

**CACHUMA OPERATION  
AND MAINTENANCE BOARD**

**June 30, 2014 and 2013**

FINANCIAL STATEMENTS



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

# CACHUMA OPERATION AND MAINTENANCE BOARD

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**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Directors of  
Cachuma Operation and Maintenance Board**

**Report on the Financial Statements**

We have audited the accompanying statement of net position of Cachuma Operation and Maintenance Board ("COMB") as of June 30, 2014 and 2013 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise COMB's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net financial position of the Cachuma Operation and Maintenance Board, as of June 30, 2014 and 2013, and the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise COMB's basic financial statements. The supplemental schedule of operation and maintenance, general and administrative and other maintenance on pages 44 through 45 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The supplemental schedule of operation and maintenance, general and administrative and other maintenance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule of operation and maintenance, general and administrative and other maintenance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015, on our consideration of Cachuma Operation and Maintenance Board's internal control over financial reporting and 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 the 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 Cachuma Operation and Maintenance Board's internal control over financial reporting and compliance.

*Bartlett, Pringle & Wolf, LLP*

Santa Barbara, California  
January 15, 2015

# CACHUMA OPERATION AND MAINTENANCE BOARD

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **FISCAL YEAR ENDED JUNE 30, 2014**

This section presents management's analysis of the financial condition and activities of the Cachuma Operation and Maintenance Board (COMB) for the fiscal year ended June 30, 2014. This information should be read in conjunction with the financial statements and the additional information included herewith.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

COMB operates as a proprietary fund-type. All proprietary fund-types use a flow of economic resources measurement focus. Under this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Position and where appropriate, total net position (i.e., fund equity) are segregated into invested in capital and unrestricted net position. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in total net position.

All proprietary fund-types utilize the accrual basis of accounting. Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized at the time the related liabilities are incurred, regardless of when paid.

### **Summary of Organization and Business**

COMB is a public entity duly organized and existing in accordance with enabling legislation of the State of California: Chapter 5, Division 7, Title 1, of the Government Code (Section 6500 et seq.), the Joint Exercise of Powers Act. COMB was officially established as a joint powers agency as of January 1, 1957 by and among six public agencies (Member Agencies) in Santa Barbara County, two of which have subsequently reorganized (merged). On May 23, 1996 the Joint Exercise of Powers Agreement (Agreement) for COMB was amended and restated. The Member Agencies entered into the Agreement to exercise their common power to provide for the rights to, the facilities of, and the operation, maintenance and use of the United States, Department of the Interior, Bureau of Reclamation project known as the Cachuma Project, including storage, treatment, transport and appurtenant facilities, and all necessary tangible and intangible property and rights. In particular, the Member Agencies expressed their desire to create COMB for the purpose of providing authority for the financing of "costs" for the capture, development, treatment, storage, transport and delivery of water; and for repayment of notes, bonds, loans, warrants, and revenue bonds as may be issued to finance facilities, operations or services. In September 2010, the Cachuma Operation and Maintenance Board approved a budget adjustment effective January 2011 to transfer from Cachuma Conservation and Release Board (CCRB) the implementation of the Santa Ynez River Fisheries Program as required by the 2000 Biological Opinion.

COMB currently has a staff of 14 full time employees. Of these, five are employed in an administrative capacity and nine are in field operations.

# CACHUMA OPERATION AND MAINTENANCE BOARD

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Summary of Organization and Business (Continued)

COMB is presently composed of five Member Agencies, all of which are public agencies: the Carpinteria Valley Water District, the Goleta Water District, the Montecito Water District, the Santa Ynez River Water Conservation District Improvement District No. 1, and the City of Santa Barbara. (A founding Member Unit of COMB, the Summerland Water District, reorganized with the Montecito Water District, with Montecito Water District as the successor agency. Another founding Member Unit of COMB, the Santa Ynez River Water Conservation District, assigned its Member Unit water contract to the Santa Ynez River Water Conservation District, Improvement District No. 1.)

Under the Agreement, each of the five Member Agencies appoints a representative to the COMB Board of Directors. The following table shows each Member Unit's share of the Cachuma Project yield (water entitlement) and the number of votes each has on the Board of Directors:

<u>Member Unit</u>	<u>Entitlement Percentage</u>	<u>Board Representation</u>
Carpinteria Valley WD	10.94 %	1 vote
Goleta Water District	36.25 %	2 votes
Montecito Water District	10.31 %	1 vote
Santa Ynez RWCD ID No. 1	10.31 %	1 vote
City of Santa Barbara	32.19 %	2 votes
Total	100.00%	7 votes

Votes representing a majority of the number of votes authorized under the Agreement are required for the approval of any decision, other than adjournment, which requires action of the Board of Directors. Also, the affirmative vote of at least three representatives to the Board of Directors is necessary for the approval of such a decision. The unanimous consent of the representatives of all the Member Agencies is required for COMB to take action on the following matters:

1. Approval of a Cachuma Project Master Contract amendment, renewal or extension;
2. A matter involving water rights of any party;
3. Acquisition of significant facilities from the United States;
4. Issuance of bonds, loans or other forms of indebtedness in excess of one million (\$1,000,000) dollars.

A decision of COMB authorizing a capital expenditure in excess of one million dollars or incurring an indebtedness or obligation in excess of one million dollars is not effective unless it has been ratified by a resolution approved by all of the Member Agencies.

## **CACHUMA OPERATION AND MAINTENANCE BOARD**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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#### **Operating Assessments**

Current operations of COMB are funded by assessment of the Member Agencies, with the assessments based on the Member Agencies' Cachuma Project entitlement percentages. In September 2010, the Cachuma Operation and Maintenance Board approved a budget adjustment effective January 2011 to transfer from CCRB the implementation of the Santa Ynez River Fisheries Program as required by the 2000 Biological Opinion. All five Member Agencies fund the general and administrative portion of the annual budget as well as the cost of special projects (capital improvements, rehabilitation & betterment, maintenance & modifications, etc.) for Bradbury Dam and Lake Cachuma, the main Cachuma Project storage facility, located on the Santa Ynez River in northern Santa Barbara County. All five Member Agencies also fund the Santa Ynez River Fisheries Program and related activities.

Four of the Member Agencies, not including Santa Ynez River Water Conservation District, Improvement District No. 1, fund the operation and maintenance portion of the annual budget as well as the cost of special projects for other Cachuma Project storage and conveyance facilities that serve the South Coast of Santa Barbara County. These facilities include the Tecolote Tunnel, the South Coast Conduit (SCC), and four dams and reservoirs (Glen Annie, Lauro, Ortega and Carpinteria). During the fiscal year ended June 30, 2014, COMB conducted and/or completed a number of special studies and projects using revenue provided by these assessments. These included SCC improvements; and rehabilitation and betterment of control stations, valves and structures.

#### **Grant Program**

COMB has developed a grant program by utilizing a team of staff members to write proposals, administer grants and carry out grant contracts. They have applied for and received various federal and state contracts for habitat enhancement, fisheries projects within the Lower Santa Ynez River drainage and South Coast pipeline improvement projects. The utilization of these grants has assisted the Member Agencies in accomplishing required fisheries restoration and habitat improvement projects as well as a vital infrastructure improvement project. For fiscal year 2013-14, COMB received a California Department of Fish and Wildlife (CDFW) Fisheries Restoration Grant for \$521,141, a Wildlife Conservation Board (WCB) Habitat Restoration Grant for \$150,000 and a Fish America Grant for \$17,935.

#### **COMB Committees**

COMB has five standing committees: the Administrative Committee (financial, personnel and legal matters), the Operations Committee, the Fisheries Committee, the Public Outreach Committee, and the Lake Cachuma Oak Tree Committee. Each committee is composed of two Board members and one alternate Board member. Appointments to the committees are made by the President of the Board. The committees meet with staff on an as-needed basis and review and recommend actions to the Board of Directors with regard to capital improvements, finance, and other matters. From time-to-time, COMB utilizes ad-hoc committees which are temporary in nature.

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL HIGHLIGHTS**

The following table shows a condensed version of COMB's statement of net position with corresponding analysis regarding significant variations. This statement includes the assets and liabilities related to the transfer of fisheries activities into COMB effective January 2011.

**Condensed Statement of Net Position**

	Year Ended			2014 -2013 Variance		2013-2012 Variance	
	June 30, 2014	June 30, 2013	June 30, 2012	Dollars	Percent	Dollars	Percent
				Change	Change	Change	Change
Current Assets	\$ 2,065,857	\$ 913,383	\$ 2,753,747	\$ 1,152,474	126.2%	\$ (1,840,364)	-66.8%
Restricted Assets	315,731	38,833	64,603	276,898	713.0%	(25,770)	-39.9%
Property, Plant & Equipment	142,007	198,875	243,717	(56,868)	-28.6%	(44,842)	-18.4%
Other Assets	6,288,831	6,381,325	6,468,864	(92,494)	-1.4%	(87,539)	-1.4%
<b>Total Assets</b>	<b>\$ 8,812,426</b>	<b>\$ 7,532,416</b>	<b>\$ 9,530,931</b>	<b>\$ 1,280,010</b>	<b>17.0%</b>	<b>\$ (1,998,515)</b>	<b>-21.0%</b>
Current Liabilities	\$ 1,555,068	\$ 436,818	\$ 2,984,305	\$ 1,118,250	256.0%	\$ (2,547,487)	-85.4%
Long-Term Liabilities	6,884,521	6,813,787	6,721,512	70,734	1.0%	92,275	1.4%
<b>Total Liabilities</b>	<b>8,439,589</b>	<b>7,250,605</b>	<b>9,705,817</b>	<b>1,188,984</b>	<b>16.4%</b>	<b>(2,455,212)</b>	<b>-25.3%</b>
Net Position							
Invested in Capital Assets	142,007	198,875	243,717	(56,868)	-28.6%	(44,842)	-18.4%
Unrestricted	230,830	82,936	(418,603)	147,894	178.3%	501,539	-119.8%
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 8,812,426</b>	<b>\$ 7,532,416</b>	<b>\$ 9,530,931</b>	<b>\$ 1,280,010</b>	<b>17.0%</b>	<b>\$ (1,998,515)</b>	<b>-21.0%</b>

**Statement of Net Position Analysis**

Total assets as of June 30, 2014 are 17% more than the June 30, 2013 amount. The changes are noted below.

- Current assets include all account receivables balances. The current assets for fiscal year ending 2014 are considerably more than the previous year primarily attributable to the recording of the Board approved budget augmentation assessments affiliated with the Emergency Pumping Facility Project.
- Restricted assets are greater as compared to the prior year due to an increase in deposits into the Warren Act Trust Fund. The Warren Act Trust Fund deposits are variable in nature and are directly tied to the amount of State Water Project Water delivered to the lake on behalf of the SWP participants during the previous year.
- The value of property, plant, and equipment is slightly lower than the previous fiscal year primarily due to the recording of depreciation expense.
- Other assets are relatively the same as the prior year and represent the Bradbury and Lauro SOD Act assessments receivable.

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL HIGHLIGHTS**

**Statement of Net Position Analysis (Continued)**

- Current liabilities are significantly greater than the previous fiscal year primarily due to an increase in deferred revenue and the recognition of accrued expenses affiliated with the Emergency Pumping Facility Project.
- Long term liabilities are essentially the same as the prior year and represent the Bradbury and Lauro SOD Act liabilities.
- The Invested in Capital Assets is slightly less than the previous year primarily due to the recording of depreciation expense.
- Unrestricted net position is slightly greater than the previous year primarily due to the increase in the general fund account attributable to budget augmentation assessments.

The following table shows a condensed version of COMB's Statement of Revenues, Expenses, and Changes in Net Position, with corresponding analysis regarding significant variances.

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

	Year Ended			2014-2013 Variance		2013-2012 Variance	
	June 30, 2014	June 30, 2013	June 30, 2012	Dollars	Percent	Dollars	Percent
				Change	Change	Change	Change
Operating Revenues (Expenses):							
Operating Revenues	\$ 5,470,764	\$ 5,492,902	\$ 7,226,322	\$ (22,138)	-0.4%	\$ (1,733,420)	-24.0%
Operating Expenses, excluding Depreciation Expense	(5,198,460)	(4,718,750)	(7,319,732)	(479,710)	10.2%	2,600,982	-35.5%
Depreciation	(77,213)	(87,680)	(108,686)	10,467	-11.9%	21,006	-19.3%
<b>Operating Income (Deficit)</b>	<b>195,091</b>	<b>686,472</b>	<b>(202,096)</b>	<b>(491,381)</b>	<b>71.6%</b>	<b>888,568</b>	<b>439.7%</b>
Non-operating Revenues	399	424	511	(25)	-5.9%	(87)	-17.0%
Non-operating Expenses	(104,464)	(230,199)	(114,106)	125,735	-54.6%	(116,093)	101.7%
<b>Change in Net Position</b>	<b>\$ 91,026</b>	<b>\$ 456,697</b>	<b>\$ (315,691)</b>	<b>\$ (365,671)</b>	<b>80.1%</b>	<b>\$ 772,388</b>	<b>244.7%</b>

**Statement Analysis**

- Operating revenues as of June 30, 2014 are essentially the same as the previous fiscal year.
- Operating expenses, excluding depreciation and amortization expenses, were slightly more than the prior fiscal year primarily due to the expenses associated with the Emergency Pumping Facilities Project.
- Depreciation expense shows a decrease of 12% as compared to the previous fiscal year due to a large number of assets that have been fully depreciated and no longer have a depreciation expense to record.
- Non-operating revenues were essentially the same as the previous fiscal year.

## CACHUMA OPERATION AND MAINTENANCE BOARD

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### FINANCIAL HIGHLIGHTS (Continued)

##### Statement Analysis (Continued)

- Non-operating expenses decreased, although normal, as compared to the prior fiscal year primarily due to assessments returned to the Member Agencies during the previous fiscal year.
- The Change in Net Position has decreased substantially as compared to the prior fiscal year due to an increase in actual project expenses affiliated with the Emergency Pumping Facilities Project.

##### Capital Assets

The following table provides a summary of COMB's capital assets and changes from the prior year.

	Capital Assets							
	Year Ended			2014-2013 Variance		2013-2012 Variance		
	June 30, 2014	June 30, 2013	June 30, 2012	Dollars Change	Percent Change	Dollars Change	Percent Change	
Vehicles	\$ 431,605	\$ 431,605	\$ 444,890	\$ -	0.0%	\$ (13,285)	-3.0%	
Office Furniture and Equipment	405,275	398,705	384,566	6,570	1.6%	14,139	3.7%	
Field Equipment	517,530	503,755	493,184	13,775	2.7%	10,571	2.1%	
Mobile Offices Used for Facilities:	97,803	97,803	97,803	-	0.0%	-	0.0%	
Resurfacing	38,351	38,351	22,350	-	0.0%	16,001	71.6%	
<b>Total Capital Assets</b>	<b>1,490,564</b>	<b>1,470,219</b>	<b>1,442,793</b>	<b>20,345</b>	<b>1.4%</b>	<b>27,426</b>	<b>1.9%</b>	
Accumulated Depreciation	(1,348,557)	(1,271,344)	(1,199,076)	(77,213)	6.1%	(72,268)	6.0%	
<b>Net Capital Assets</b>	<b>\$ 142,007</b>	<b>\$ 198,875</b>	<b>\$ 243,717</b>	<b>\$ (56,868)</b>	<b>-28.6%</b>	<b>\$ (44,842)</b>	<b>-18.4%</b>	

##### Debt Administration

COMB and the Cachuma Project Authority (CPA) merged in 1996, with COMB as the successor agency. With this merger, COMB assumed responsibility for the oversight and payment of the Series 1993 CPA revenue bonds. However, the bonds are not recorded on the books of COMB because, under Joint Participation Agreements between COMB and three of the Member Agencies, these Member Agencies are obligated to make the bond principal and interest payments on behalf of COMB. The Series 1993 bonds were refinanced by COMB in the first quarter of fiscal year 2004/05.

Under the terms and conditions of a repayment contract executed in 2002, COMB is responsible for payment to the United States of fifteen percent (15%) of the total amount of Safety of Dams (SOD) Act funds expended by the United States for structural stability and related work at Bradbury Dam.

The debt total under the contract as executed is approximately \$6,791,000 plus interest and is to be repaid by annual payments over a 50-year period. COMB assesses the Member Agencies annually to collect the revenue for the payment due that year, with the assessments calculated in accordance with each Member Agencies' Cachuma Project entitlement percentages.

## CACHUMA OPERATION AND MAINTENANCE BOARD

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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#### **Debt Administration (Continued)**

All work activities related to the Bradbury SOD Act rehabilitation project have been completed as of June 30, 2012.

The funds expended by Reclamation through June 30, 2013 on the Lauro Dam rehabilitation project as identified in the Re-Payment Schedule for this project are approximately \$6,728,401. The fifteen percent obligation plus interest during construction equates to approximately \$968,607 for the Lauro SOD Act repayment debt which appears in the long term liability account.

Work activities during the current fiscal year related to the completion of the Lauro Dam SOD Act rehabilitation were relatively minor and produced an inconsequential increase to the overall debt obligation.

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**STATEMENT OF NET POSITION**  
**June 30, 2014 and 2013**

<u>ASSETS</u>		
	<u>2014</u>	<u>2013</u>
Current Assets		
Cash (Note 3)	\$ 1,921,242	\$ 793,837
Investments (Note 3)	3,893	3,881
Interest receivable	-	2
Grant receivable	17,935	-
Prepaid insurance	18,125	18,211
Other receivables	12,167	9,912
Current portion of SOD Act assessments receivable (Note 6)	92,495	87,540
Total current assets	<u>2,065,857</u>	<u>913,383</u>
Restricted Cash (Note 4)	<u>315,731</u>	<u>38,833</u>
Capital Assets (Note 8)		
Vehicles	431,605	431,605
Office furniture and equipment	405,275	398,705
Field equipment	517,530	503,755
Modular administrative offices	97,803	97,803
Resurfacing	38,351	38,351
Subtotal	1,490,564	1,470,219
Less: accumulated depreciation	<u>(1,348,557)</u>	<u>(1,271,344)</u>
Capital assets, net	<u>142,007</u>	<u>198,875</u>
Other Assets		
Long-term assessments receivable SOD Act (Note 6)	<u>6,288,831</u>	<u>6,381,325</u>
Total other assets	<u>6,288,831</u>	<u>6,381,325</u>
Total assets	<u>\$ 8,812,426</u>	<u>\$ 7,532,416</u>

*See accompanying notes*

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**STATEMENT OF NET POSITION**  
**June 30, 2014 and 2013**

<b><u>LIABILITIES</u></b>		
	<b>2014</b>	<b>2013</b>
Current Liabilities		
Accounts payable	\$ 935,500	\$ 125,194
Accrued vacation and sick leave benefits	124,333	98,243
Deferred revenue	315,732	38,833
Accrued interest	87,008	87,008
Current portion of SOD Act contract payable (Note 6)	92,495	87,540
Total current liabilities	1,555,068	436,818
Long-Term Liabilities		
Net other post employment benefit obligation (Note 12)	595,690	432,462
SOD Act contract payable, net of current portion (Note 6)	6,288,831	6,381,325
Total long-term liabilities	6,884,521	6,813,787
Commitments and Contingencies (Note 13)		
Total liabilities	\$ 8,439,589	\$ 7,250,605
<b><u>NET POSITION</u></b>		
Invested in capital assets, net of related debt	\$ 142,007	\$ 198,875
Unrestricted:		
Designated to be constructively returned	230,830	82,936
Total net position	\$ 372,837	\$ 281,811

*See accompanying notes*

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Operating assessments from member agencies	\$ 4,430,079	\$ 4,064,680
Grant revenue	689,076	1,072,139
Warren Act Fund (Note 4)	16,555	43,559
Renewal Fund (Note 4)	242,912	219,770
Cachuma Project Betterment Fund (Note 5)	90,000	90,000
Other revenues	2,142	2,754
	<u>5,470,764</u>	<u>5,492,902</u>
Operating Expenses		
Operation and maintenance division:		
Operation and maintenance	831,722	919,100
General and administrative	971,094	950,851
South Coast Conduit MURRP	-	925,951
Drought contingency planning	307,649	
Emergency pumping facility project	1,138,483	
Fisheries division:		
Operation and maintenance	524,767	475,717
General and administrative	343,852	331,226
Fishery related projects	123,248	178,660
Quiota Creek crossing habitat enhancement	799,225	771,070
Other maintenance and habitat enhancement	158,420	166,175
Depreciation	77,213	87,680
	<u>5,275,673</u>	<u>4,806,430</u>
Net Operating Gain	<u>195,091</u>	<u>686,472</u>
Non-Operating Revenues (Expenses)		
Interest income	399	424
Assessments returned to member units	-	(120,780)
Interest expense	(104,464)	(109,419)
	<u>(104,065)</u>	<u>(229,775)</u>
Change in Net Position	91,026	456,697
Total Net Position, Beginning of Year	<u>281,811</u>	<u>(174,886)</u>
Total Net Position, End of Year	<u>\$ 372,837</u>	<u>\$ 281,811</u>

*See accompanying notes*

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Cash Flows from Operating Activities</u>		
Cash received from member agencies	\$ 4,515,362	\$ 4,016,839
Cash received from other sources	2,142	2,754
Cash received from grantor	671,141	3,101,615
Cash received from Cachuma Betterment Fund	90,000	90,000
Cash received from Renewal and Warren Act Funds	259,467	263,329
Cash payments to suppliers for operations	(2,862,447)	(5,705,566)
Cash payments to employees	(1,336,302)	(1,356,263)
Net cash provided by operating activities	<u>1,339,363</u>	<u>412,708</u>
<u>Cash Flows from Noncapital Financing Activities</u>		
Increase (decrease) in restricted assets	276,899	(25,770)
(Increase) decrease in deferred revenue	(276,899)	25,770
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Acquisition of capital assets	(20,345)	(42,838)
Interest payments on SOD Act contract payable	(104,464)	(109,419)
Principle payments on SOD Act contract payable	(87,538)	(82,852)
Net cash flows used by capital and related financing activities	<u>(212,347)</u>	<u>(235,109)</u>
<u>Cash Flows From Investing Activities</u>		
Interest received	401	490
Proceeds from redemptions of investments	(12)	(12)
Net cash flows provided by investing activities	<u>389</u>	<u>478</u>
Net increase in Cash	1,127,405	178,077
Cash and Cash Equivalents - Beginning of Year	<u>793,837</u>	<u>615,760</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,921,242</u>	<u>\$ 793,837</u>

*See accompanying notes*

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Reconciliation of net operating gain to net cash provided</u>		
<u>by operating activities</u>		
Net operating gain	\$ 195,091	\$ 686,472
Adjustments to reconcile net operating gain to net cash provided by operating activities:		
Depreciation expense	77,213	87,680
Changes in operating assets and liabilities		
Other receivables	(2,255)	(9,912)
Deposits	-	6,529
Prepaid insurance	85	(3,020)
Current portion of SOD Act assessment receivable	87,539	82,852
Accounts payable	810,306	(2,532,533)
Accrued vacation and sick leave benefits	26,091	6,130
Amounts constructively returned to members	-	(120,780)
OPEB liability	163,228	179,814
Grant receivables	(17,935)	2,029,476
	<u>1,339,363</u>	<u>412,708</u>
Net cash provided by operating activities	<u>\$ 1,339,363</u>	<u>\$ 412,708</u>

*See accompanying notes*

## CACHUMA OPERATION AND MAINTENANCE BOARD

### NOTES TO THE FINANCIAL STATEMENTS

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#### Note 1 - Organization

The Cachuma Operation and Maintenance Board (COMB) is a joint powers agency organized to operate and maintain the water delivery system of the Cachuma Project located in Santa Barbara County. COMB's member agencies (Member Agencies) consist of five water purveyors as follows: Carpinteria Valley Water District, City of Santa Barbara, Goleta Water District, Montecito Water District, and Santa Ynez River Water Conservation District Improvement District No. 1.

The Member Agencies entered into a Joint Exercise of Powers Agreement to exercise their common power to provide for the rights to, the facilities of, and the operation, maintenance and use of the United States, Department of the Interior, Bureau of Reclamation project known as the Cachuma Project, including storage, treatment, transport and appurtenant facilities, and all necessary tangible and intangible property rights. In September 2010, the Cachuma Operation and Maintenance Board approved a budget adjustment effective January 2011 to transfer from CCRB the implementation activities of the Santa Ynez River Fisheries Program as required by the 2000 Biological Opinion.

#### Note 2 - Summary of Significant Accounting Policies

##### A) Basis of Accounting

COMB operates as a proprietary fund type. All proprietary fund types are accounted for on a flow of economic resources measurement focus. Under this measurement focus, all assets and liabilities associated with the operation of these funds are included in the statement of net position. Where appropriate, net total position are segregated into net position invested in capital assets and unrestricted position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

All proprietary fund types utilize the accrual basis of accounting. Under this method, revenues are recognized at the time the related liabilities are incurred regardless of when paid.

COMB distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with COMB's principal ongoing operations. The principal operating revenues of COMB are assessments of the Member Agencies and grant monies received. Operating expenses for COMB include maintenance and administrative expenses, depreciation on capital assets and litigation costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

## CACHUMA OPERATION AND MAINTENANCE BOARD

### NOTES TO THE FINANCIAL STATEMENTS

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#### Note 2 - Summary of Significant Accounting Policies (Continued)

##### B) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes demand deposits and money market accounts, but does not include restricted cash or funds invested in the Local Agency Investment Fund (LAIF).

##### C) Capital Assets

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally 5 years. Title to the assets of the Cachuma Project is with the United States of America; the assets are not recorded as assets of COMB. Costs relating to capital improvements, rehabilitation, betterment, maintenance and modifications are therefore reported as expenditures when incurred by COMB.

##### D) Investments

Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

##### E) Accrued Vacation and Sick Pay

Employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences vest and accumulate and are accrued when they are earned.

##### F) Unspent Operating Assessments

The operating assessments represent amounts received from COMB's Member Agencies to fund current operations. To the extent that revenues exceed expenses in a given year, they are constructively returned to the Member Agencies in subsequent years.

##### G) Other Post-Employment Benefits

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

# CACHUMA OPERATION AND MAINTENANCE BOARD

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### G) Other Post-Employment Benefits (Continued)

OPEB cost is measured and disclosed using the accrual basis of accounting. Annual OPEB cost is equal to the annual required contributions of the OPEB plan, calculated in accordance with certain parameters. See Note 12 for further details.

#### H) Net Position

Net position represents the difference between assets and liabilities and is classified into three components as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

Restricted – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted, reserved net position represents unrestricted assets which are segregated by the Board of Trustees for specific future uses.

When an expense is incurred for purposes for which both unrestricted and restricted resources are available for use, it is COMB’s policy to apply restricted assets first, then unrestricted resources.

#### I) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. COMB’s principal areas that include estimates are the liabilities and related receivables for Safety of Dams Act construction in process, useful lives of capitalized assets and the liability for other postemployment benefits. It is at least reasonably possible that the significant estimates used will change within the next year.

# CACHUMA OPERATION AND MAINTENANCE BOARD

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### J) Deferred Revenue

Deferred revenue consists of the unspent Renewal Fund and Warren Act Trust fund money that is restricted for Lake Cachuma projects. Each year, the Fund Committees decide how to spend these funds and revenue is recognized when the money is spent. See Note 4 for disclosures on restricted cash.

#### K) Implementation of New Accounting Pronouncements

GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities—an amendment of Concept Statement No. 4, Elements of Financial Statements*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other reporting guidance related to the impact of the financial statements elements deferred outflows of resources and deferred inflows of resources, such as the change in the determination of the major fund classifications and limiting the use of the term deferred in the financial statement presentations. The adoption of this statement did not have a material impact on COMB's financial statements.

GASB Statement No. 66 *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This Statement removes the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. The adoption of this statement did not have a material impact on COMB's financial statements.

GASB Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and required supplementary information (RSI) for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The adoption of this statement did not have a material impact on COMB's financial statements.

## CACHUMA OPERATION AND MAINTENANCE BOARD

### NOTES TO THE FINANCIAL STATEMENTS

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#### Note 3 - Cash and Investments

##### Investments Authorized by COMB's Investment Policy

Under the provisions of COMB's investment policy, the agency may invest in state or national banks, state or federal saving and loan associations, the State of California Local Agency Investment Fund (LAIF), or may invest as provided in the California Government Code.

##### Investment in Local Agency Investment Fund (LAIF)

LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. LAIF invests some of its portfolio in derivatives. Detailed information on derivative investments held by this pool is not readily available. Investments in LAIF are not rated by a national rating agency.

##### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. COMB did not have any investments with fair values that are considered to be highly sensitive to changes in interest rates.

##### Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, COMB will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of COMB and are held by either the counter-party or the counter-party's trust department or agent but not in COMB's name.

All cash is entirely insured or collateralized. The California Government Code requires California banks and savings and loans associations to secure COMB's deposits by pledging government securities, which equal at least 110% of COMB's deposits. California law also permits financial institutions to secure COMB's deposits by the pledging of first trust deed mortgage notes in excess of 150% of the COMB's deposits. COMB may waive collateral requirements for deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC).

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 3 - Cash and Investments (Continued)**

Custodial Credit Risk (Continued)

In accordance with governmental accounting standards, COMB's cash and cash equivalents are classified as to credit risk into three categories:

- Category 1 includes investments that are insured or registered or for which the securities are held by COMB or its agency in COMB's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in COMB's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, by its trust department or agency but not in COMB's name.

Currently, COMB's investments are held within LAIF. This is a non-categorized investment vehicle permitted under the provisions of COMB's investment policy.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, COMB was not significantly exposed to credit risk.

Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, COMB was not exposed to concentration of credit risk.

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, COMB was not exposed to foreign currency risk.

Cash and investments as of June 30, 2014 and 2013 consist of the following:

	2014		
	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Credit Risk Category</u>
Cash in banks and on hand	\$ 2,236,973	\$ 2,236,973	1
Local Agency Investment Fund (LAIF)	<u>3,893</u>	<u>3,893</u>	N/A*
Total cash and investments, at fair value	<u>\$ 2,240,866</u>	<u>\$ 2,240,866</u>	

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 3 - Cash and Investments (Continued)**

Foreign Currency Risk (Continued)

	Carrying Amount	2013 Market Value	Credit Risk Category
Cash in banks and on hand	\$ 832,670	\$ 832,670	1
Local Agency Investment Fund (LAIF)	3,881	3,881	N/A*
Total cash and investments, at fair value	<u>\$ 836,551</u>	<u>\$ 836,551</u>	

\*Not subject to categorization

**Note 4 - Restricted Cash**

The Cachuma Project Renewal Fund (Renewal Fund) and Cachuma Project Trust Fund (Trust Fund) are two separate funds that have been established through contracts with the U.S. Bureau of Reclamation (Reclamation).

The Trust Fund is a requirement of the Warren Act contract that the Central Coast Water Authority (CCWA) negotiated with Reclamation for the use of the Cachuma Project for transport of State Water Project (SWP) water through Cachuma Project facilities. The memorandum of understanding (MOU) creating the Trust Fund established a two person Fund Committee and an Advisory Committee. One member of the Fund Committee is appointed by the Member Agencies through COMB or CCRB. The other member of the Fund Committee is appointed by Santa Barbara County Board of Supervisors from the County Water Agency.

The Renewal Fund is a requirement of the Cachuma Project Renewal Master Contract for water service from the Cachuma Project to the five Cachuma Project Member Agencies. The Cachuma Project Renewal Master Contract is mostly silent on the process for managing the Renewal Fund, other than stating that the Fund Committee must agree on its use.

Both the Trust Fund and the Renewal Fund require annual and five-year plans. Reclamation and the Cachuma Project Member Agencies agreed to use the committee process for both funds and to have common annual and five-year plans. To date, the annual and five-year plans have authorized the combined funds to be used for implementation of the Biological Opinion (BO)/Fish Management Plan (FMP). Pursuant to the Renewal Master Contract, COMB administers both the Trust Fund and the Renewal Fund accounts.

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 4 - Restricted Cash (Continued)**

Summary of restricted cash as of June 30:

	<u>2014</u>	<u>2013</u>
Trust Fund	\$ 305,516	\$ 28,658
Renewal Fund	10,215	10,175
Total Restricted Cash	<u>\$ 315,731</u>	<u>\$ 38,833</u>

**Note 5 - Cachuma Project Betterment Fund**

Since the Cachuma Project was completed in the mid-1950s, the Santa Barbara County Water Agency has collected \$100,000 per year in taxes for the betterment of the Cachuma Project. For the first 40 years, these funds were used to pay down the capital cost of constructing the Cachuma Project. The authorized uses of these funds were broadened in 1995 pursuant to the Renewal Master Contract. The County Water Agency was still obligated to provide \$100,000 annually to the Cachuma Project. However, under Article 8 (b), the funds could to be used for any beneficial purpose consistent with the Water Agency Act within the Santa Ynez River watershed or the Cachuma Project service area. Each fiscal year, representatives from the Cachuma Project Member Agencies and the County Water Agency must mutually agree on the activities to be funded by the County Water Agency's \$100,000 contribution. To date, the Betterment Fund has been combined with the Trust Fund and Renewal Fund revenues to offset the costs of the Fisheries Program. On January 1, 2011, the balance of the Betterment fund was transferred from Cachuma Conservation Release Board to COMB to support the Fisheries Program.

**Note 6 - SOD Act Assessments Receivable and Contract Payable**

**Bradbury Dam**

On July 1, 2002, COMB executed a repayment contract with U.S. Bureau of Reclamation in the Department of Interior of the United States (Reclamation). Under the terms of the agreement and in accordance with the United States Safety of Dams (SOD) Act, COMB will reimburse Reclamation for fifteen percent (15%) of the total amount of SOD Act funds expended by Reclamation to preserve the structural integrity of Bradbury Dam and related Cachuma Project facilities.

COMB entered into a repayment contract with Reclamation when the project was deemed to be substantially complete. The repayment contract, as executed, calls for a repayment of 15% of a total cost of \$45,276,008 or approximately \$6,791,000 plus interest, as appropriate, over a 50-year period. The repayment obligation has been allocated fifty-one and three tenths percent (51.3%) to irrigation uses (Irrigation Allocation) or \$3,483,989, and forty eight and seven tenths percent

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 6 - SOD Act Assessments Receivable and Contract Payable (Continued)**

Bradbury Dam (Continued)

(48.7%) to municipal and industrial (M&I) uses (M&I Allocation) or \$3,307,412. The Irrigation allocation bears no interest and repayment commences in fiscal year end 2017. Interest during construction in the amount of \$325,477 was added to the M&I Allocation. During construction COMB made advances in the amount of \$1,496,148 that were applied against the M&I Allocation amounts. Accounting for advances made by COMB during construction, the balance due under the M&I Allocation contract was \$2,136,741.

COMB will assess the Member Agencies annually amounts equal to the obligation due Reclamation. The annual payment requirements at June 30, 2014 to retire the contract as of June 30, 2052, including interest payments at 5.856%, are presented in the following table. This table does not include adjustments that will be made to the Bradbury Dam repayment contract due to additional incurred costs or for payments that will be required under the Lauro Dam repayment contract.

	M&I Allocation		Irrigation Allocation	Total
	Principal	Interest		
2015	\$ 78,677	\$ 86,194	\$ -	\$ 164,871
2016	83,283	81,587	-	164,870
2017	88,160	76,710	96,777	261,647
2018	93,323	71,547	96,777	261,647
2019	98,788	66,082	96,777	261,647
2020 - 2024	587,793	236,557	483,887	1,308,237
2025 - 2029	441,875	52,734	483,887	978,496
2030 - 2034	-	-	483,887	483,887
2035 - 2039	-	-	483,887	483,887
2040 - 2044	-	-	483,887	483,887
2045 - 2049	-	-	483,887	483,887
2050 - 2052	-	-	290,335	290,335
	<u>\$ 1,471,899</u>	<u>\$ 671,411</u>	<u>\$ 3,483,988</u>	<u>\$ 5,627,298</u>

The interest expense for the Bradbury Dam SOD Act contract payable was \$94,658 and \$98,542 for the years ended June 30, 2014 and 2013, respectively.

## CACHUMA OPERATION AND MAINTENANCE BOARD

### NOTES TO THE FINANCIAL STATEMENTS

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#### Note 6 - SOD Act Assessments Receivable and Contract Payable (Continued)

##### Bradbury Dam (Continued)

The total cost of the Bradbury Dam SOD Act project is to be reevaluated and the repayment agreement amended as necessary by Reclamation and COMB when all phases of the work are completed. Total project costs as of June 30, 2014 were \$48,321,547, \$3,045,539 higher than the total cost authorized under the repayment contract. It is management's opinion that COMB will be responsible for reimbursing Reclamation 15% of the total construction costs in excess of the costs per the original repayment contract. As of June 30, 2014, an additional liability of \$456,831 was recorded for construction costs incurred in excess of the original repayment agreement. This is an estimate based on management's best judgment which may be adjusted as more current information becomes available.

Reclamation can also reevaluate the ability of COMB's Member Agencies to repay the Irrigation Allocation every five years, commencing in fiscal year end 2008. No adjustment has been made to the Irrigation Allocation balance to reflect a discount due to the non-interest bearing feature of the contract.

##### Lauro Dam

On March 21, 2007, COMB executed a repayment contract with U.S. Bureau of Reclamation in the Department of Interior of the United States (Reclamation). Under the terms of the agreement and in accordance with the United States Safety of Dams (SOD) Act, COMB will reimburse Reclamation for fifteen percent (15%) of the total amount of SOD Act funds expended by Reclamation to preserve the structural integrity of Lauro Dam and reservoir; total costs not to exceed \$17,314,125. The primary contract for construction of the modification project was awarded by Reclamation in September 2005 and the work was deemed substantially complete in February 2007.

COMB entered into a repayment contract with the Reclamation when the project was deemed to be substantially complete. The repayment contract, as executed, calls for a repayment of 15% of a total cost of \$5,974,934 or approximately \$896,240 plus interest, as appropriate, over a 50-year period. The repayment obligation has been allocated fifty and seventy two one hundredths percent (50.72%) to irrigation uses (Irrigation Allocation) or \$454,573, and forty nine and twenty eight hundredths percent (49.28%) to municipal and industrial (M&I) uses (M&I Allocation) or \$441,667. The Irrigation allocation bears no interest and repayment commences October 2017. The M&I allocation balance due during the construction period accrued interest in the amount of \$15,798.

COMB will assess the South Coast Member Agencies annually amounts equal to the obligation due January 4, 2057, including interest payments at 4.886%, are presented in the following table. This table does not include adjustments that will be made to the Lauro Dam repayment contract due to additional incurred costs or for payments that will be required under the Lauro Dam repayment contract.

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 6 - SOD Act Assessments Receivable and Contract Payable (Continued)**

Lauro Dam (Continued)

	M&I Allocation		Irrigation Allocation	Total
	Principal	Interest		
2015	\$ 13,818	\$ 18,270	\$ -	\$ 32,088
2016	14,447	17,641	-	32,088
2017	15,106	16,985	10,823	42,914
2018	15,794	16,294	10,823	42,911
2019	16,513	15,575	10,823	42,911
2020 - 2024	94,561	66,739	54,115	215,415
2025 - 2029	118,157	42,284	54,115	214,556
2030 - 2034	112,619	12,928	54,115	179,662
2035 - 2039	-	-	54,115	54,115
2040 - 2044	-	-	54,115	54,115
2045 - 2049	-	-	54,115	54,115
2050 - 2054	-	-	54,115	54,115
2055 - 2057	-	-	43,299	43,299
	<u>\$ 401,015</u>	<u>\$ 206,716</u>	<u>\$ 454,573</u>	<u>\$ 1,062,304</u>

The interest expense for the Lauro Dam SOD Act contract payable was \$19,448 and \$19,999 for the years ended June 30, 2014 and 2013, respectively.

The total costs of the Lauro Dam SOD Act project is to be reevaluated and repayment agreement amended as necessary by Reclamation and COMB when all phases of work are completed. The total project costs as of June 30, 2014 were \$6,728,401, \$753,467 higher than the total costs authorized by the repayment contract. It is management's opinion that COMB will be responsible for reimbursing Reclamation 15% of the total construction cost incurred in excess of the original repayment contract. As of June 30, 2014, an additional liability of \$113,020 is recorded for construction costs incurred in excess of the original repayment agreement.

Management deems the assessments receivable related to the Bradbury and Lauro Dams SOD Act projects to be fully collectable. The total SOD Act liability at June 30, 2014 is composed of the following:

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 6 - SOD Act Assessments Receivable and Contract Payable (Continued)**

	June 30, 2014	June 30, 2013
Bradbury Dam repayment contract:		
M&I principal	\$ 1,471,899	\$ 1,546,224
Irrigation principal	3,483,988	3,483,986
Total Bradbury Dam repayment contract obligation excluding interest	4,955,887	5,030,210
Bradbury Dam liability for 15% of additional costs incurred over repayment contract	456,831	456,831
Total Bradbury Dam SOD Act liability	5,412,718	5,487,041
Lauro Dam repayment contract:		
M&I principal	\$ 401,015	\$ 414,231
Irrigation principal	454,573	454,573
Total Lauro Dam repayment contract obligation interest	855,588	868,804
Lauro Dam liability for 15% of additional costs incurred over repayment contract	113,020	113,020
Total Lauro SOD Act liability	968,608	981,824
Total SOD Act Liability	6,381,326	6,468,865
Less current portion	(92,495)	(87,540)
Long-term portion of SOD Act liability	\$ 6,288,831	\$ 6,381,325

**Note 7 - Long-Term Debt**

Changes in long term debt amounts for years ended June 30, 2014 and 2013 were as follows:

	Beginning Balance 2014	Additions	Principal Payments	Ending Balance 2014
SOD Act Liabilities	\$ 6,468,865	-	\$ (87,539)	\$ 6,381,326
	\$ 6,468,865	-	\$ (87,539)	\$ 6,381,326

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 7 - Long-Term Debt (Continued)**

	Beginning Balance 2013	Additions	Principal Payments	Ending Balance 2013
SOD Act Liabilities	\$ 6,551,717	\$ -	\$ (82,852)	\$ 6,468,865
	\$ 6,551,717	\$ -	\$ (82,852)	\$ 6,468,865

**Note 8 - Capital Assets**

The following is a summary of capital assets which include property, plant and equipment at June 30, 2014 and 2013.

	Beginning Balance 2014				Additions	Deletions	Transfers	Ending Balance 2014	
Vehicles	\$ 431,605	\$ -	\$ -	\$ -	-	-	-	-	\$ 431,605
Office furniture and equipment	398,705	6,570	-	-	-	-	-	-	405,275
Field equipment	503,755	13,775	-	-	-	-	-	-	517,530
Mobile offices used for facilities	97,803	-	-	-	-	-	-	-	97,803
Resurfacing	38,351	-	-	-	-	-	-	-	38,351
Total capital assets	1,470,219	20,345	-	-	-	-	-	-	1,490,564
Less: accumulated depreciation and amortization	(1,271,344)	(77,213)	-	-	-	-	-	-	(1,348,557)
Net capital assets	\$ 198,875	\$ (56,868)	\$ -	\$ -	-	-	-	-	\$ 142,007

	Beginning Balance 2013				Additions	Deletions	Transfers	Ending Balance 2013	
Vehicles	\$ 444,890	\$ 2,127	\$ (15,412)	\$ -	-	-	-	-	\$ 431,605
Office furniture and equipment	384,566	14,139	-	-	-	-	-	-	398,705
Field equipment	493,184	10,571	-	-	-	-	-	-	503,755
Mobile offices used for facilities	97,803	-	-	-	-	-	-	-	97,803
Resurfacing	22,350	16,001	-	-	-	-	-	-	38,351
Total capital assets	1,442,793	42,838	(15,412)	-	-	-	-	-	1,470,219
Less: accumulated depreciation and amortization	(1,199,076)	(87,680)	15,412	-	-	-	-	-	(1,271,344)
Net capital assets	\$ 243,717	\$ (44,842)	\$ -	\$ -	-	-	-	-	\$ 198,875

## CACHUMA OPERATION AND MAINTENANCE BOARD

### NOTES TO THE FINANCIAL STATEMENTS

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#### Note 9 - Joint Powers Insurance Authority

COMB participates in the property and liability program organized by the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA). Employees working for COMB receive the benefits of this plan through the employee services agreement. ACWA/JPIA is a Joint Powers Authority created to provide a self-insurance program to water agencies in the State of California. The ACWA/JPIA is not a component unit of COMB for financial reporting purposes, as explained below.

ACWA/JPIA provides liability, property and workers' compensation insurance for approximately 300 water agencies for losses in excess of the member agencies specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial carriers. ACWA/JPIA is governed by a board comprised of members from participating agencies. The board controls the operations of ACWA/JPIA, including selection of management and approval of operating budgets, independent of any influence by the members beyond the representation on the board. Each member shares surpluses and deficiencies proportionately to its participation in ACWA/JPIA.

Additional information and complete financial statements for the ACWA/JPIA are available for public inspection at 5620 Birdcage Street, Suite 200, Citrus Heights, CA, between the hours of 8 a.m. and 5 p.m., Monday through Friday.

#### Note 10 - Defined Benefit Pension Plan

##### Plan Description

COMB contributes to the California Public Employees Retirement System Miscellaneous 2% at 55 Risk Pool, a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System ("CalPERS"). A menu of benefit provisions, as well as other requirements, is established by State statutes within California Public Employee Retirement Law. COMB selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through the Board of Directors' (the "Board") authorization.

CalPERS issue a separate comprehensive annual financial report for the Miscellaneous 2% at 55 Risk Pool. Copies of the annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, California 95814.

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 10 - Defined Benefit Pension Plan (Continued)**

Funding Policy

Active plan members in the COMB defined benefit plan (the “Plan”) are required to contribute 7% of their annual covered salary. COMB pays this amount to CalPERS on behalf of its employees. The required employer contribution rates for 2014 and 2013 were 12.487% and 12.007% respectively. The contribution requirements of the Plan’s members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For the years ended June 30, 2014 and 2013, COMB’s annual pension cost (APC) of \$208,652 and \$152,899 respectively, was equal to COMB’s required and actual contributions. The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percentage of payroll
Remaining Amortization Period	20 Years as of the valuation date
Asset Valuation Method	15 Year smoothed market
Actuarial Assumptions:	
Investment rate of return	7.50%, net of administrative expenses
Projected salary increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual salary growth	A metric scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

The actuarial value of the Plan’s assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen-year period. CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over 20 years.

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 10 - Defined Benefit Pension Plan (Continued)**

Annual Pension Cost (Continued)

Three-year trend information for CalPERS:

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 194,346	100%	-
2012	152,899	100%	-
2013	208,652	100%	-

Required Supplementary Information

Effective for the June 30, 2003 valuation, PERS requires mandatory pooling for plans with less than 100 active members. The schedule for funding progress below represents the recent history of the risk pool's actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability.

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Liability (A) - (B)	Funded Ratio (B)/(A)	Annual Covered Payroll	UL as a % of Payroll (C)/(E)
06/30/09	\$ 3,104,798,222	\$ 2,758,511,101	\$ 346,287,121	88.9%	\$ 742,981,488	46.6%
06/30/10	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%
06/30/11	3,619,836,876	3,203,214,889	416,621,987	88.5%	759,263,518	54.9%

**Note 11 - Deferred Compensation Plan**

COMB offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are maintained (until paid or made available to the participant or beneficiary) in a trust account administered by State Street Bank and Trust. Participants have sole rights under the plan in an amount equal to the fair market value of the deferred for each participant. Contributions made by COMB for the employees to the plan for the years ended June 30, 2014 and 2013 were and \$119,627 and \$127,701, respectively.

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 12 - Post-retirement Health Care Benefits**

COMB offers post-retirement health insurance benefits to retired employees. Retired employees are eligible to receive benefits, equal to medical, dental and vision insurance, if the employee has reached age 50 and has twelve years of covered service.

Funding Policy

COMB's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The current ARC rate is 10% of the annual covered payroll. COMB has elected to make contributions equal to the pay-as-you-go amount.

Annual OPEB Cost and Net OPEB Obligation

COMB's annual OPEB cost (expense) is calculated based on the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortized any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the COMB's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the COMB's net OPEB obligation:

Annual required contribution	\$ 235,483
ARC Adjustment	(14,415)
Interest on net OPEB obligation	<u>20,542</u>
Annual OPEB cost (expense)	241,610
Contributions made	<u>(78,382)</u>
Increase in net OPEB obligation	163,228
Net OPEB obligation, beginning of year	<u>432,462</u>
Net OPEB obligation, end of year	<u><u>\$ 595,690</u></u>

COMB's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending June 30, 2014 and the two preceding fiscal years were as follows:

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 12 - Post-retirement Health Care Benefits (Continued)**

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 130,528	52%	\$ 252,648
6/30/2013	247,484	27%	432,462
6/30/2014	241,610	32%	595,690

**Funded Status and Funding Progress**

The funded status of the plan as of June 30, 2013, was as follows:

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL) (A) - (B)	Funded Ratio (B)/(A)	Annual Covered Payroll	UAAL as a % of Payroll (C)/(E)
12/1/2009	\$ 1,164,773	-	\$ 1,164,773	-	\$ 1,160,852	100%
12/1/2012	2,132,682	-	2,132,682	-	1,360,492	157%

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

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 12 - Post-retirement Health Care Benefits (Continued)**

Valuation Date	December 1, 2012
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percentage of payroll
Remaining Amortization Period	30 years as of the valuation date
Asset Valuation Method	Not applicable
Actuarial Assumptions:	
Discount Rate	4.75%
Inflation	2.75%
Healthcare Cost Trend	4.00%
Payroll Growth	2.75%

**Note 13 - Commitments and Contingencies**

1993 Cachuma Project Authority Bonds

In 1996 COMB merged with the Cachuma Project Authority (CPA) and as a result of this merger COMB became the agency responsible for the oversight and payment of the 1993 CPA bonds. These bonds have not been recorded on the books of COMB since three of the Member Agencies are obligated under Joint Participation Agreements to make the principal and interest payments on behalf of COMB.

On August 19, 2004, COMB refinanced the 1993 CPA bonds with the 2004 Cachuma Operation and Maintenance Board Bonds (“Bonds”) for \$4,480,000 at varying interest rates from 3.000% to 4.625% on behalf of three Member Agencies. Each of the three Member Unit participants has entered into one or more joint participation agreements with COMB pursuant to which the Member Unit is obligated to make certain payments with respect to certain additions, betterments, extensions or improvements to such Member Unit’s water system. Such payments will constitute revenues pledged to secure the payment of the principal of and interest on the Bonds.

Emergency Drought Pumping Contingency

Due to the severe California drought, water levels in Lake Cachuma fell below required minimum to carry water to the south coast Member Agencies through the Tecolote Tunnel. As a result, COMB will be required establish and maintain pumps to assist with transporting the water. Anticipated costs are expected to approximate \$3 million in fiscal year 2015 and will be funded by member assessments and the Bank of Santa Barbara loan as described in Note 14.

**CACHUMA OPERATION AND MAINTENANCE BOARD**

**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 13 - Commitments and Contingencies (Continued)**

Legal Contingencies

*Brown v. Cachuma Operation Maintenance Board*

On November 14, 2013, Andrew and Jessica Brown filed suit against COMB for breach of contract, breach of implied covenant of good faith and fair dealing, declaratory relief, and equitable indemnity and/or contribution. COMB is vigorously defending the action and management believes the ultimate disposition of this matter will have no significant impact on the financial position of COMB.

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

**Note 14 - Subsequent Events**

On July 25, 2014, COMB entered into two loan agreements with the Bank of Santa Barbara totaling approximately \$3.2 million.

Subsequent events have been evaluated through January 15, 2015 the date that the financial statements were available to be issued.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**To the Board of Directors of  
Cachuma Operation and Maintenance Board**

We have audited, in accordance with the 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, the financial statements of Cachuma Operation and Maintenance Board ("COMB") as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered COMB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the COMB's internal control. Accordingly, we do not express an opinion on the effectiveness of COMB's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, material weaknesses may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (2014-1).

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cachuma Operation and Maintenance Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **COMB's Response to the Finding**

COMB's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. COMB's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering COMB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bartlett, Pringle & Wolf, LLP*

Santa Barbara, California  
January 15, 2015



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE**

**To the Board of Directors of  
Cachuma Operation and Maintenance Board**

**Report on Compliance for Each Major Federal Program**

We have audited Cachuma Operation and Maintenance Board's ("COMB") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the COMB's major federal programs for the year ended June 30, 2014. COMB's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the COMB's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about COMB's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of COMB's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Cachuma Operation and Maintenance Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of the COMB is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered COMB's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of COMB's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Bartlett, Pringle & Wolf, LLP*

Santa Barbara, California  
January 15, 2015

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2014**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Federal Expenditures</u>
US Department of Commerce Pacific Coast Salmon Recovery Pacific Salmon Treaty Program Pass Through CA Department of Fish and Wildlife Fish Passage Improvement on Crossing 1, Quiota Creek	11.438	P1250007	\$521,141
US Department of Commerce Habitat Conservation Pass Through Fish America Foundation Cattle Exclusionary Fencing Project	11.463	FAF-12040	<u>17,935</u>
Total Federal Awards Expended			<u>\$539,076</u>

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2014**

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**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Cachuma Operation and Maintenance Board is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2 - Program Descriptions**

US Department of Commerce Pass Through California Department of Fish and Wildlife  
Construction project to build a bridge on Refugio Road in Santa Ynez, California at Quiota Creek Crossing No. 1.

US Department of Commerce Pass Through Fish America Foundation

Construction project to build a fence along the Quiota Creek in Santa Ynez, California in order prevent local cattle operations from entering the watershed.

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**SCHEDULE OF FINDINGS OF QUESTIONED COSTS**  
**For the Year Ended June 30, 2014**

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**I. AUDITORS' RESULTS**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified?   X   Yes        No
- Significant deficiencies identified?        Yes   X   No

Noncompliance material to financial statements noted?        Yes   X   No

*Federal Awards*

Internal control over major programs:

- Material weakness identified?        Yes   X   No
- Significant deficiencies identified?        Yes   X   No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?        Yes   X   No

Identification of Major Programs:

<u>Grant Number(s)</u>	<u>Name of Federal Program</u>
P1250007	California Department of Fish and Wildlife

Dollar threshold used to distinguish between type A and type B programs \$   300,000  

Auditee qualified as low-risk auditee?        Yes   X   No

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2014**

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**II. FINANCIAL STATEMENT FINDINGS**

2014-1 Accounts Payable

*Finding*

Criteria

Expenses should be recorded in the same period as incurred.

Condition, Context, and Cause:

During our search for unrecorded liabilities, we noted two invoices related to services performed prior to the year-end that were not recorded as payables in the proper period. Proper cutoffs are critical for the accuracy of the accrual basis of accounting.

Effect:

An audit adjustment of approximately \$528,000 was recorded to properly state accounts payable at year-end.

Recommendation:

We recommend that all expenses be carefully scrutinized to ensure inclusion in the proper period.

*Views of Responsible Officials and Planned Corrective Action:*

The Administrative Manager will review all invoices near year-end in the future to ensure all are recorded in the proper period.

**III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

No matters were reported.

SUPPLEMENTAL SCHEDULE

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**SUPPLEMENTAL SCHEDULE OF OPERATION AND MAINTENANCE,**  
**GENERAL AND ADMINISTRATIVE AND OTHER MAINTENANCE EXPENSE**  
**For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Operation and Maintenance Division		
Operation and Maintenance Expense		
Salaries and benefits	\$ 652,965	\$ 760,400
Contract labor	58,466	37,295
Equipment	5,009	5,303
Equipment rental	4,551	1,902
Materials and supplies	31,829	36,147
Vehicle maintenance	29,266	37,175
Other expenses	49,636	40,878
Total operation and maintenance expense	<u>\$ 831,722</u>	<u>\$ 919,100</u>
General and Administrative Expense		
Administration salaries	\$ 290,319	\$ 304,684
Accrued wages and vacation	24,285	(3,165)
Directors fees and expense	10,349	11,425
Legal and audit	93,362	113,793
Liability insurance	33,016	36,807
Health insurance and workers compensation	121,213	72,793
Retirement plan contributions	297,617	292,653
Payroll tax expense	32,381	23,283
Office supplies and expense	41,455	39,484
Administrative travel and conferences	1,863	625
Membership dues	6,455	5,870
Employee training	322	600
Public information	630	517
Refund of unspent FEMA Award	-	33,072
Other expenses	17,827	18,410
Total general and administrative expense	<u>\$ 971,094</u>	<u>\$ 950,851</u>
Fisheries Division		
Operation and Maintenance Expense		
Salaries and benefits	\$ 488,508	\$ 449,673
Contract labor	15,743	11,422
Vehicles and equipment	15,235	11,533
Materials and supplies	3,429	766
Other expenses	1,852	2,323
Total operation and maintenance expense	<u>\$ 524,767</u>	<u>\$ 475,717</u>

*See accompanying notes*

**CACHUMA OPERATION AND MAINTENANCE BOARD**  
**SUPPLEMENTAL SCHEDULE OF OPERATION AND MAINTENANCE,**  
**GENERAL AND ADMINISTRATIVE AND OTHER MAINTENANCE EXPENSE (CONTINUED)**  
**For the Years Ended June 30, 2014 and 2013**

Fisheries Division (Continued)	<u>2014</u>	<u>2013</u>
General and Administrative Expense		
Administration salaries	\$ 161,975	\$ 170,185
Health insurance and workers compensation	41,261	34,573
Retirement plan contributions	30,158	24,322
Payroll tax expense	13,317	12,495
Office supplies and expense	22,236	23,576
Administrative travel and conferences	1,596	1,295
Membership dues	3,343	3,028
Legal and audit	32,317	30,490
Accrued wages and vacation	7,289	(1,704)
Liability insurance	17,732	21,445
Other expenses	12,628	11,521
Total general and administrative expense	<u>\$ 343,852</u>	<u>\$ 331,226</u>
Fishery related projects		
FMP implementation	\$ 24,742	\$ 50,559
GIS and mapping	7,771	4,351
Grants technical support	-	3,950
SYR hydrology technical support	7,510	6,033
USGS stream gauge program	74,150	74,150
Tri county fish team funding	5,000	5,000
Oak tree restoration program	4,075	25,904
Santa Ynez River model peer review	-	5,413
Santa Ynez River model use	-	3,300
Total fishery related projects	<u>\$ 123,248</u>	<u>\$ 178,660</u>
Other Maintenance Expense and Habitat Enhancement		
Flow meter upgrades and SCADA system	\$ 415	\$ 18,677
COMB building / grounds repair	873	9,764
Intergraded regional water management plan	4,952	1,961
SCC structure rehabilitation	3,285	-
GIS and mapping	10,544	11,168
Quiota Creek Crossing engineering designs	67,798	74,963
Tributary projects support	2,962	3,021
SCC emergency pipeline repairs	-	(1,487)
Cattle Fencing	19,138	-
North Portal elevator rehabilitation	48,453	-
Lower reach boundary meter	-	20,998
NP/Lake Intake Tower Phase I	-	27,110
Total other maintenance expense and habitat enhancement	<u>\$ 158,420</u>	<u>\$ 166,175</u>

*See accompanying notes*