$ 51,888,316</b>



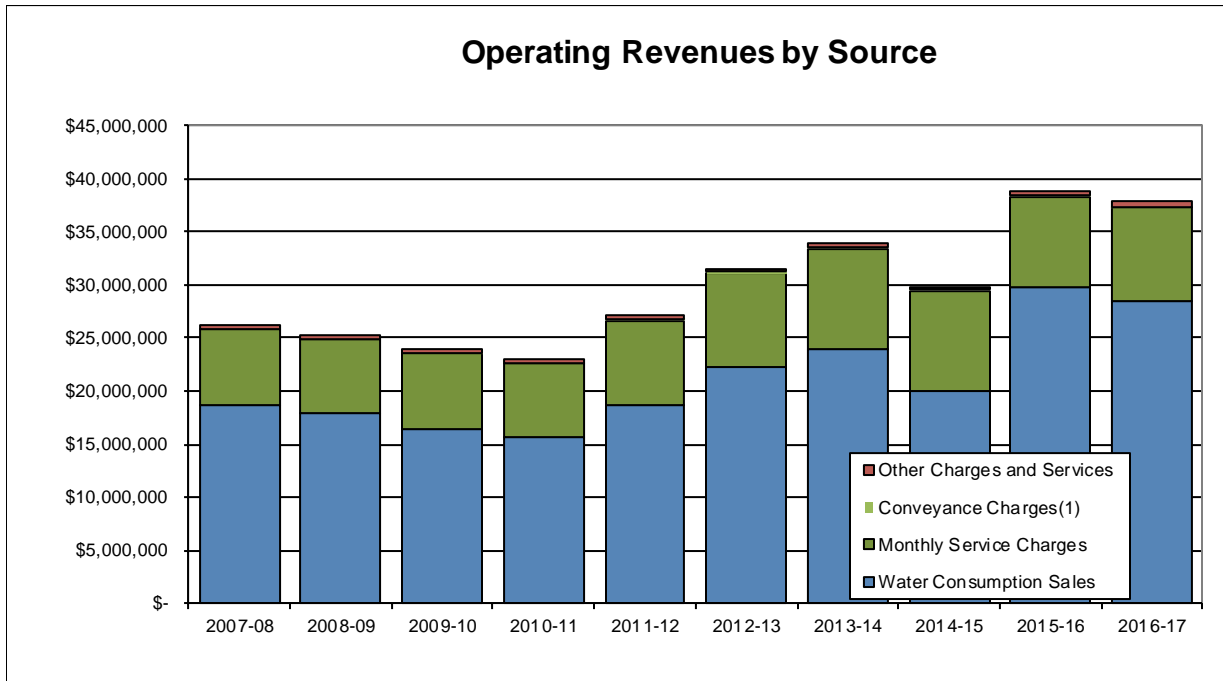
**Notes:**

- (1) Net of related debt.
- (2) Restated.
- (3) In fiscal year 2012-13, the District recorded a prior period adjustment to properly capitalize interest costs incurred during the construction phase of capital assets for the fiscal years 2005-06 through 2012-13. This schedule has not been revised to reflect the restated amounts for fiscal years 2005-06 through 2009-10. Instead, the cumulative effect of the restatement on net position for these years of \$1,526,747 is included in the FY 2010-11 net position balance.
- (4) The District implemented GASB Statements No. 68 and No. 71 and as a result, there was a Prior Period Adjustment to establish the Net Pension Liability of \$10,948,888 that was reflected in fiscal year 2012-13 since it is included in the Management's Discussion and Analysis section.

**GOLETA WATER DISTRICT  
OPERATING REVENUES BY SOURCE  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

Schedule 2

Fiscal Year	Water Consumption Sales	Monthly Service Charges	Conveyance Charges <sup>(1)</sup>	Other Charges and Services	Total Operating Revenues
2007-08	\$ 18,750,446	\$ 7,073,409	\$ -	\$ 323,223	\$ 26,147,078
2008-09	17,891,753	7,086,522	-	267,434	25,245,709
2009-10	16,493,699	7,052,721	60,951	268,019	23,875,390
2010-11	15,672,687	6,987,420	49,225	266,055	22,975,387
2011-12	18,668,008	7,998,014	193,749	276,762	27,136,533
2012-13	22,171,254	8,906,789	133,961	263,918	31,475,922
2013-14	24,005,806	9,411,946	147,635	303,184	33,868,571
2014-15	19,988,107	9,508,993	83,018	303,885	29,884,003
2015-16	29,771,141	8,523,948	122,860	458,923	38,876,872
2016-17	28,532,348	8,734,422	124,603	416,212	37,807,585



**Note:** (1) Conveyance Charges were classified as Water Consumption Sales in fiscal years 2007-08 through 2008-09.

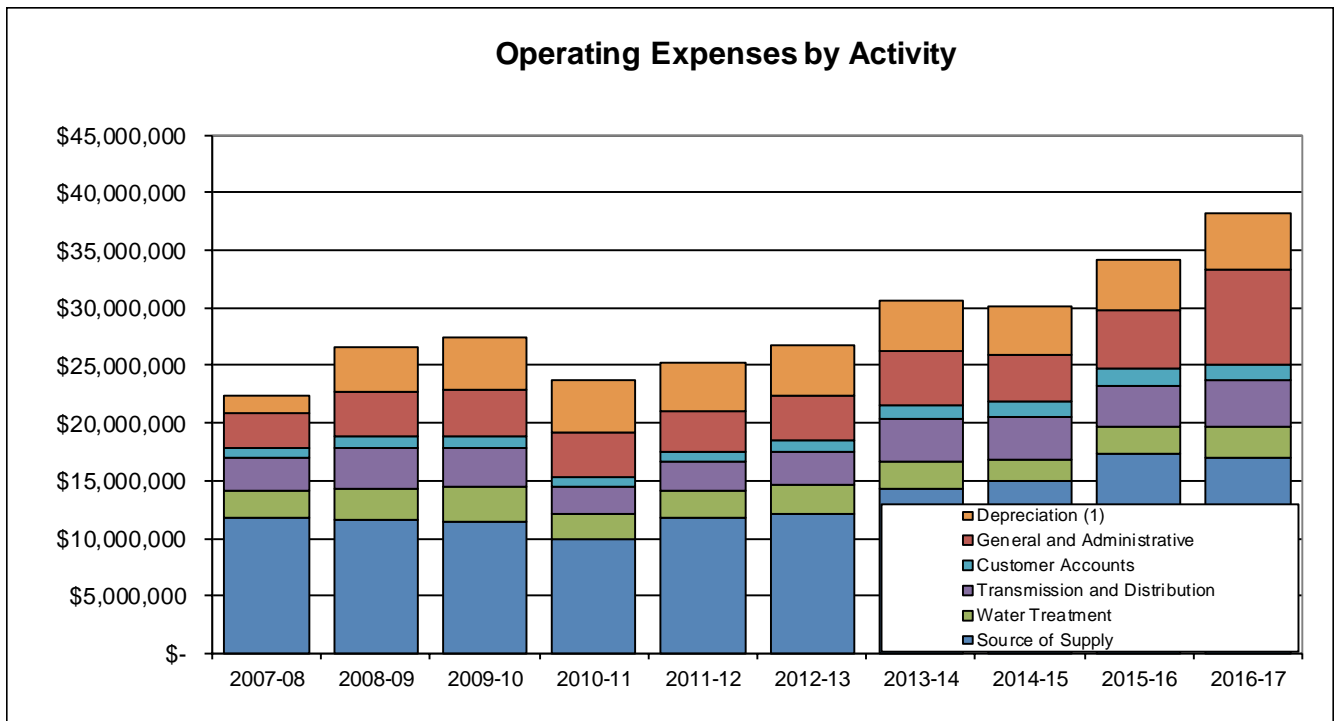
**Source:** Goleta Water District Audited Financial Statements.



**GOLETA WATER DISTRICT  
OPERATING EXPENSES BY ACTIVITY  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

**Schedule 3**

<b>Fiscal Year</b>	<b>Source of Supply</b>	<b>Water Treatment</b>	<b>Transmission and Distribution</b>	<b>Customer Accounts</b>	<b>General and Administrative</b>	<b>Depreciation <sup>(1)</sup></b>	<b>Total Operating Expenses</b>
2007-08	\$ 11,777,844	\$ 2,437,979	\$ 2,773,177	\$ 891,142	\$ 2,926,114	\$ 1,620,415	\$ 22,426,671
2008-09	11,556,246	2,824,069	3,486,767	973,101	3,877,049	3,951,664	26,668,896
2009-10	11,522,500	2,958,871	3,293,092	1,146,336	3,908,951	4,639,138	27,468,888
2010-11	9,968,271	2,190,570	2,280,486	846,299	3,822,319	4,640,497	23,748,442
2011-12	11,699,420	2,426,226	2,489,968	935,180	3,500,879	4,230,480	25,282,153
2012-13	12,048,975	2,527,904	2,941,150	1,053,854	3,859,878	4,291,712	26,723,473
2013-14	14,304,469	2,371,480	3,614,773	1,262,580	4,655,740	4,387,462	30,596,504
2014-15	14,926,709	1,978,887	3,567,788	1,343,012	4,080,786	4,154,508	30,051,690
2015-16	17,389,791	2,384,031	3,458,880	1,446,817	5,140,968	4,384,529	34,205,016
2016-17	16,972,892	2,666,658	4,057,736	1,456,875	8,253,415	4,834,866	38,242,442



**Note:**

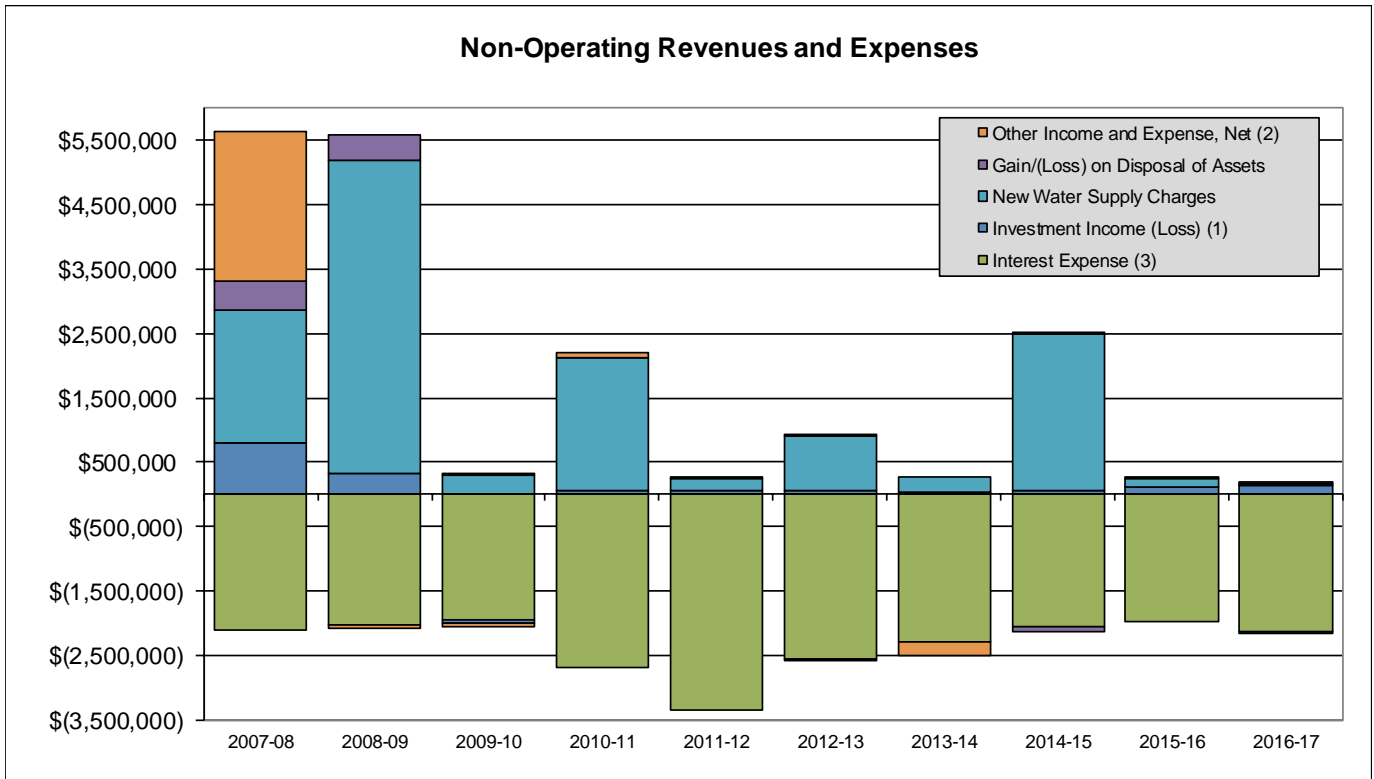
(1) Fiscal year 2012-13, the District recorded a prior adjustment to properly capitalize interest costs incurred during the construction phase of capital assets for the fiscal years 2005-06 through 2012-13. Additional depreciation expense of \$58,360 recorded for fiscal years 2005-06 through 2009-10 as a result of the restatement is not reflected in this schedule.

**Source:** Goleta Water District Audited Financial Statements.

**GOLETA WATER DISTRICT  
NON-OPERATING REVENUES AND EXPENSES  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

**Schedule 4**

<b>Fiscal Year</b>	<b>Investment Income (Loss) <sup>(1)</sup></b>	<b>New Water Supply Charges</b>	<b>Gain/(Loss) on Disposal of Assets</b>	<b>Interest Expense <sup>(3)</sup></b>	<b>Other Income and Expense, Net <sup>(2)</sup></b>	<b>Net Non-Operating Revenues/(Expenses)</b>
2007-08	\$ 803,891	\$ 2,058,188	\$ 456,725	\$ (2,098,927)	\$ 2,321,750	\$ 3,541,627
2008-09	338,908	4,846,624	402,230	(2,017,803)	(59,755)	3,510,204
2009-10	(43,888)	310,949	12,929	(1,958,678)	(55,702)	(1,734,390)
2010-11	67,164	2,069,370	-	(2,683,811)	65,611	(481,666)
2011-12	71,525	182,905	-	(3,345,265)	5,048	(3,085,787)
2012-13	61,671	839,841	(44,927)	(2,547,976)	965	(1,690,426)
2013-14	44,002	240,509	-	(2,295,542)	(196,974)	(2,208,005)
2014-15	58,322	2,439,835	(71,706)	(2,053,755)	33,469	406,165
2015-16	105,392	150,681	-	(1,978,264)	4,843	(1,717,348)
2016-17	129,423	38,268	(38,801)	(2,129,278)	5,237	(1,995,151)



**Notes:**

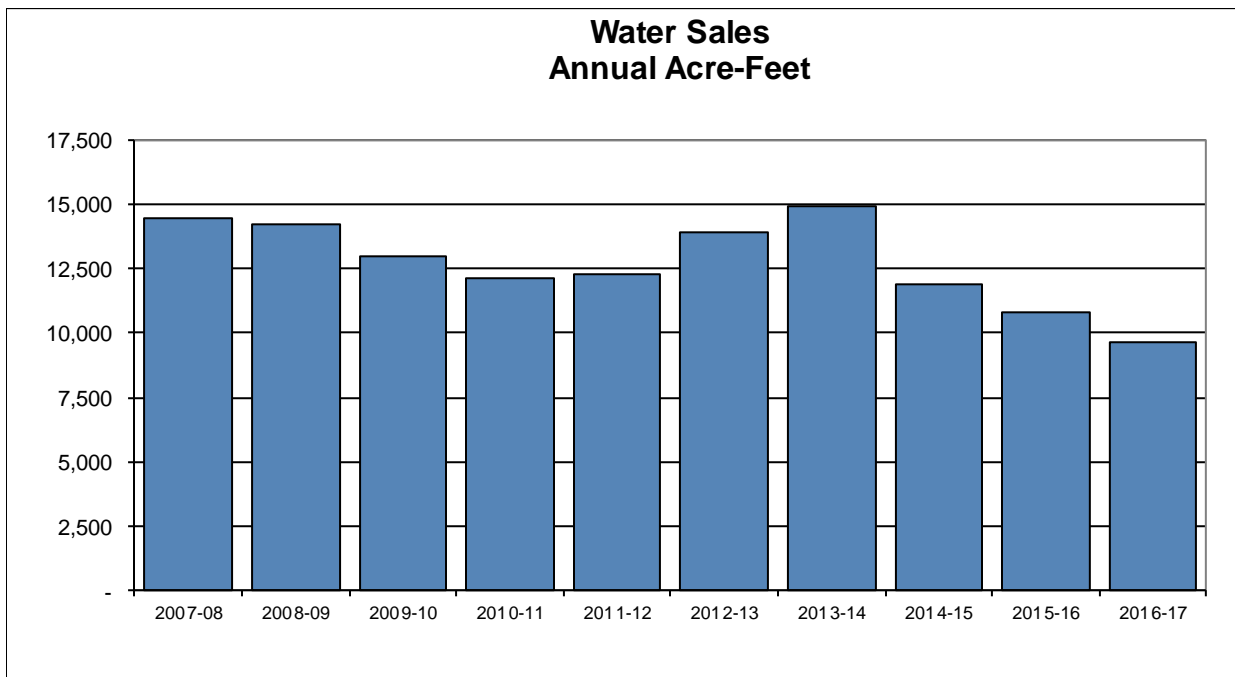
- (1) Includes interest income and realized and unrealized gains and losses on investments.
- (2) 2007-08 includes one-time accrual reversal of \$2,184,000 for post-employment benefits.
- (3) In fiscal year 2012-13, the District recorded a prior period adjustment to properly capitalize interest costs incurred during the construction phase of capital assets for the fiscal years 2005-06 through 2012-13. Interest incurred of \$1,585,409 that was previously reported as expense during fiscal years 2005-06 through 2009-10 and was capitalized as a result of the restatement is not reduced from the interest expense amounts presented in this schedule.

**Source:** Goleta Water District Audited Financial Statements.

**GOLETA WATER DISTRICT  
REVENUE BASE  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

Schedule 5

Fiscal Year	Water Sales (acre-feet)
2007-08	14,415
2008-09	14,198
2009-10	12,971
2010-11	12,161
2011-12	12,275
2012-13	13,923
2013-14	14,884
2014-15	11,883
2015-16	10,773
2016-17	9,659



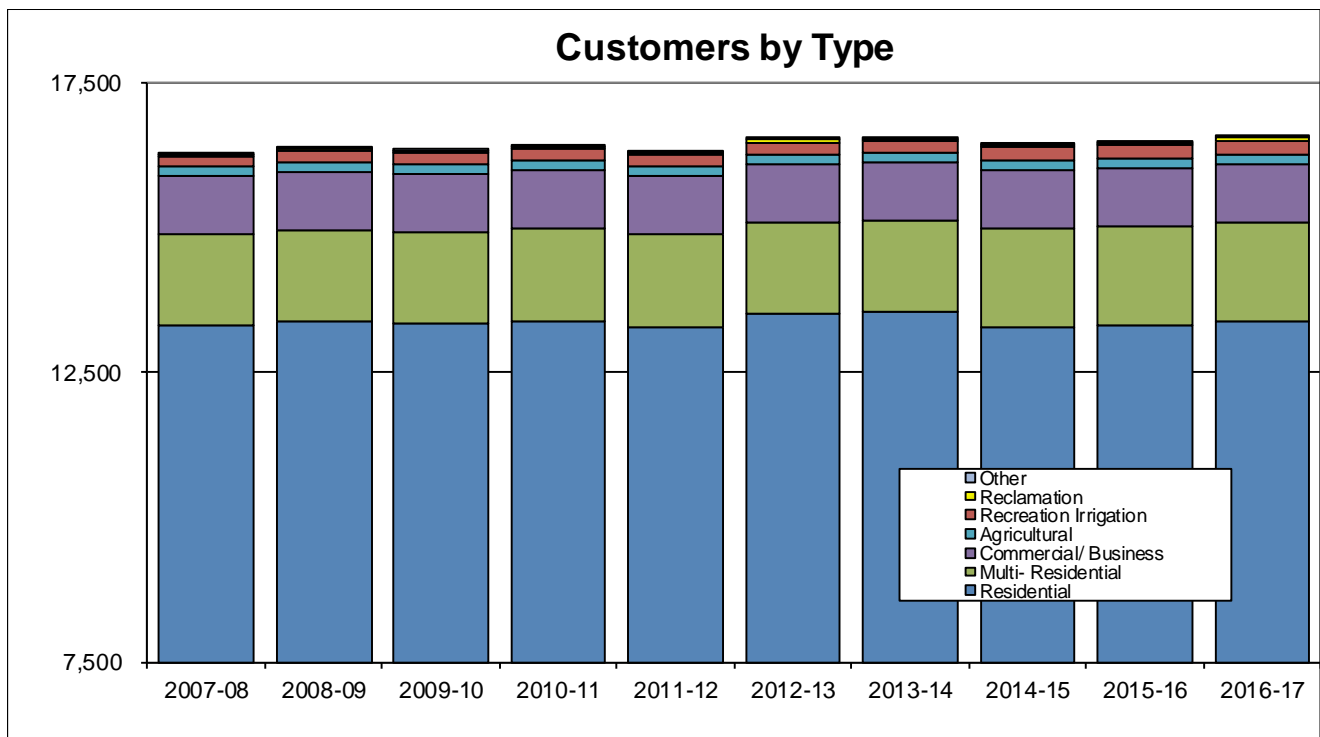
**Note:** See Schedule 2 "Operating Revenues by Source" for information regarding water sales.

**Source:** Goleta Water District Annual Continuing Disclosure Report.

**GOLETA WATER DISTRICT  
CUSTOMERS BY TYPE  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

**Schedule 6**

<b>Fiscal Year</b>	<b>Residential</b>	<b>Multi-Residential</b>	<b>Commercial/ Business</b>	<b>Agricultural</b>	<b>Recreation Irrigation</b>	<b>Reclamation</b>	<b>Other</b>	<b>Total</b>
2007-08	13,317	1,558	1,016	164	180	32	8	16,275
2008-09	13,386	1,582	1,002	165	199	32	7	16,373
2009-10	13,348	1,579	1,010	165	205	32	7	16,346
2010-11	13,386	1,591	1,009	164	212	32	7	16,401
2011-12	13,294	1,587	997	165	213	32	7	16,295
2012-13	13,528	1,572	989	165	221	36	7	16,518
2013-14	13,537	1,587	993	167	222	35	1	16,542
2014-15	13,284	1,694	1,018	159	237	42	7	16,441
2015-16	13,300	1,710	1,014	163	240	42	5	16,474
2016-17	13,368	1,723	995	166	257	47	5	16,561



Source: Goleta Water District.

**GOLETA WATER DISTRICT  
REVENUE RATES  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

**Schedule 7**

	Fiscal Year									
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Monthly Service Charges<sup>(1)</sup></b>										
<u>Meter Size</u>										
5/8" & 3/4" <sup>(2)</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ultra low flow <sup>(2)</sup>	9.21	9.21	9.21	9.21	10.68	11.87	12.70	13.08	14.14	14.57
Low flow <sup>(2)</sup>	18.42	18.42	18.42	18.42	21.37	23.74	25.40	26.16	29.20	30.08
All other <sup>(2)</sup>	27.63	27.63	27.63	27.63	32.05	35.61	38.10	39.24	44.40	45.74
1"	46.06	46.06	46.06	46.06	53.43	59.36	63.52	65.42	68.16	70.21
1 1/2"	92.10	92.10	92.10	92.10	106.84	118.69	127.00	130.81	127.57	131.40
2"	147.38	147.38	147.38	147.38	170.96	189.94	203.23	209.33	198.85	204.82
3"	276.33	276.33	276.33	276.33	320.54	356.12	381.05	392.48	424.58	437.32
4"	460.55	460.55	460.55	460.55	534.24	593.54	635.09	654.14	757.23	779.95
6"	921.09	921.09	921.09	921.09	1,068.46	1,187.06	1,270.16	1,308.26	1,672.04	1,722.21
8"	1,473.76	1,473.76	1,473.76	1,473.76	1,709.56	1,899.32	2,032.28	2,093.24	2,860.09	2,945.90
10"	3,500.72	3,500.72	3,500.72	3,500.72	4,060.84	4,511.59	4,827.40	4,972.22	4,523.38	4,659.09
Fire Line Charge	-	-	-	-	-	-	-	-	9.44	9.73
<b>Water Usage Charges (per HCF)<sup>(1)</sup></b>										
<u>User Type</u>										
Single Family Residential Ultra Low Flow (0-6 HCF)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4.52	\$ 4.66
Single Family Residential Low Flow (7-16 HCF)	-	-	-	-	-	-	-	-	5.57	5.74
Single Family Residential Low Flow (Greater than 17 HCF)	-	-	-	-	-	-	-	-	6.12	6.31
Urban Conservation	3.55	3.55	3.55	3.55	4.12	4.58	4.90	5.04	-	-
Urban <sup>(3)</sup>	3.71	3.71	3.71	3.71	4.30	4.78	5.12	5.27	5.25	5.41
Urban Agriculture	1.00	1.00	1.00	1.00	1.16	1.29	1.38	1.42	1.80	1.86
Goleta West Conduit Agriculture	1.00	1.00	1.00	1.00	1.06	1.18	1.26	1.30	1.35	1.40
Recreation Irrigation	2.68	2.68	2.68	2.68	3.11	3.45	3.70	3.81	5.25	5.41
Reclaimed	2.17	2.17	2.17	2.17	2.49	2.76	2.96	3.05	3.26	3.36
<b>Drought Surcharges Per HCF<sup>(4)</sup></b>										
Stage 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stage 2	-	-	-	-	-	-	-	-	1.57	1.62
Stage 3	-	-	-	-	-	-	-	-	2.60	2.68
Stage 4	-	-	-	-	-	-	-	-	3.92	4.04
Stage 5	-	-	-	-	-	-	-	-	5.73	5.90

**Notes:**

- (1) Rates as of June 30 of each fiscal year.
- (2) Monthly service charges converted to a tiered structure effective July 1, 2007. 5/8" & 3/4" Meters are based on average 12 month water use. Ultra low flow (4 or less HCF), Low flow (greater than 4 but less than 8 HCF), and All other 5/8" & 3/4" meter rates (greater than 8 HCF) through June 30, 2015. Monthly service charge tier structure changed July 1, 2015. Based on individual monthly use, the new tiers are: Ultra low flow (6 or less HCF), Low flow (greater than 6 but less than 17 HCF), and All other 5/8" & 3/4" meter rates (greater than 16 HCF).
- (3) Agricultural customers are charged at Urban rate unless usage exceeds 11 HCF per dwelling for any given month.
- (4) Drought Surcharges apply uniformly to all customers except for use of recycled water.

**Source:** Goleta Water District Board of Directors-approved rate ordinances.

**GOLETA WATER DISTRICT  
TEN LARGEST WATER USERS  
CURRENT FISCAL YEAR VERSUS FISCAL YEAR 2007-08  
UNAUDITED**

Schedule 8

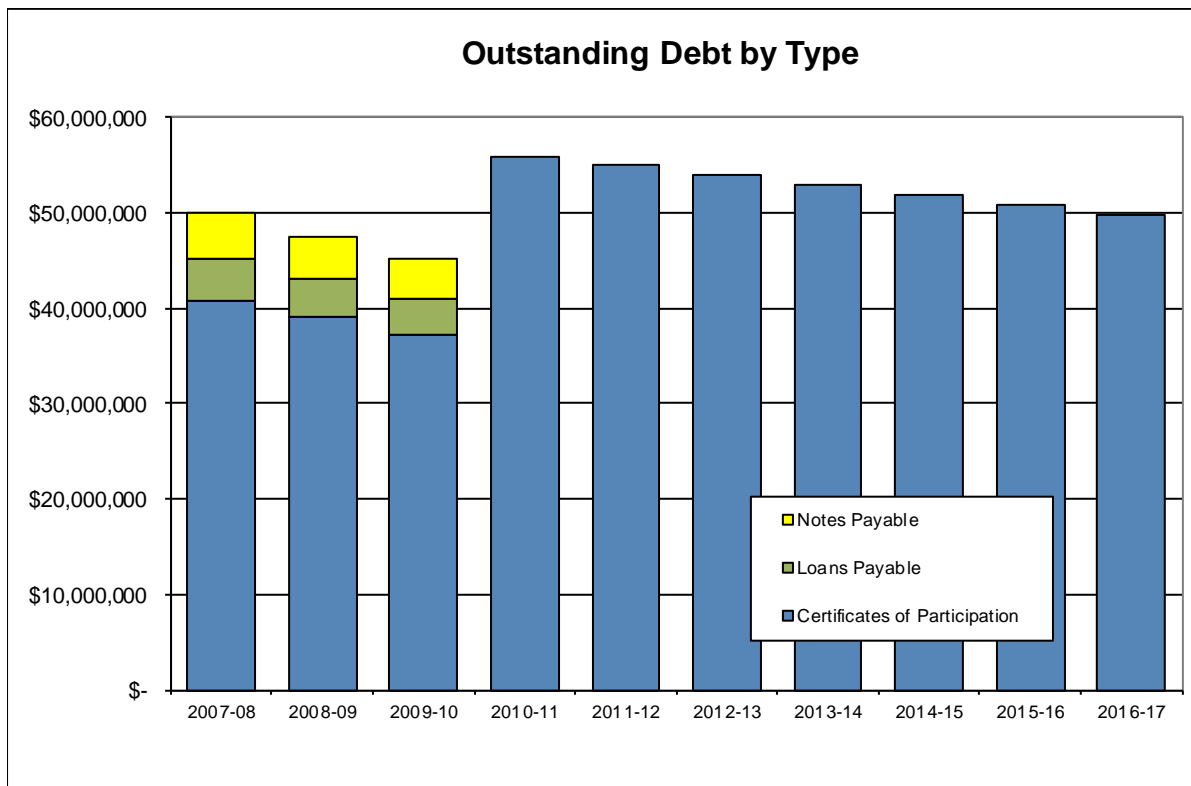
FY 2016-17			FY 2007-08		
Name	Water Sales (Acre-Feet)	Percentage of Total Water Purchased	Name	Water Sales (Acre-Feet)	Percentage of Total Water Purchased
Public institution	872	9.03%	Public institution	922	6.40%
Private grower	377	3.90%	Private grower	361	2.50%
Private business	256	2.65%	Private business	345	2.39%
Private business	224	2.32%	Private business	271	1.88%
Private business	176	1.82%	Public agency	231	1.60%
Private business	146	1.51%	Private business	193	1.34%
Private grower	141	1.46%	Private business	167	1.16%
Private grower	104	1.08%	Private business	133	0.92%
Private grower	90	0.93%	Public institution	125	0.87%
Private business	88	0.91%	Private grower	61	0.42%
Total attributable to ten largest water users:	<u>2,474</u>	<u>25.61%</u>		<u>2,809</u>	<u>19.48%</u>
Total water sales (acre-feet)	<u>9,659</u>	<u>100.00%</u>		<u>14,415</u>	<u>100.00%</u>

Sources: Goleta Water District

**GOLETA WATER DISTRICT  
RATIO OF OUTSTANDING DEBT BY TYPE  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

Schedule 9

Fiscal Year	Notes Payable	Certificates of Participation	Loans Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2007-08	\$4,705,415	\$ 40,715,000	\$ 4,476,921	\$ 49,897,336	1,663	0.064%
2008-09	4,457,920	39,005,000	4,082,786	47,545,706	1,560	0.059%
2009-10	4,197,810	37,225,000	3,677,615	45,100,425	1,450	0.060%
2010-11	-	55,945,000	-	55,945,000	1,863	0.063%
2011-12	-	55,020,000	-	55,020,000	1,842	0.064%
2012-13	-	54,060,000	-	54,060,000	1,804	0.064%
2013-14	-	52,965,000	-	52,965,000	1,754	0.068%
2014-15	-	51,920,000	-	51,920,000	1,688	0.071%
2015-16	-	50,855,000	-	50,855,000	1,628	0.071%
2016-17	-	49,750,000	-	49,750,000	1,566	0.070%



Source: Goleta Water District Audited Financial Statements.  
County of Santa Barbara.

**GOLETA WATER DISTRICT  
PLEGDED-REVENUE COVERAGE  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

**Schedule 10**

<u>Fiscal Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses<sup>(1)</sup></u>	<u>Net Available Revenues</u>	<u>Debt Service</u>			<u>Coverage Ratio</u>
				<u>Principal<sup>(2)</sup></u>	<u>Interest</u>	<u>Total</u>	
2007-08	\$ 26,147,078	\$(20,806,256)	\$ 5,340,822	\$ 2,299,610	\$ 2,109,143	\$4,408,753	1.21
2008-09	25,245,709	(22,717,232)	2,528,477	2,351,630	2,031,131	4,382,761	0.58
2009-10	23,875,390	(22,829,750)	1,045,640	2,445,281	1,970,974	4,416,255	0.24
2010-11	22,975,387	(19,107,945)	3,867,442	885,000	1,933,861	2,818,861	1.37
2011-12	27,136,533	(21,051,673)	6,084,860	925,000	2,351,948	3,276,948	1.86
2012-13	31,475,922	(22,431,761)	9,044,161	960,000	2,369,145	3,329,145	2.72
2013-14	33,868,570	(26,209,042)	7,659,528	995,000	2,432,866	3,427,866	2.23
2014-15	29,884,003	(25,897,182)	3,986,821	1,045,000	2,516,588	3,561,588	1.12
2015-16	38,876,872	(29,820,487)	9,056,385	1,065,000	2,490,163	3,555,163	2.55
2016-17	37,807,585	(33,407,576)	4,400,009	1,105,000	2,452,089	3,557,089	1.24

**Notes:**

- (1) Excludes depreciation expense.
- (2) Excludes payments associated with refinancing.

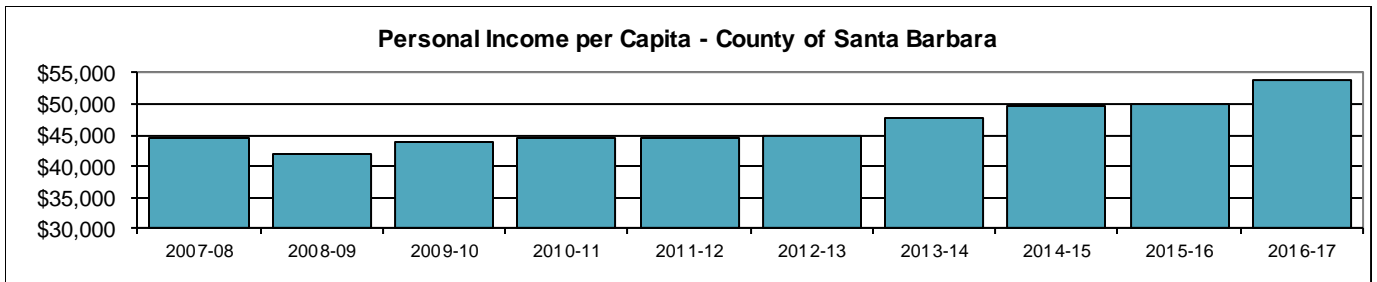
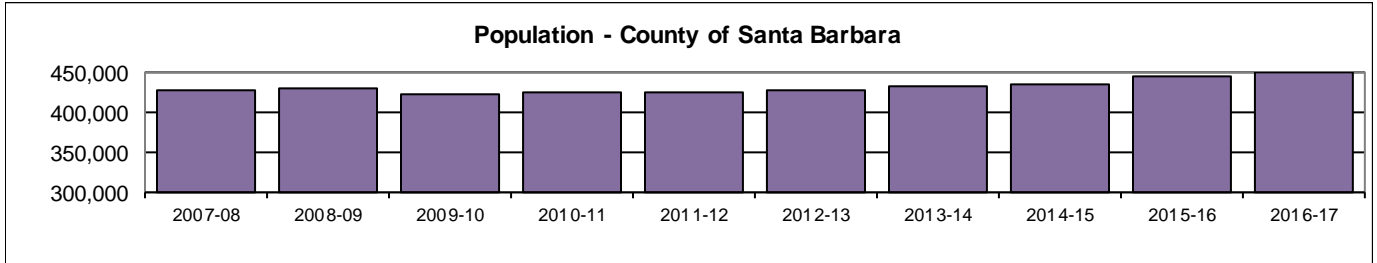
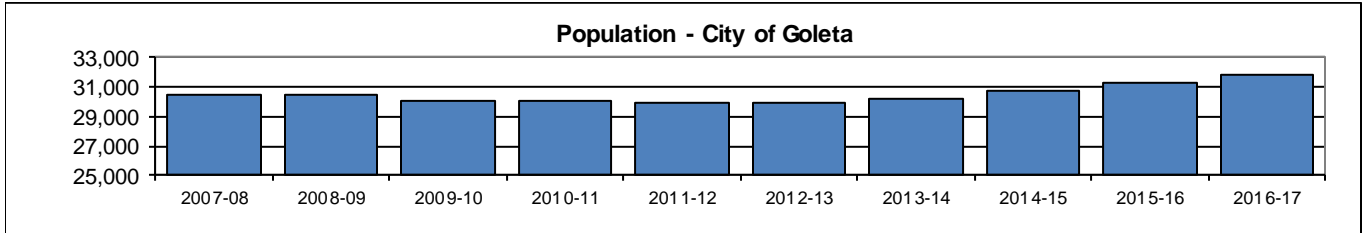
**Source:** Goleta Water District Audited Financial Statements.



**GOLETA WATER DISTRICT  
DEMOGRAPHICS AND ECONOMICS STATISTICS  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

Schedule 11

Fiscal Year	City of Goleta <sup>(1)</sup>	County of Santa Barbara <sup>(3)</sup>			
	Population <sup>(2)</sup>	Unemployment Rate	Population <sup>(2)</sup>	Personal Income (\$ billions)	Personal Income per Capita
2007-08	30,400	5.20%	428,655	19.1	\$44,600
2008-09	30,404	8.20%	430,333	18.1	\$42,100
2009-10	30,001	8.80%	423,740	18.6	\$43,900
2010-11	30,032	8.90%	426,189	19.0	\$44,600
2011-12	29,863	7.90%	426,351	19.0	\$44,600
2012-13	29,962	(4) 6.30%	429,200	(4) 19.3	\$45,000
2013-14	30,202	(4) 5.40%	433,000	(4) 20.6	\$47,600
2014-15	30,765	4.70%	435,697	21.7	\$49,700
2015-16	31,235	4.90%	446,717	22.3	\$49,900
2016-17	31,760	4.30%	450,663	24.2	\$53,700



**Notes:**

- (1) A substantial portion of the District lies within the City of Goleta and therefore the City of Goleta is a reasonable basis for determining District demographic and economic statistics.
- (2) Population as of January 1.
- (3) County of Santa Barbara data is updated annually and is representative of District conditions and experience.
- (4) Estimated amounts per California Department of Finance.

**Source:** California Department of Finance and California Labor Market Info.

**GOLETA WATER DISTRICT  
OPERATING AND CAPACITY INDICATORS  
PREVIOUS TEN FISCAL YEARS  
UNAUDITED**

**Schedule 12**

**District Employees by Department (Actual on Payroll at June 30)**

Division	Fiscal Year									
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
General Management	4	2	3	3	3	3	3	3	3	3
Operations Management	2	2	2	2	2	2	2	2	2	2
Water Treatment	14	10	10	10	12	11	10	11	10	12
Distribution	9	16	16	14	16	14	14	16	17	16
Water Supply	2	2	2	2	6	8	8	9	9	10
Warehouse	1	1	1	1	1	1	1	1	1	1
Meter Services	5	5	5	5	5	5	5	5	5	5
Engineering Services	12	11	10	7	4	4	5	5	5	5
Customer Service	3	3	2	1	1	1	1	2	2	2
Accounting and Finance	3	4	5	4	7	8	8	8	8	8
Payroll	1	1	1	1	1	1	1	1	1	1
Human Resources	1	1	1	1	1	1	1	1	1	1
	57	58	58	51	59	59	59	64	64	66

**Other Operating and Capacity Indicators**

Fiscal Year	District Area (Square Miles)	Miles of Water Mains	Number of Wells	Number of Fire Hydrants	System Capacity (MGD)
2007-08	45	266	9	1,422	29
2008-09	45	266	9	1,437	29
2009-10	45	270	9	1,448	29
2010-11	45	270	9	1,455	29
2011-12	45	270	9	1,468	29
2012-13	45	270	9	1,466	29
2013-14	45	270	9	1,474	29
2014-15	45	270	9	1,480	29
2015-16	45	271	9	1,502	29
2016-17	45	271	9	1,505	29

**Source:** Goleta Water District - Administrative Services and Engineering Departments.

## **LIST OF ACRONYMS**

## LIST OF ACRONYMS AND ABBREVIATIONS

ACWA	Association of California Water Agencies
AFY	Acre Feet per Year
APC	Annual Pension Cost
ARC	Annual Required Contribution
ASR	Aquifer Storage and Recovery
BUREAU	U.S. Bureau of Reclamation
CAFR	Comprehensive Annual Financial Report
CalPERS	California Public Employees' Retirement System
CCRB	Cachuma Conservation and Release Board
CCWA	Central Coast Water Authority
CIP	Capital Improvement Projects
COMB	Cachuma Operation and Maintenance Board
COP	Certificates of Participation
CPA	Cachuma Project Authority
CSDA	California Special Districts Association
CUWCC	California Urban Water Conservation Council
DWR	Department of Water Resources
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FTE	Full Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
GIS	Geographic Information System
GSD	Goleta Sanitary District
GWC	Goleta West Conduit
GWD	Goleta Water District
HCF	Hundred Cubic Feet
IBNR	Incurred But Not Reported
IIP	Infrastructure Improvement Plan
JPIA	Joint Power Insurance Authority
LAFCO	Local Agency Formation Commission
LAIF	Local Agency Investment Fund
MD&A	Management's Discussion and Analysis
MGD	Million Gallons Per Day
NWSC	New Water Supply Charge
OPEB	Other Post Employment Benefits
SEIU	Service Employees International Union
SLGS	State and Local Government Series
SWP	State Water Project
SWRCB	State Water Resources Control Board
UAAL	Unfunded Actuarial Accrued Liability

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