

**CACHUMA OPERATION
AND MAINTENANCE BOARD**

June 30, 2016 and 2015

FINANCIAL STATEMENTS



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

CACHUMA OPERATION AND MAINTENANCE BOARD

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 – 3
Management's Discussion and Analysis	4 – 12
Statement of Net Position	13 – 14
Statement of Revenues, Expenses and Changes in Net Position	15
Statement of Cash Flows	16 – 17
Notes to the Financial Statements.....	18 – 46
Required Supplementary Information (Unaudited):	
California Public Employees' Retirement System – Schedule of Cachuma Operation and Maintenance Board's Proportionate Share of the Net Pension Liability	47
California Public Employees' Retirement System – Schedule of Cachuma Operation and Maintenance Board's Contributions	48
Other Post-Employment Benefits (OPEB) Plan – Schedule of Funding Progress	49
Other Supplementary Information:	
Supplemental Schedule of Operation and Maintenance, General and Administrative and Other Maintenance Expense	50 – 51



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, 2016 and 2015 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, 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, 2016 and 2015, 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 Discussion and Analysis on pages 4 through 12, the California Public Employees' Retirement System - Schedule of Cachuma Operation and Maintenance Board's Proportionate Share of the Net Pension Liability on page 47, California Public Employees' Retirement System - Schedule of Cachuma Operation and Maintenance Board's Contributions on page 48, and Other Post-Employment Benefits (OPEB) Plan - Schedule of Funding Progress on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 expense on pages 50 through 51 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 expense 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 expense is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Bartlett, Pringle & Wolf, LLP

Santa Barbara, California
December 19, 2016

CACHUMA OPERATION AND MAINTENANCE BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2016

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, 2016. 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 13 full time employees. Of these, four 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.) On May 27, 2016, Santa Ynez River Water Conservation District, Improvement District No. 1 notified the COMB Board of its stated intent to withdraw from the Agreement.

It should be noted, however, that on May 27, 2016, the Improvement District notified COMB of its stated intent to unilaterally withdraw from the Agreement as a consequence of the decision made by the Board of Trustees of the Improvement District on May 26, 2016 to immediately withdraw from the Agreement. The COMB Governing Board is currently considering possible courses of action to address that unilateral withdrawal from the Agreement.

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.

CACHUMA OPERATION AND MAINTENANCE BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Organization and Business (Continued)

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.

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.

In light of the aforementioned unilateral withdrawal of the Improvement District from the Agreement on May 27, 2016, the COMB Governing Board is currently considering possible courses of action to address these particular general and administrative assessments.

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, 2016, COMB conducted and/or completed a number of special studies and projects using revenue provided by these assessments. These included operation and maintenance of the Emergency Pumping Facility, 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 2015-2016, grant funding was received for the Quiota Creek Crossing 3 fish passage improvement project.

CACHUMA OPERATION AND MAINTENANCE BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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			2016-2015 Variance		2015-2014 Variance	
	June 30, 2016	June 30, 2015	June 30, 2014	Dollars Change	Percent Change	Dollars Change	Percent Change
<u>Assets:</u>							
Current Assets	\$ 3,490,910	\$ 2,333,338	\$ 2,065,857	\$ 1,157,572	49.6%	\$ 267,481	12.9%
Restricted Assets	385,098	744,104	315,731	(359,006)	-48.2%	428,373	135.7%
Property, Plant & Equipment	205,908	199,564	142,007	6,344	3.2%	57,557	40.5%
Other Assets	5,980,235	6,191,101	6,288,831	(210,866)	-3.4%	(97,730)	-1.6%
Total Assets	\$10,062,151	\$ 9,468,107	\$ 8,812,426	\$ 594,044	6.3%	\$ 655,681	7.4%
<u>Deferred Outflows of Resources:</u>							
Deferred pensions	\$ 148,586	\$ 136,562	\$ -	\$ 12,024	100.0%	\$ 136,562	0.0%
Total Deferred Outflows of Resources	\$ 148,586	\$ 136,562	\$ -	\$ 12,024	100.0%	\$ 136,562	0.0%
<u>Liabilities:</u>							
Current Liabilities	\$ 1,767,975	\$ 1,546,701	\$ 1,555,068	\$ 221,274	14.3%	\$ (8,367)	-0.5%
Long-Term Liabilities	10,206,573	10,659,223	6,884,521	(452,650)	-4.2%	3,774,702	54.8%
Total Liabilities	11,974,548	12,205,924	8,439,589	(231,376)	-1.9%	\$ 3,766,335	44.6%
<u>Deferred Inflows of Resources:</u>							
Deferred pensions	\$ 224,052	\$ 348,168	\$ -	\$ (124,116)	100.0%	\$ 348,168	0.0%
Total Deferred Inflows of Resources	\$ 224,052	\$ 348,168	\$ -	\$ (124,116)	100.0%	\$ 348,168	0.0%
<u>Net Position:</u>							
Invested in Capital Assets	205,908	199,564	142,007	6,344	3.2%	\$ 57,557	40.5%
Unrestricted	(2,193,771)	(3,148,987)	230,830	955,216	-30.3%	(3,379,817)	-1464.2%
Total Net Position	\$ (1,987,863)	\$ (2,949,423)	\$ 372,837	\$ 961,560	-32.6%	\$ (3,322,260)	-891.1%

CACHUMA OPERATION AND MAINTENANCE BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Net Position Analysis

Total assets as of June 30, 2016 are 6.3% more than the June 30, 2015 amount. The changes are noted below.

- Current assets include bank account balances and all accounts receivable balances. The current assets for fiscal year ending 2016 are higher than the previous year primarily attributable to project expenditures pending payment.
- Restricted assets are less as compared to the prior year due to a decrease 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 State Water Project (SWP) participants during the previous year.
- The value of property, plant, and equipment is slightly higher than the previous fiscal year. The increase to property, plant and equipment was primarily due to the purchase of a watering truck for the Cachuma Lake Oak Tree Program, necessary computer office equipment and additional field equipment for the Operations and the Fisheries Division.
- Other assets are slightly decreased as compared to the prior fiscal year and represent the Bradbury and Lauro SOD Act assessments receivable.
- Deferred outflows and deferred inflows are related to deferred pensions associated with GASB 68. Note 12 contains detailed information regarding these balances.
- Current liabilities represent accounts payable balances, the current portion due (within one year) of long term debt, accrued wages and deferred revenue account balances. The current liabilities are higher than the previous fiscal year primarily due to larger payments due in fiscal 2017 Safety of Dams Act liabilities and American Riviera Bank notes payable.
- Long term liabilities are slightly less as compared to the prior year due to repayments.
- The Invested in Capital Assets has increased nominally as compared the previous year primarily due to the purchase of office and field equipment.
- Unrestricted net position is significantly greater (although remains in a deficit position) than the previous year primarily due to the previous years' initial recognition of the GASB 68 pension liability.

CACHUMA OPERATION AND MAINTENANCE BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (Continued)

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			2016-2015 Variance		2015-2014 Variance	
	June 30, 2016	June 30, 2015	June 30, 2014	Dollars	Percent	Dollars	Percent
				Change	Change	Change	Change
Operating Revenues (Expenses):							
Operating Revenues	\$ 7,019,280	\$ 5,889,530	\$ 5,470,764	\$ 1,129,750	19.2%	\$ 418,766	7.7%
Operating Expenses, excluding Depreciation Expense	(5,811,811)	(7,698,633)	(5,198,460)	1,886,822	-24.5%	(2,500,173)	48.1%
Depreciation	(72,380)	(58,123)	(77,213)	(14,257)	24.5%	19,090	-24.7%
Operating Income (Deficit)	1,135,089	(1,867,226)	195,091	3,002,315	160.8%	\$ (2,062,317)	-1057.1%
Non-operating Revenues	2,307	1,551	399	756	48.7%	1,152	288.7%
Non-operating Expenses	(175,836)	(99,228)	(104,464)	(76,608)	77.2%	5,236	-5.0%
Change in Net Position	\$ 961,560	\$ (1,964,903)	\$ 91,026	\$ 2,926,463	148.9%	\$ (2,055,929)	2258.6%
Net Position at beginning of year	(2,949,423)	372,837	281,811	(3,322,260)	100.0%	\$ 91,026	-32.3%
Prior period adjustment	-	(1,357,357)	-	1,357,357	100.0%	(1,357,357)	100.0%
Net Position at beginning of year, as restated	-	(984,520)	-	984,520	100.0%	(984,520)	100.0%
Net Position at End of Year	\$ (1,987,863)	\$ (2,949,423)	\$ 372,837	961,560	-32.6%	\$ (3,322,260)	-891.1%

Statement Analysis

- Operating revenues as of June 30, 2016 increased compared to the previous fiscal year primarily due to increased Warren Act revenues affiliated with substantial deliveries of State Water into the reservoir. In addition, grant revenues related to the completion of a fish passage project were recognized during this fiscal year. There were no grant revenues recognized during the previous fiscal year.
- Operating expenses, excluding depreciation and amortization expenses, were considerably less than the prior fiscal year partially due to changes in staffing and incomplete projects carried forward due to drought conditions.
- Non-operating revenues consist of interest income and increased as a result of higher balances in LAIF balances throughout the year.
- Non-operating expenses consist of interest expense and are higher than the previous year due to the American Riviera Bank notes payable.
- The Change in Net Position has increased substantially as compared to the prior fiscal year due to the previous fiscal year requirement of a first time entry for GASB 68 (CalPERS pension) liability.

CACHUMA OPERATION AND MAINTENANCE BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

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

	Capital Assets			<u>2016-2015 Variance</u>		<u>2015-2014 Variance</u>	
	<u>Year Ended</u>			<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Change</u>	<u>Change</u>	<u>Change</u>	<u>Change</u>
Vehicles	\$ 436,877	\$ 409,581	\$ 431,605	\$ 27,296	6.7%	\$ (22,024)	0.0%
Office Furniture and Equipment	440,652	432,634	405,275	8,018	1.9%	27,359	6.8%
Field Equipment	559,852	542,025	517,530	17,827	3.3%	24,495	4.7%
Mobile Offices Used for Facilities	97,803	97,803	97,803	-	0.0%	-	0.0%
Resurfacing	38,351	38,351	38,351	-	0.0%	-	0.0%
Total Capital Assets	1,573,535	1,520,394	1,490,564	53,141	3.5%	29,830	2.0%
Accumulated Depreciation	(1,367,627)	(1,320,830)	(1,348,557)	(46,797)	3.5%	27,727	-2.1%
Net Capital Assets	\$ 205,908	\$ 199,564	\$ 142,007	\$ 6,344	3.2%	57,557	40.5%

Debt Administration

Series 2004A Refinance Bonds

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.

Safety of Dams Repayment Contracts

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.

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

CACHUMA OPERATION AND MAINTENANCE BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt Administration (Continued)

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.

American Riviera Bank Emergency Pumping Facility Project Notes Payable

During fiscal year ending 2015, COMB contracted for the construction of the Emergency Pumping Facilities Project (Project) to provide continued delivery of water from Lake Cachuma to the Member Agencies until sufficient inflow occurs and the reservoir level returns to a normal operating condition. In order to implement this large scale project, three of the four South Coast Member agencies agreed to finance their proportionate share through a commercial financing arrangement with the Bank of Santa Barbara, which merged with American Riviera Bank during 2016.

The note consists of two separate financing facilities: 1) A revolving line of credit (\$1.2 million) for a period of 24 months followed by a fixed 60 months of principal and interest, 2) A non-revolving line of credit (\$2.0 million) for a period of 24 months followed by a fixed 60 months of principal and interest. The districts participating in the financing included Goleta Water District, Montecito Water District, and Carpinteria Valley Water District. The City of Santa Barbara did not participate in the financing and chose to fund the project through quarterly assessments. Santa Ynez River Water Conservation District, Improvement District No. 1 was indemnified by the four South Coast Member Agencies and did not participate in any expenditure of the Project. While COMB secured the financing for the project, the three districts participating in the debt obligation provided the guarantee for repayment of their allocated percentage and are held solely liable for any interest rate increase caused by a downgrade of their individual credit rating. The original financing terms included the conversion from lines of credit to a sixty (60) month repayment loan as of July 25, 2016.

Pension Plan Accounting

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new standards that substantially changed the accounting and financial reporting of public employee pension plans and the state and local governments that participate in such plans. GASB Statement No. 67, *Financial Reporting for Pension Plans* revises existing guidance for the financial reports of most governmental pension plans. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. GASB Statement No. 67 is applicable to CalPERS and effective for financial statements for fiscal years beginning after June 15, 2013. GASB Statement No. 68 is applicable to employers and effective for financial statements for fiscal years beginning after June 15, 2014.

CACHUMA OPERATION AND MAINTENANCE BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pension Plan Accounting (Continued)

GASB Statement No. 68 requires employers to recognize a liability as employees earn their pension benefits. To the extent that a long-term obligation to provide pension benefits (total pension liability) is larger than the value of the assets available in the plan (fiduciary net position) to pay pension benefits, the employers must report a net pension liability on the employer's accrual-based financial statements for the first time.

A cost-sharing multiple-employer plan (cost-sharing plan) is one in which the participating employers pool their assets and their obligations to provide defined pension benefits, such as employers participating in risk pools. Under the new GASB standards, each participating cost-sharing employer is required to report its proportionate share of the collective net pension liability, pension expense, and deferred outflows/deferred inflows of resources in their financial statements. Note 12 contains detailed information regarding these balances.

In order to implement GASB 68, a prior period adjustment was made to COMB's July 1, 2014 net position. This prior period adjustment decreased the District's net position by \$1,357,357 and reflects the reporting of prior year net pension liabilities of \$1,493,919, and deferred outflows of resources of \$136,562.

CACHUMA OPERATION AND MAINTENANCE BOARD
STATEMENT OF NET POSITION
June 30, 2016 and 2015

ASSETS

	2016	2015
Current Assets		
Cash (Note 3)	\$ 3,242,663	\$ 1,467,096
Investments, cash equivalents (Note 3)	10,110	639,216
Assessment receivable	-	104,395
Prepaid insurance	27,270	24,900
Current portion of SOD Act assessments receivable (Note 6)	210,867	97,731
Total current assets	3,490,910	2,333,338
Restricted Assets (Note 4)		
Cash	385,098	244,104
Investments, cash equivalents	-	500,000
Total restricted assets	385,098	744,104
Capital Assets (Note 9)		
Vehicles	436,877	409,581
Office furniture and equipment	440,652	432,634
Field equipment	559,852	542,025
Modular administrative offices	97,803	97,803
Resurfacing	38,351	38,351
Subtotal	1,573,535	1,520,394
Less: accumulated depreciation	(1,367,627)	(1,320,830)
Capital assets, net	205,908	199,564
Other Assets		
Long-term assessments receivable SOD Act (Note 6)	5,980,235	6,191,101
Total other assets	5,980,235	6,191,101
Total assets	10,062,151	9,468,107

DEFERRED OUTFLOWS OF RESOURCES

Deferred pensions	148,586	136,562
Total deferred outflows of resources	148,586	136,562
Total assets and deferred outflows of resources	\$ 10,210,737	\$ 9,604,669

See accompanying notes

CACHUMA OPERATION AND MAINTENANCE BOARD
STATEMENT OF NET POSITION
June 30, 2016 and 2015

LIABILITIES

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 482,787	\$ 474,946
Accrued vacation and sick leave benefits	159,284	142,912
Deferred revenue	385,097	744,104
Accrued interest	87,008	87,008
Current portion of notes payable (Note 7)	442,932	-
Current portion of SOD Act contract payable (Note 6)	<u>210,867</u>	<u>97,731</u>
Total current liabilities	<u>1,767,975</u>	<u>1,546,701</u>
Long-Term Liabilities		
Net other post employment benefit obligation (Note 13)	907,923	746,491
Notes payable (Note 7)	2,158,385	2,601,317
Net pension liability (Note 12)	1,160,030	1,120,314
SOD Act contract payable, net of current portion (Note 6)	<u>5,980,235</u>	<u>6,191,101</u>
Total long-term liabilities	<u>10,206,573</u>	<u>10,659,223</u>
Commitments and Contingencies (Note 14)		
Total liabilities	<u>11,974,548</u>	<u>12,205,924</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pensions	<u>224,052</u>	<u>348,168</u>
Total deferred inflows of resources	<u>224,052</u>	<u>348,168</u>

NET POSITION

Invested in capital assets, net of related debt	205,908	199,564
Unrestricted:		
Designated to be constructively returned	-	-
Accumulated deficit	<u>(2,193,771)</u>	<u>(3,148,987)</u>
Total net position	<u>\$ (1,987,863)</u>	<u>\$ (2,949,423)</u>

See accompanying notes

CACHUMA OPERATION AND MAINTENANCE BOARD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Operating assessments from member agencies	\$ 5,650,365	\$ 5,488,859
Grant revenue	705,205	-
Warren Act Fund (Note 4)	571,728	113,434
Renewal Fund (Note 4)	-	159,887
Cachuma Project Betterment Fund (Note 5)	90,000	90,000
Other revenues	1,982	37,350
	<u>7,019,280</u>	<u>5,889,530</u>
Operating Expenses		
Operation and maintenance division:		
Operation and maintenance	761,405	809,837
General and administrative	725,474	1,076,051
Emergency pumping facility project	2,158,739	4,149,098
Fisheries division:		
Operation and maintenance	541,421	539,134
General and administrative	302,705	346,347
Fishery related projects	199,330	224,563
Quiota Creek crossing habitat enhancement	950,105	122,541
Other maintenance and habitat enhancement	172,632	431,062
Depreciation	72,380	58,123
	<u>5,884,191</u>	<u>7,756,756</u>
Net Operating Gain (Loss)	<u>1,135,089</u>	<u>(1,867,226)</u>
Non-Operating Revenues (Expenses)		
Interest income	2,307	1,551
Interest expense	(175,836)	(99,228)
Total non-operating expenses	<u>(173,529)</u>	<u>(97,677)</u>
Change in net position	961,560	(1,964,903)
Net Position, beginning of year	<u>(2,949,423)</u>	<u>(984,520)</u>
Net Position, end of year	<u>\$ (1,987,863)</u>	<u>\$ (2,949,423)</u>

See accompanying notes

CACHUMA OPERATION AND MAINTENANCE BOARD
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Flows from Operating Activities</u>		
Cash received from member agencies	\$ 5,852,489	\$ 5,489,124
Cash received from other sources	1,982	37,350
Cash received from grantor	705,205	17,935
Cash received from Cachuma Betterment Fund	90,000	90,000
Cash received from Renewal and Warren Act Funds	571,728	273,321
Cash payments to suppliers for operations	(4,421,381)	(6,720,648)
Cash payments to employees	(1,303,578)	(1,301,371)
Net cash provided (used) by operating activities	<u>1,496,445</u>	<u>(2,114,289)</u>
<u>Cash Flows from Noncapital Financing Activities</u>		
Increase (decrease) in restricted assets	(359,005)	428,374
(Increase) decrease in deferred revenue	359,005	(428,374)
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	(78,724)	(115,680)
Issuance of notes payable	-	2,601,317
Interest payments on notes payable	(82,144)	
Interest payments on SOD Act contract payable	(93,692)	(99,228)
Principle payments on SOD Act contract payable	(97,731)	(92,495)
Net cash flows provided (used) by capital and related financing activities	<u>(352,291)</u>	<u>2,293,914</u>
<u>Cash Flows From Investing Activities</u>		
Interest received	2,307	1,551
Purchase of investments	-	299,683
Proceeds from redemptions of investments	629,106	(935,005)
Net cash flows provided (used) by investing activities	<u>631,413</u>	<u>(633,771)</u>
Net increase (decrease) in cash	1,775,567	(454,146)
Cash and Cash Equivalents - Beginning of Year	<u>1,467,096</u>	<u>1,921,242</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,242,663</u>	<u>\$ 1,467,096</u>

See accompanying notes

CACHUMA OPERATION AND MAINTENANCE BOARD
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Reconciliation of net operating gain (loss) to net cash provided (used)</u>		
<u>by operating activities</u>		
Net operating gain (loss)	\$ 1,135,089	\$ (1,867,226)
Adjustments to reconcile net operating gain (loss) to net cash provided (used) by operating activities:		
Depreciation expense	72,380	58,123
Changes in operating assets and liabilities		
Other receivables	-	12,167
Assessments receivable	104,395	(104,395)
Prepaid insurance	(2,370)	(6,776)
Current portion of SOD Act assessment receivable	97,730	92,494
Accounts payable	7,841	(460,554)
Accrued vacation and sick leave benefits	16,372	18,580
OPEB liability	161,432	150,801
Net pension liability	39,716	(370,662)
Deferred outflows of resources - pension	(124,116)	348,168
Deferred inflows of resources - pension	(12,024)	(2,943)
Grant receivables	-	17,934
	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	<u>\$ 1,496,445</u>	<u>\$ (2,114,289)</u>

See accompanying notes

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

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.

On May 27, 2016, Santa Ynez River Water Conservation District, Improvement District No. 1 notified the COMB Board of its stated intent to withdraw from the Agreement.

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.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (Continued)

A) Basis of Accounting (Continued)

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.

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.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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 13 for further details.

H) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of COMB's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I) 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 Directors for specific future uses.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (Continued)

I) Net Position (Continued)

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.

J) 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.

K) 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.

L) Implementation of New Accounting Pronouncements

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

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

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (Continued)

L) Implementation of New Accounting Pronouncements (Continued)

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

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

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

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

Note 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.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 3 – Cash and Investments (Continued)

Investment in Local Agency Investment Fund (LAIF)

LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. 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).

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

Credit Risk

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

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 3 – Cash and Investments (Continued)

Credit Risk (Continued)

- 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.

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, 2016 and 2015 consist of the following:

	2016		
	Carrying Amount	Market Value	Credit Risk Category
Cash in banks and on hand	\$ 3,627,761	\$ 3,627,761	1
Local Agency Investment Fund (LAIF)	10,110	10,110	N/A*
Total cash and investments, at fair value	\$ 3,637,871	\$ 3,637,871	
	2015		
	Carrying Amount	Market Value	Credit Risk Category
Cash in banks and on hand	\$ 1,711,200	\$ 1,711,200	1
Local Agency Investment Fund (LAIF)	1,139,216	1,139,216	N/A*
Total cash and investments, at fair value	\$ 2,850,416	\$ 2,850,416	

*Not subject to categorization

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 3 – Cash and Investments (Continued)

Fair Value Measurements

COMB is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of COMB's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon COMB's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. COMB has no investments that are measured at fair value as of June 30, 2016 and 2015.

Note 4 – Restricted Assets

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

Note 4 – Restricted Assets (Continued)

Summary of restricted cash and investments as of June 30:

	<u>2016</u>	<u>2015</u>
Trust Fund	\$ 374,882	\$ 733,888
Renewal Fund	10,216	10,216
Total Restricted Cash	<u>\$ 385,098</u>	<u>\$ 744,104</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.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

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

Bradbury Dam (Continued)

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 (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, 2016 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		
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	104,573	60,297	96,777	261,647
2021	110,696	54,174	96,777	261,647
2022 - 2026	658,651	165,699	483,887	1,308,237
2027 - 2031	155,749	9,121	483,887	648,757
2032 - 2036	-	-	483,887	483,887
2037 - 2041	-	-	483,887	483,887
2042 - 2046	-	-	483,887	483,887
2047 - 2051	-	-	483,887	483,887
2052 - 2052	-	-	96,779	96,779
	\$ 1,309,940	\$ 503,630	\$ 3,483,989	\$ 5,297,559

The interest expense for the Bradbury Dam SOD Act contract payable was \$86,194 for the years ended June 30, 2016 and 2015.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

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, 2016 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, 2016, 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		
2017	\$ 15,106	\$ 16,982	\$ 10,823	\$ 42,911
2018	15,794	16,294	10,823	42,911
2019	16,513	15,575	10,823	42,911
2020	17,266	14,822	10,823	42,911
2021	18,052	14,036	10,823	42,911
2022 - 2026	103,374	57,926	54,115	215,415
2027 - 2031	129,168	31,272	54,115	214,555
2032 - 2036	57,477	3,895	54,115	115,486
2037 - 2041	-	-	54,115	54,115
2042 - 2046	-	-	54,115	54,115
2047 - 2051	-	-	54,115	54,115
2052 - 2056	-	-	54,115	54,115
2057 - 2057	-	-	21,653	21,653
	<u>\$ 372,749</u>	<u>\$ 170,802</u>	<u>\$ 454,573</u>	<u>\$ 998,124</u>

The interest expense for the Lauro Dam SOD Act contract payable was \$18,270 for the years ended June 30, 2016 and 2015.

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, 2016 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, 2016, an additional liability of \$113,020 is recorded for construction costs incurred in excess of the original repayment agreement.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

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

Lauro Dam (Continued)

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, 2016 is composed of the following:

	June 30, 2016	June 30, 2015
Bradbury Dam repayment contract:		
M&I principal	\$ 1,309,940	\$ 1,393,224
Irrigation principal	3,483,989	3,483,987
Total Bradbury Dam repayment contract obligation excluding interest	4,793,929	4,877,211
Bradbury Dam liability for 15% of additional costs incurred over repayment contract	456,831	456,831
Total Bradbury Dam SOD Act liability	5,250,760	5,334,042
Lauro Dam repayment contract:		
M&I principal	372,749	387,197
Irrigation principal	454,573	454,573
Total Lauro Dam repayment contract obligation interest	827,322	841,770
Lauro Dam liability for 15% of additional costs incurred over repayment contract	113,020	113,020
Total Lauro SOD Act liability	940,342	954,790
Total SOD Act Liability	6,191,102	6,288,832
Less current portion	(210,867)	(97,731)
Long-term portion of SOD Act liability	\$ 5,980,235	\$ 6,191,101

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 7 – Notes Payable

On July 25, 2014, COMB entered into two notes payable agreements with American Riviera Bank for a total of \$3,200,000 to finance the Emergency Pumping Facilities Project on behalf of Goleta Water District, Carpinteria Valley Water District, and Montecito Water District (participating member units). Per the agreement, COMB may draw upon these funds similar to a line of credit until July 25, 2016, at which time a repayment schedule will be provided for the balance of funds drawn. As of June 30, 2016 and 2015, the total outstanding balance on the notes payable was \$2,601,317.

Beginning on August 25, 2014 and until July 25, 2016, COMB is required to make monthly interest payments on the unpaid balance at an initial interest rate of 3.00%. At the end of the straight line of credit period, COMB will make principal and interest payments based on the repayment schedule that will be provided for the balance of funds drawn. The interest rate for the repayment schedule will be established based on the Prime rate as of July 25, 2016.

COMB will make payments on behalf of the participating member units and will assess Goleta Water District, Carpinteria Valley Water District and Montecito Water District each member units' share of the debt service payment quarterly.

The loans are guaranteed by the participating member units as follows:

	<u>Amount</u>	<u>Allocation</u>
Goleta Water District	\$ 2,016,000	63%
Carpinteria Valley Water District	608,000	19%
Montecito Water District	576,000	18%
	<u>\$ 3,200,000</u>	<u>100%</u>

As a condition of notes payable, at least \$2 million dollars of the notes was required to be spent on capital infrastructure of the Emergency Pumping Facilities Project. In addition, COMB is also required to maintain a deposit relationship at American Riviera Bank. The participating member units are required at all times during the loan to set and maintain member unit customer water rates at a level sufficient to pay all outstanding annual member unit debt service and to set aside such debt service revenues in a special district reserve account maintained at a rate of 1.25 to 1 of annual debt service reserve for each dollar outstanding debt service payments due in any particular year.

See Note 16 for additional information related the notes payable.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 8 – Long-Term Debt

Changes in long term debt amounts for years ended June 30, 2016 and 2015 were as follows:

	Beginning Balance 2016	Additions	Principal Payments	Ending Balance 2016
SOD Act Liabilities	\$ 6,288,832	\$ -	\$ (97,730)	\$ 6,191,102
Notes payable	2,601,317	-	-	2,601,317
	\$ 8,890,149	\$ -	\$ (97,730)	\$ 8,792,419

	Beginning Balance 2015	Additions	Principal Payments	Ending Balance 2015
SOD Act Liabilities	\$ 6,381,326	\$ -	\$ (92,494)	\$ 6,288,832
Notes payable	-	2,601,317	-	2,601,317
	\$ 6,381,326	\$ 2,601,317	\$ (92,494)	\$ 8,890,149

Note 9 – Capital Assets

The following is a summary of capital assets which include property, plant and equipment at June 30, 2016 and 2015.

	Beginning Balance 2016	Additions	Deletions	Transfers	Ending Balance 2016
Vehicles	\$ 409,581	\$ 52,879	\$ (25,583)	\$ -	\$ 436,877
Office furniture and equipment	432,634	8,018	-	-	440,652
Field equipment	542,025	17,827	-	-	559,852
Mobile offices used for facilities	97,803	-	-	-	97,803
Resurfacing	38,351	-	-	-	38,351
	1,520,394	78,724	(25,583)	-	1,573,535
Total depreciable assets					
Less: accumulated depreciation and amortization	(1,320,830)	(72,380)	25,583	-	(1,367,627)
Net capital assets	\$ 199,564	\$ 6,344	\$ -	\$ -	\$ 205,908

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 9 – Capital Assets (Continued)

	Beginning				Ending	
	Balance 2015	Additions	Deletions	Transfers	Balance 2015	
Vehicles	\$ 431,605	\$ 63,826	\$ (85,850)	\$ -	\$ 409,581	
Office furniture and equipment	405,275	27,359	-	-	432,634	
Field equipment	517,530	24,495	-	-	542,025	
Mobile offices used for facilities	97,803	-	-	-	97,803	
Resurfacing	38,351	-	-	-	38,351	
Total depreciable assets	1,490,564	115,680	(85,850)	-	1,520,394	
Less: accumulated depreciation and amortization	(1,348,557)	(58,123)	85,850	-	(1,320,830)	
Net capital assets	\$ 142,007	\$ 57,557	\$ -	\$ -	\$ 199,564	

Note 10 – 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.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

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 held by State Street Bank and Trust and administered by Lincoln Financial Group. 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, 2016 and 2015 were and \$69,361 and \$97,790, respectively.

Note 12 – Pension Plan

Plan Description

All qualified employees are eligible to participate in COMB's Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Eligible employees hired after January 1, 2013 that are considered new members as defined by the Public Employees' Pension Reform Act (PEPRA) participate in the PEPRA Miscellaneous Plan.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, as discussed above. Members with five years of total service are eligible to retire at age 50 or 52 if in the PEPRA Miscellaneous Plan with statutorily reduced benefits. An optional benefit regarding sick leave was adopted. Any unused sick leave accumulates at the time of retirement will be converted to credited service at a rate of 0.004 years of service for each day of sick leave. All members are eligible for non-duty disability benefits after 10 years of service. The system also provides for the Optional Settlement 2W Death Benefit, as well as the 1959 Survivor Benefit. The cost of living adjustments for all plans are applied as specified by the Public Employees' Retirement Law.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 12 – Pension Plan (Continued)

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. COMB is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

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

	<u>Miscellaneous Plan</u>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - Minimum	52 - Minimum
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates		
2016	7.00%	6.50%
2015	6.89%	N/A
Required employer contribution rates		
2016	8.80%	6.55%
2015	9.12%	N/A

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 12 – Pension Plan (Continued)

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

As of June 30, 2016, COMB reported a liability of \$1,160,030 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability for all Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. COMB's proportion of the net pension liability was based on a projection of their long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

COMB's proportionate share of the net pension liability for all Plans as of June 30, 2014 and 2013 (measurement date of June 30, 2015 and 2014, respectively) was as follows:

	Miscellaneous		Miscellaneous
	s		s
Proportion – June 30, 2014	0.04533%	Proportion – June 30, 2013	0.04550%
Proportion – June 30, 2015	0.04228%	Proportion – June 30, 2014	0.04533%
Change – Increase (Decrease)	-0.00305%	Change – Increase (Decrease)	-0.00017%

For the years ended June 30, 2016 and 2015, COMB recognized pension expense of \$43,407 and \$111,125, respectively. At June 30, 2016 and 2015, COMB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016		June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 139,831	\$ -	\$ 136,562	\$ -
Differences between expected and actual experience	8,755	-	-	-
Changes in assumptions	-	(82,832)	-	-
Changes in employer's proportion and difference between the employer's contributions and the employer's proportionate share of contributions	-	(99,695)	-	(3,325)
Net differences between projected and actual earnings on plan investments	-	(41,525)	-	(344,843)
Total	\$ 148,586	\$ (224,052)	\$ 136,562	\$ (348,168)

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 12 – Pension Plan (Continued)

Employer contributions of \$139,831 reported as deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Fiscal Year		
Ended June 30		
2017	\$	(94,020)
2018		(93,783)
2019		(80,573)
2020		53,079
2021		-
Thereafter		-
	<u>\$</u>	<u>(215,297)</u>

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 12 – Pension Plan (Continued)

Actuarial Assumptions

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

	<u>For the Year Ended June 30, 2016</u>	<u>For the Year Ended June 30, 2015</u>
	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>
Valuation Date	30-Jun-14	30-Jun-13
Measurement Date	30-Jun-15	30-Jun-14
Actual Cost Method	Entry-Age Normal Cost Method, in accordance with the requirements of GASB Statement No. 68	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	Varies by entry age and service (1)	Varies by entry age and service (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power. Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter	Contract COLA up to 2.75% until Purchasing Power. Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

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

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

Change of Assumption

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

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 12 – Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for all Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for all plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

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

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 12 – Pension Plan (Continued)

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

Asset Class	June 30, 2016			June 30, 2015		
	Net Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	Net Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%	12.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%	11.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%	2.00%	-0.55%	-1.05%

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents COMB's proportionate share of the net pension liability calculated using the discount rate of 7.65% as well as what COMB's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

<u>For the Year Ended June 30, 2016</u>		<u>For the Year Ended June 30, 2015</u>	
Miscellaneous		Miscellaneous	
1% Decrease	6.65%	1% Decrease	6.50%
Net Pension Liability	\$ 1,945,435	Net Pension Liability	\$ 1,934,956
Current Discount Rate	7.65%	Current Discount Rate	7.50%
Net Pension Liability	\$ 1,160,030	Net Pension Liability	\$ 1,120,314
1% Increase	8.65%	1% Increase	8.50%
Net Pension Liability	\$ 511,569	Net Pension Liability	\$ 444,239

Pension Plan Fiduciary Net Position

Detailed information about all pension plan fiduciary net positions is available in the separately issued CalPERS financial reports.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 13 – 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 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	\$ 275,226
ARC Adjustment	(30,745)
Interest on net OPEB obligation	<u>24,585</u>
Annual OPEB cost (expense)	269,066
Contributions made	<u>(107,634)</u>
Increase in net OPEB obligation	161,432
Net OPEB obligation, beginning of year	<u>746,491</u>
Net OPEB obligation, end of year	<u><u>\$ 907,923</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, 2016 and the two preceding fiscal years were as follows:

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 13 – 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>
6/30/2014	\$ 241,610	32%	\$ 595,690
6/30/2015	243,922	38%	746,491
6/30/2016	277,686	39%	907,923

Funded Status and Funding Progress

As of June 30, 2016, the actuarial accrued liability for benefits was \$4,288,736, of which \$4,288,736 was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,149,521, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 373% based on the valuation date of December 1, 2015.

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.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 13 – Post-Retirement Health Care Benefits (Continued)

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

Valuation Date	December 1, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percentage of payroll
Remaining Amortization Period	24 years as of the valuation date
Asset Valuation Method	Not applicable
Actuarial Assumptions:	
Discount Rate	4.5%
Inflation	2.75%
Healthcare Cost Trend	4.00%
Payroll Growth	2.75%

Note 14 – 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.

As of June 30, 2016, Carpinteria and Montecito have paid off their portion of the bond obligation, leaving only ID No. 1 with an outstanding bond obligation. ID No. 1 pays their share of the required payments, including interest and principal, directly to the bond issuer. No money is passed through COMB.

Legal Contingencies

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.

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 14 – Commitments and Contingencies (Continued)

Emergency Pumping Facilities Project Operating Costs

As a part of the construction and operating agreement, COMB is obligated to pay \$98,000 a month for operating costs to Cushman Contracting until the pumping facility is disposed.

Commitments

COMB has entered into several contracts with various vendors totaling approximately \$1,554,000. Of this amount, approximately, \$1,262,000 had been paid as of June 30, 2016.

Note 15 – Reclassifications

Certain reclassifications were made to prior year balances in order to confirm with current year presentation.

Note 16 – Subsequent Events

American Riviera Bank Notes Payable

On July 25, 2016, the draw down period on the notes payable ended and COMB received repayment agreements. The combined outstanding balance on the notes was \$2,601,317 at July 25, 2016. Per the repayment agreements, the notes are due over a period of 5 years with combined monthly payments of \$47,384, including principal and interest. The interest rates on the notes are 3.5%. COMB will make payments on behalf of the participating member units and will assess Goleta Water District, Carpinteria Valley Water District and Montecito Water District each member units' share of the debt service payment quarterly. The following table shows the allocation of the notes payable balance by participating Member Agency.

	<u>Amount</u>	<u>Allocation</u>
Goleta Water District	1,638,830	63%
Carpinteria Valley Water District	494,250	19%
Montecito Water District	468,237	18%
	<u>\$ 2,601,317</u>	<u>100%</u>

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 16 – Subsequent Events (Continued)

American Riviera Bank Notes Payable (Continued)

The total annual requirements to amortize the notes payable as of July 25, 2016 are as follows:

	Principal	Interest	Total
2017	\$ 442,932	\$ 78,287	\$ 521,219
2018	500,027	68,576	568,603
2019	518,075	50,528	568,603
2020	536,697	31,905	568,602
2021	556,146	12,456	568,602
2022	47,440	243	47,683
	<u>\$ 2,601,317</u>	<u>\$ 241,995</u>	<u>\$ 2,843,312</u>

On August 19, 2016, Carpinteria Water District paid its allocation of the notes payable in full.

On September 1, 2016, American Riviera Bank issued a revised repayment schedule. The notes are due over a period of 5 years with combined monthly payments of \$38,478, including principal and interest. The interest rates on the notes are 3.75%. COMB will make payments on behalf of the participating member units and will assess Goleta Water District and Montecito Water District each member units' share of the debt service payment quarterly.

The total annual requirements to amortize the notes payable, including the allocation between Goleta Water District and Montecito Water District, as of September 1, 2016 are as follows:

	Principal	Interest	Total	Goleta Water District	Montecito Water District
2017	\$ 324,098	\$ 60,682	\$ 384,780	\$ 300,128	\$ 84,652
2018	402,389	59,346	461,735	360,153	101,582
2019	417,958	43,778	461,736	360,154	101,582
2020	434,062	27,674	461,736	360,154	101,582
2021	450,923	10,813	461,736	360,154	101,582
2022	38,358	120	38,478	30,013	8,465
	<u>\$ 2,067,788</u>	<u>\$ 202,413</u>	<u>\$ 2,270,201</u>	<u>\$ 1,770,757</u>	<u>\$ 499,444</u>

CACHUMA OPERATION AND MAINTENANCE BOARD

NOTES TO THE FINANCIAL STATEMENTS

Note 16 – Subsequent Events (Continued)

Contract Commitments

As of December 19, 2016 COMB has executed approximately \$1,410,000 in contractual commitments since June 30, 2016. Majority of these contracts are for the Quiota Creek crossing projects.

Subsequent events have been evaluated through December 19, 2016 the date that the financial statements were available to be issued.

Required Supplementary Information

**CACHUMA OPERATIONS AND MAINTENANCE BOARD
A COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2016
LAST 10 YEARS***

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CACHUMA OPERATIONS AND MAINTENANCE BOARD'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.01690%	0.01800%
Proportionate share of the net pension liability	1,160,030	\$ 1,120,314
Covered - employee payroll	1,030,191	\$ 1,021,786
Proportionate Share of the net pension liability as percentage of covered-employee payroll	112.60%	109.64%
Plan fiduciary net position as a percentage of the total pension liability	81.67%	81.76%

Notes to Schedule:

Benefit changes : The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date.

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

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

CACHUMA OPERATIONS AND MAINTENANCE BOARD
A COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2016
LAST 10 YEARS*
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS

	Miscellaneous	
	2016	2015
Contractually required contribution (actuarially determined)	\$ 139,831	\$ 133,619
Contributions in relation to the actuarially determined contributions	\$ 139,831	\$ 133,619
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 1,030,191	\$ 1,021,786
Contributions as a percentage of covered-employee payroll	10.76%	13.08%
Notes to Schedule:		
Valuation date:	6/30/2014	6/30/2013

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2015-2016 were derived from the June 30, 2013 funding valuation report.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**CACHUMA OPERATIONS AND MAINTENANCE BOARD
SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN
AS OF JUNE 30, 2016**

	(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%
12/1/2015	4,288,736	-	4,288,736	-	1,149,521	373%

Other Supplementary Information

CACHUMA OPERATION AND MAINTENANCE BOARD
SUPPLEMENTAL SCHEDULE OF OPERATION AND MAINTENANCE,
GENERAL AND ADMINISTRATIVE AND OTHER MAINTENANCE EXPENSE
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operation and Maintenance Division		
Operation and Maintenance Expense		
Salaries and benefits	\$ 626,466	\$ 686,113
Contract labor	25,588	29,024
Equipment	5,502	4,495
Equipment rental	2,068	2,613
Materials and supplies	37,489	16,991
Vehicle maintenance	24,797	31,448
Other expenses	39,495	39,153
Total operation and maintenance expense	<u>\$ 761,405</u>	<u>\$ 809,837</u>
General and Administrative Expense		
Administration salaries	\$ 218,886	\$ 329,143
Accrued wages and vacation	567	10,467
Directors fees and expense	13,256	8,364
Legal and audit	55,173	260,654
Liability insurance	41,273	36,996
Health insurance and workers compensation	37,100	70,118
Retirement plan contributions	262,665	262,400
Payroll tax expense	16,269	22,851
Office supplies and expense	41,894	41,712
Administrative travel and conferences	302	1,388
Membership dues	7,908	6,881
Employee training	84	189
Public information	507	784
Other expenses	29,590	24,104
Total general and administrative expense	<u>\$ 725,474</u>	<u>\$ 1,076,051</u>
Fisheries Division		
Operation and Maintenance Expense		
Salaries and benefits	\$ 502,254	\$ 493,996
Contract labor	16,628	23,024
Vehicles and equipment	17,000	15,768
Materials and supplies	3,924	4,235
Other expenses	1,615	2,111
Total operation and maintenance expense	<u>\$ 541,421</u>	<u>\$ 539,134</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, 2016 and 2015

Fisheries Division (Continued)	<u>2016</u>	<u>2015</u>
General and Administrative Expense		
Administration salaries	\$ 134,131	\$ 178,793
Health insurance and workers compensation	23,907	38,435
Retirement plan contributions	5,659	9,949
Payroll tax expense	7,918	12,000
Office supplies and expense	21,723	22,604
Administrative travel and conferences	1,976	2,019
Membership dues	4,122	3,573
Legal and audit	61,786	35,702
Accrued wages and vacation	642	4,674
Liability insurance	23,499	23,569
Other expenses	17,342	15,029
Total general and administrative expense	<u>\$ 302,705</u>	<u>\$ 346,347</u>
Fishery related projects		
FMP implementation	\$ 45,399	\$ 58,646
GIS and mapping	6,047	9,545
Grants technical support	9,690	4,080
SYR hydrology technical support	1,583	686
USGS stream gauge program	76,552	74,575
Tri county fish team funding	5,000	5,000
Oak tree restoration program	55,059	72,031
Total fishery related projects	<u>\$ 199,330</u>	<u>\$ 224,563</u>
Other Maintenance Expense and Habitat Enhancement		
Flow meter upgrades and SCADA system	\$ 7,446	\$ 6,346
COMB building / grounds repair	7,623	977
Intergraded regional water management plan	4,006	1,436
SCC structure rehabilitation	24,452	27,183
GIS and mapping	7,057	11,522
Quiota Creek Crossing # 0, 3, 4, 5, 8	950,105	122,541
Tributary projects support	4,998	5,258
North Portal elevator rehabilitation	-	263,120
ROW management program	18,898	4,956
NP jet flow control valve	875	80,264
V-ditch clean up project	-	30,000
Watershed sanitary survey	25,519	-
Mission Creek pipe repair	55,485	-
North portal and South portal slope stabilization	16,273	-
Total other maintenance expense and habitat enhancement	<u>\$ 1,122,737</u>	<u>\$ 553,603</u>

See accompanying notes