

Santa Ynez River Water
Conservation District
Independent Auditor's Report,
Management's Discussion and Analysis
and
Financial Statements
Year Ended June 30, 2016

James L. Hayes, CPA & Associates
2771 Santa Maria Way, Suite A
Santa Maria, CA 93455
(805) 937-5637

Santa Ynez River Water Conservation District
Board of Directors
June 30, 2016

<u>Name</u>	<u>Office Held</u>
Cynthia Allen	President/Director
Jon C. Picciuolo	Director
Stephen E. Jordan	Director
Art Hibbits	Vice President/Director
J. Brett Marymee	Director
Bruce A. Wales	General Manager, Treasurer, and Secretary

Santa Ynez River Water Conservation District
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Ynez River Water Conservation District
Santa Ynez, California

I have audited the accompanying basic financial statements, government-wide financial statements and the major fund of Santa Ynez River Water Conservation District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

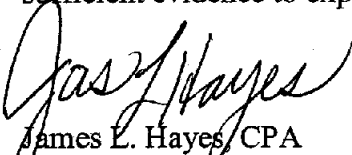
Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, of the major fund of the Santa Ynez River Water Conservation District, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-5 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.


James L. Hayes, CPA
July 27, 2016

Santa Ynez River Water Conservation District
Management's Discussion and Analysis
Year Ended June 30, 2016

This section provides Management's Discussion and Analyses of the Santa Ynez River Water Conservation District's financial performance for the fiscal year ended June 30, 2016. It includes: 1) Background and Discussion of Operations; 2) Revenues and Financial Reporting; 3) Overview of the Financial Statements; and 4) Financial Highlights for fiscal years ended June 30, 2016 and 2015.

Background and Discussion of Operations

The District was formed in 1939 under the Water Conservation District Act of 1931 (Principal Act) to protect the water rights and supplies of the citizens of the Santa Ynez Valley from diversion and export of surface water supplies from the watershed to the South Coast of Santa Barbara County. This was in response to the construction of two dams on the Santa Ynez River by South Coast interests and plans to build a third which was subsequently constructed by the U.S. Bureau of Reclamation (Reclamation).

The principal activity of the District in defending the water supplies of its constituents from use by outside interests is the application of technical, regulatory, and legal expertise to resolve surface and groundwater issues along the river and in the adjacent uplands. For example, the District negotiated various agreements over the years with South Coast interests and Reclamation pertaining to the operation of the dams. These agreements have dealt with, among other things, the quantity and quality of water to be released for the benefit of downstream users, peak flow management, and endangered species. District representatives have appeared before the State Water Resources Control Board (SWRCB) to represent their constituents at every major proceeding relating to water projects or issues within the watershed. The District has prepared groundwater management plans for various upland basins within the District.

The District does not own, sell or replenish water. It monitors actions by others under the aforementioned agreements and various SWRCB orders, primarily with regard to the accumulation and release of water for the benefit of downstream users to fulfill their water rights. By SWRCB order, the District may call for the release of "water rights" water from Cachuma Reservoir and manages the timing and rates of those flows in order to promote recharge either on the lower river or both along the river and on the Lompoc Plain. The District owns no facilities or meters to control or measure these flows, nor does it have any control over who pumps any groundwater recharged by those flows.

Revenues and Financial Reporting

The District's primary source of revenue is *ad valorem* property tax. After Proposition 13 in 1978 significantly reduced this source of revenue, the District implemented a groundwater charge to supplement the property tax revenue in accordance with the Water Code Section 75000 et seq.. Such charges are authorized to be levied "upon the production of groundwater from all water producing facilities...for the benefit of all who rely directly or indirectly upon the groundwater supplies..." (Water Code Section 75522).

Santa Ynez River Water Conservation District
Management's Discussion and Analysis
Year Ended June 30, 2016

Groundwater charges represented a relatively minor percentage of the District's revenue between 1979 and the early 1990s. This percentage increased after 1992, due to increases in operating expenditures and property tax losses to the Education Revenue Augmentation Fund (ERAF). The District derives a relatively small percentage of its revenue from investment income.

Based on the foregoing, the District files its Financial Transaction Reports (FTR) with the State Controller's Office (SCO) under the Flood Control and Water Conservation category as a non-enterprise activity. The District should not be confused with the Santa Ynez River Water Conservation District (Special) Improvement District No. 1, which was formed by this District as a water purveyor in 1961, and became a separate entity in 1968 (in accordance with Water Code action 75110 et seq., especially Section 75165). As a separate entity, the ID No. 1 files its FTRs with the SCO under the water utility category as an enterprise activity.

Overview of the Financial Statements

The financial statements in this audit report include: 1) Basic Financial Statements, including Statements of Net Position and Statement of Revenues, Expenses and Changes in Net Position; 2) Government-wide financial Statements, including a Balance Sheet, Statement of Revenues, Expenses, and Changes in Fund Balance, and Reconciliations of these Statements to the Basic Financial Statements, for the District's major General Fund; and 3) Notes to the Basic Financial Statements. The Notes provide detailed information pertaining to significant accounting policies, cash and investments, property taxes, insurance, net assets, and contingencies. Because the District manages its finances in a single major fund, the Government-wide Financial Statements and Fund Financial Statements present the same financial data in accordance with different accounting policies and in different formats.

Financial Highlights for Years Ended June 30, 2016 and 2015.

Government-Wide Condensed Financial Information

	<u>Statements of Net Assets</u>		Increase/ (Decrease)	%
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>2015 to 2016</u>	<u>Change</u>
Total Assets	\$ 2,547,804	\$ 2,528,807	\$ 18,997	.76%
Total Liabilities	55,924	42,807	13,117	30.6%
Net Assets	2,491,880	2,486,000	5,880	.24%
Total Liabilities and Net Assets	\$ 2,547,804	\$ 2,528,807	\$ 18,997	.76%

Santa Ynez River Water Conservation District
Management's Discussion and Analysis
Year Ended June 30, 2016

Government-Wide Condensed Financial Information (Continued)

Statements of Revenues, Expenses, and Change in Net Position

	<u>Year Ended</u>		Increase/ (Decrease)	%
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>2015 to 2016</u>	<u>Change</u>
<u>Operating Revenues</u>				
General Revenues	\$ 284,602	\$ 254,850	\$ 29,752	11.7%
Ground Water Charges	258,958	266,348	(7,390)	-2.8%
Total Operating Revenues	<u>543,560</u>	<u>521,198</u>	<u>22,362</u>	<u>4.3%</u>
<u>Operating Expenses</u>				
Operating Income/(Loss)	549,440	479,735	69,705	14.5%
Operating Income/(Loss)	(5,880)	41,463	(47,343)	-114.2%
<u>Other Non-operating Income</u>				
Investment income	11,760	9,128	2,632	28.8%
Change in Net Position	5,880	50,591	(44,711)	-88.4%
Beginning Net Position	2,486,000	2,435,409	--	--
Ending Net Position	<u>\$ 2,491,880</u>	<u>\$ 2,486,000</u>	<u>\$ 5,880</u>	<u>.24%</u>

Fund Financial Statements

The Governmental Fund Balance reconciled with Total Net Position in the Government-wide Statement which was discussed previously.

The "Statement of Revenues, Expenses, and Changes in Fund Balance-Budget and Actual" on page 12 indicates that Revenues totaled \$554,072 and Expenditures totaled \$549,440 versus Budgeted Amounts of \$539,000 and \$732,300, respectively. Net revenue was committed to reserves in accordance with the District's reserve policy. Revenue was higher than budget due to a one time refund from the Buellton Redevelopment Agency totaling \$15,359, groundwater charges were less than planned. Expenses were higher than plan due to the addition of another salaried employee partially offset because regulatory proceedings were deferred, but they were higher than normal for operational and contingencies expenses related to the sustained drought and litigation. The Net Change in the Government Fund Balance reconciled with the Change in Net Position as shown in the Government-wide Statements.

Notes to Basic Financial Statements

See these Notes for additional information.

Santa River Water Conservation District
Statement of Net Position
June 30, 2016

	Governmental Activities
<u>Assets</u>	
Cash	\$ 246,329
Cash – agency fund restricted	7,721
Investments:	
LAIF investment	1,922,844
SBIF investment	368,875
Taxes receivable	1,640
Prepaid expense	395
 Total Assets	 \$ 2,547,804
 <u>Liabilities</u>	
Accounts payable	\$ 48,203
Agency fund liability	7,721
 Total Liabilities	 55,924
 <u>Net Position</u>	
Restricted	7,721
Unrestricted	2,484,159
 Total Net Position	 \$ 2,491,880

The notes to the basic financial statements are an integral part of this statement.

Santa Ynez River Water Conservation District
Statement of Revenues, Expenses and
Changes in Net Position
Year Ended June 30, 2016

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position
Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants		
				Total	
Governmental Activities:					
Ground water conservation	\$ 549,440	\$ 258,958	\$ -	\$ -	\$ (290,482)
Total Governmental Activities	\$ 549,440	\$ 258,958	\$ -	\$ -	\$ (290,482)
General Revenues:					
Secured, unsecured, and unitary property taxes					284,602
Use of money					10,462
Unrealized gains on investments					2,177
Miscellaneous					50
Total General Revenues					297,291
Changes in Net Position					6,809
Net Position - Beginning of Year					2,486,000
Unrealized gains reversal-prior year					(929)
Net Position - End of Year					\$ 2,491,880

The notes to the basic financial statements are an integral part of this statement.

Santa Ynez River Water Conservation District
 Governmental Fund
 Balance Sheet
 June 30, 2016

		<u>General Fund</u>
<u>Assets</u>		
Cash	\$	246,329
Cash – agency restricted		7,721
Investments:		
LAIF investment		1,922,844
SBIF investment		368,875
Taxes receivable		1,640
Prepaid expense		395
		<hr/>
Total Assets	\$	<u>2,547,804</u>
 <u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Accounts payable	\$	48,203
Agency fund liability		7,721
		<hr/>
Total Liabilities		<u>55,924</u>
 <u>Fund Balance</u>		
Restricted		7,721
Unrestricted		2,484,159
		<hr/>
Total Fund Balances		<u>2,491,880</u>
		<hr/>
Total Liabilities and Fund Balances	\$	<u>2,547,804</u>

The notes to the basic financial statements are an integral part of this statement.

Santa Ynez River Water Conservation District
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2016

Total Fund Balances	\$ 2,491,880
Total Net Position	\$ 2,491,880

The notes to the basic financial statements are an integral part of this statement.

Santa Ynez River Water Conservation District
Governmental Fund
Statement of Revenues, Expenses, and Changes in Fund Balance
Year Ended June 30, 2016

	General Fund
<u>Revenues</u>	
Property taxes	\$ 284,602
Ground water charges	258,958
Revenue from use of money	10,462
Miscellaneous	50
Total Revenues	554,072
<u>Expenditures</u>	
Employee compensation	194,507
Payroll taxes	3,042
Employment expenses	2,967
Outside staff support	25,785
Director fees	1,875
Ground water charges admin.	23,367
Office supplies	436
Postage	130
Communications	1,791
Travel	1,151
Accounting	4,145
Insurance/workmens compensation	4,799
Miscellaneous	2,241
Dues	1,387
LAFCO/fees	3,645
Occupancy	6,456
Special studies	7,678
Legal	31,273
Engineering	140,311
Contingencies	92,454
Total Expenditures	549,440
Excess of Revenues Over Expenditures – Operating	4,632
<u>Other Comprehensive Revenue</u>	
Unrealized Gains on Investments	2,177
Total Excess of Revenues Over Expenditures	6,809
Fund Balance - July 1, 2015	2,486,000
Unrealized Gains reversal – prior year	(929)
Fund Balance - June 30, 2016	\$ 2,491,880

The notes to the basic financial statements are an integral part of this statement.

Santa Ynez River Water Conservation District
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Fund
to the Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

Net Change in Fund Balance - Governmental Fund	<u>\$</u> <u>6,809</u>
Change in Net Position	<u>\$</u> <u>6,809</u>

The notes to the basic financial statements are an integral part of this statement.

Santa Ynez River Water Conservation District
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance from Final Budget. Positive/ (Negative)
	Original	Final		
<u>Revenues</u>				
Ground water charges	\$ 270,000	\$ 270,000	\$ 258,959	\$ (11,041)
Property taxes	262,000	262,000	284,601	22,601
Revenues from use of money	7,000	7,000	10,462	3,462
Miscellaneous	-	-	50	50
Total Revenues	539,000	539,000	554,072	15,072
<u>Expenditures</u>				
Employee compensation	150,000	150,000	194,507	(44,507)
Payroll taxes	2,400	2,400	3,042	(642)
Employment expenses	2,400	2,400	2,967	(567)
Outside staff support	34,000	34,000	25,784	8,216
Director fees	3,000	3,000	1,875	1,125
Ground water charges admin.	29,000	29,000	23,367	5,633
Office supplies	500	500	436	64
Postage	200	200	130	70
Communications	1,800	1,800	1,792	8
Travel	1,600	1,600	1,151	449
Accounting	4,200	4,200	4,145	55
Insurance/workmens compensation	5,200	5,200	4,799	401
Miscellaneous	2,500	2,500	2,241	259
Dues	1,400	1,400	1,387	13
Occupancy	6,600	6,600	6,456	144
LAFCO/fees	3,000	3,000	3,645	(645)
Special studies	50,000	50,000	7,678	42,322
Legal	95,000	95,000	31,273	63,727
Engineering	239,500	239,500	140,311	99,189
Contingencies	100,000	100,000	92,454	7,546
Total Expenditures	732,300	732,300	549,440	182,860
(Deficiency)/Excess of Revenues Over Expenditures	(193,300)	(193,300)	4,632	197,932

Continued on page 13

The notes to the basic financial statements are an integral part of this statement.

Santa Ynez River Water Conservation District
 General Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
 Year Ended June 30, 2016

Continued from page 12

	<u>Budgeted Amounts</u>		Actual Amounts	Variance
	<u>Original</u>	<u>Final</u>		from Final Budget. Positive/(Negative)
<u>Other Comprehensive Revenue</u>				
Unrealized gains on investments	-	-	2,177	2,177
Total (Deficiency)/Excess of Revenues Over Expenditures	\$ (193,300)	\$ (193,300)	6,809	\$ 200,109
Fund Balance - July 1, 2015			2,486,000	
Unrealized gains reversal – prior year			<u>(929)</u>	
Fund Balance - June 30, 2016			<u>\$2,491,880</u>	

The notes to the basic financial statements are an integral part of this statement.

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Summary of Significant Accounting Policies

Organization

The Santa Ynez River Water Conservation District was organized in 1939, pursuant to the provisions of the Water Conservation District Law of 1931, and the Water Code pursuant to State of California, Division 21. The annual budget, prepared in advance of each fiscal year, includes an amount deemed necessary to be provided by the levy of taxes within the District. The budget is sent to the County Auditor and County Board of Supervisors in compliance with the California Water Code Section 75351 and Government Code Section 53901.

Reporting entity

The reporting entity is the Santa Ynez River Water Conservation District. There are no component units included in this report which meet the criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

Basic Financial Statements, Government-wide and fund financial statements

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the nonfiduciary activities of the District. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of revenues, expenses and changes in net position demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *District expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds.

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Summary of Significant Accounting Policies (continued)

Basis of presentation

Basic Financial Statements, Government-wide and fund financial statements:

The basic financial statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the basic financial statements and the statements for the governmental funds.

The basic financial statement of revenues, expenses and changes in net position presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipient of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or goods or services offered by a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Fund financial statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Summary of Significant Accounting Policies (continued)

Basis of presentation (continued)

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance for these funds present increases, (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basic financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes and grants. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are to be used or the fiscal year when is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Summary of Significant Accounting Policies (continued)

Basis of accounting (continued)

Deferred revenue:

Deferred revenues arise when assets are received before revenue recognition criteria have been satisfied. Grants received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Fund accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into one major fund, as follows:

Major Governmental Fund:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Summary of Significant Accounting Policies (continued)

Budgets and budgetary accounting

The District adopts an annual budget on or before June 30. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various District departments.

The Board of Directors may amend the budget by motion during each fiscal year. The original and revised budgets are presented for the General Fund.

All appropriations lapse at the end of the fiscal year to the extent that they have been expended. Lease contracts entered into by the District are subject to annual review by the Board of Directors; hence, they legally are one-year contracts with an option for renewal for another fiscal year.

Investments

Investments are stated at fair value.

Encumbrances

Encumbrance represents commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, 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/expenditures during the reporting period. Actual results could differ from those estimates.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Summary of Significant Accounting Policies (continued)

Fund equity:

- Restricted Fund Balance indicates that portion of fund equity which has been legally segregated for specific purposes;
- Designated Fund Balance indicates that portion of fund equity for which the Board of Directors has made tentative plans for financial resource utilization in a future period; and
- Unrestricted Fund Balance indicates that portion of fund equity which is available for budgeting in future periods.

Cash and investments

On June 30, 2016, the District had the following cash and investments:

Cash in banks	\$	246,329
Cash in banks - restricted		7,721
LAIF investment		1,922,844
SBIF investment		<u>368,875</u>
Total cash and investments	\$	<u>2,545,769</u>

Cash

All cash is entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure district deposits by pledging first trust deed mortgage notes having a value of 150% of a district's total deposits.

The District may waive collateral requirements for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Cash and investments (continued)

Credit Risk, Carrying Amount, and Fair Value

Cash is classified in three categories of credit risk as follows:

- Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name;
- Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the District's name; and
- Category 3 - uncollateralized.

At June 30, 2016, the carrying amount of the District's bank deposits was \$254,049. The bank's balance was \$254,049. Any difference is due to normal deposits in transit and outstanding checks. District cash by category level as of June 30, 2016, is as follows:

	Category Level			Bank Balance	Carrying Amount
	<u>1</u>	<u>2</u>	<u>3</u>		
Bank accounts	\$ 254,049	\$ -	\$ -	\$ 254,049	\$ 254,049
Total	<u>\$ 254,049</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 254,049</u>	<u>\$ 254,049</u>

Investments are also classified in three categories of credit risk as follows:

- Category 1 - Insured or registered, with securities held by District or its agent in the District's name;
- Category 2 - Uninsured and unregistered, with securities held by the counter party's trust department or agent in the District's name; and
- Category 3 - Uninsured and unregistered, with securities held by the counter party, or by its trust department or District, but not in the District's name.

Investments in pools managed by other governments or in mutual funds are not required to be categorized. Investments are stated at fair value.

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Cash and investments (continued)

District investments by category as of June 30, 2016, are as follows:

	Category Level			Carrying Amount/ Fair Value	Cost
	1	2	3		
Santa Barbara County					
Investment Fund (County Pool)	\$ N/A	\$ N/A	\$ N/A	\$ 368,875	\$ 367,892
Local Agency Investment Fund (LAIF State Pool)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>1,922,844</u>	<u>1,921,650</u>
Total	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ 2,291,719</u>	<u>\$ 2,289,542</u>

During the fiscal year ended June 30, 2016, the District did not invest in repurchase agreements.

Property taxes

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

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

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

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Property taxes (continued)

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

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

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

Property tax administration fees – The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes.

Joint Powers Insurance Authority

General Insurance

The Santa Ynez River Water Conservation District participates in a joint venture under a joint power agency (JPA), the Special District Risk Management Authority (SDRMA). SDRMA was established to provide general liability, automobile, errors and omission, property loss and workers' compensation insurance coverage to special districts. SDRMA is administered by a board of directors consisting of two members appointed by the California Special Districts Association and five members elected by the participating districts. The board is responsible for establishing premium rates and making budgeting decisions.

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Joint Powers Insurance Authority (continued)

Coverage under current policies, provide for the member districts to pay for the first \$2,000 on property loss and auto liability, and the SDRMA to pay for the next \$8,000 on property loss and \$250,000 for auto liability. The SDRMA is self-insured for the first \$250,000 for general liability. A separate insurance policy has been taken out by SDRMA for claims over these limits. Each member district is assessed a contribution in accordance with the JPA creating the agency. Insurance coverage limits range from \$500,000 to \$5,000,000 depending on the type of coverage. The District's insurance premium for the year was \$ 4,799.

Condensed financial information of SDRMA is as follows:

*Most recent information available

Statement of Net Assets

	<u>June 30, 2015*</u>	<u>June 30, 2014*</u>	<u>% Change Increase/Decrease 2014 to 2015</u>
Total assets	\$ 107,630,328	\$ 103,447,984	4.0%
Total liabilities	58,940,202	50,078,187	17.5%
Net Assets	48,690,126	53,369,797	-8.8%
Total Liabilities and Net Assets	<u>\$ 107,630,328</u>	<u>\$ 103,447,984</u>	<u>4.0%</u>

Statement of Revenues, Expenses and Changes
in Net Assets

Total operating revenues	\$ 55,678,280	\$ 50,438,129	10.4%
Total operating expenses	60,652,085	54,386,242	11.5%
Operating income (Loss)	(4,973,805)	(3,948,113)	26.0%
Non-operating income	1,338,581	1,672,413	-20.0%
Total Income (Loss)	(3,635,224)	(2,275,700)	59.7%
Beginning Net Assets	53,369,797	55,645,497	
Prior Period Adjustment	(1,044,447)	-	
Beginning Net Position as Restated	52,325,350	-	
Ending Net Assets	<u>\$ 47,645,679</u>	<u>\$ 53,369,797</u>	<u>-10.7%</u>

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Net assets

The government-wide activity fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted, and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category represents net assets of the District, not restricted for any project or other purpose.

Santa Ynez River Hydrology Model (SYRHM) Update

The SYRHM has been used to manage the water resources of the Santa Ynez River for many years. During FY 2005-06, the parties that use the model agreed an update was necessary. This effort has been ongoing for several years. The District coordinates this effort, including paying consultant costs for the work, on behalf of itself and several other parties, each of whom advances funds to the District to pay in its share of the work. The County Water Agency and the Cities of Lompoc and Solvang have been ongoing participants and they were joined by ID No. 1 during the FY 2011-12. The status of these advanced funds during the FY 2015-16 is summarized below.

Agency	Balance 6/30/15	Advanced Funds	Expended Funds	Balance 6/30/16
City of Lompoc	\$ 1,946	\$ -	\$ -	\$ 1,946
City of Solvang	1,946	-	-	1,946
County Water Agency	1,946	-	-	1,946
ID No. 1	1,883	-	-	1,883
Totals	<u>\$ 7,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,721*</u>

* Project was inactive during FY 2015-16.

Santa Ynez River Water Conservation District
Notes To Basic Financial Statements
Year Ended June 30, 2016

Retirement Plans

Effective 2008, the District sponsored a Defined Benefit Pension Plan for its sole employee. The District contributes to the Plan in accordance with a compensation agreement with its employee. Assets of the plan are placed in Trust for the exclusive benefit of the employee. The Plan was fully funded as of termination effective December 31, 2015, and the assets in the Trust are being moved to another retirement plan.

In 2008, the District also established a 401(k) deferred compensation plan, which was first used in 2009. All contributions to the 401(k) are made by the employee. Assets of the plan are placed in Trust for the exclusive benefit of the employee. The requirements of IRC Code prescribe that the District does not own the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the District's financial statements. The Plan was terminated by the District effective December 31, 2015 and the assets in the Trust are being moved to another retirement plan.

Contingencies

According to the District's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any financial consequence.

Subsequent Events

In preparing the financial statements, District management has evaluated events and transactions for potential recognition or disclosure through July 27, 2016, the date that the financial statements were available to be issued.