

**SUMMERLAND  
SANITARY DISTRICT  
June 30, 2017 and 2016  
FINANCIAL STATEMENTS**



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

# SUMMERLAND SANITARY DISTRICT

---

---

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report .....	1 - 2
Management's Discussion and Analysis.....	3 - 9
Basic Financial Statements:	
Statement of Net Position .....	10
Statement of Revenues, Expenses and Changes in Net Position.....	11
Statement of Cash Flows .....	12
Notes to Financial Statements.....	13 - 31
Required Supplementary Information:	
Santa Barbara County Employees' Retirement System – Schedule of Summerland Sanitary District's Proportionate Share of the Net Pension Liability.....	32
Santa Barbara County Employees' Retirement System – Schedule of Summerland Sanitary District's Contributions.....	33
Other Post-Employment Benefits (OPEB) Plan – Schedule of Funding Progress.....	34



## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors  
Summerland Sanitary District:**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Summerland Sanitary District (the District) as of and for the years ended June 30, 2017 and 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, 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 of California Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2017 and 2016, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

## Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, the Santa Barbara County Employees' Retirement System Schedule of Summerland Sanitary District's Proportionate Share of the Net Pension Liability on page 32, the Santa Barbara County Employees' Retirement System Schedule of Summerland Sanitary District's Contributions on page 33, and the Other Postemployment Benefits (OPEB) Plan Schedule of Funding Progress on page 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Bartlett, Pringle + Wolf, LLP*

Santa Barbara, California  
December 14, 2017

**SUMMERLAND SANITARY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Summerland Sanitary District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements and related notes, which follow this section.

**Financial Statements**

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The statement of net position includes all the District's assets and liabilities, with the difference between the two reported as net position. Net position may be displayed in the categories:

- Net Investment in Capital Assets
- Restricted Net Position
- Unrestricted Net Position

The statement of net position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Non-capital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement of cash flows accounts only for transactions that result in cash receipts or cash disbursements.

**SUMMERLAND SANITARY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

---

**Financial Statements (Continued)**

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements. The notes to the basic financial statements can be found on pages 13 through 31.

**Financial Highlights**

- The District's net position increased by 5.6% or \$183,824 to \$3,445,286 in fiscal year 2017 as a result of \$183,824 from operations. In the prior year, the District's net position increased by 7.6% or \$231,019 to \$3,261,462 as a result of \$231,019 from operations.
- The District's operating revenues increased by 0.7% or \$6,229 in fiscal year 2017. In the prior year, operating revenues increased by 9.5% or \$79,850. The increase in the prior year revenue is primarily a result of an increase in yearly fees and pumping charges.
- For the year ended June 30, 2017, the District adopted a new statement of financial accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 82 (GASB 82), Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. A detailed discussion of the implementation of the new accounting pronouncement appears in Note 1 item J.

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position reports information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

**Statement of Net Position**

One can think of the District's net position – the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources – as a way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State wastewater standards.

The District's net position at June 30, 2017 totaled \$3,445,286 compared to \$3,261,462 at June 30, 2016. The increase in net position can be attributed to District revenues exceeding expenses.

**SUMMERLAND SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Net Position (Continued)**

**Condensed Statement of Net Position**

The following is a summary of the District's statement of net position as of June 30, 2017 compared to June 30, 2016:

	<b>2017</b>	<b>2016</b>	<b>Change</b>
<b>Assets:</b>			
Current assets	\$ 1,655,801	\$ 1,343,583	\$ 312,218
Capital assets, net	2,666,097	2,780,594	(114,497)
Other assets	1,723	4,348	(2,625)
Total assets	4,323,621	4,128,525	195,096
<b>Deferred Outflows of Resources:</b>			
Deferred pensions	249,126	149,745	99,381
Total deferred outflows of resources	249,126	149,745	99,381
<b>Liabilities:</b>			
Current liabilities	15,064	7,341	7,723
Long-term liabilities	1,019,815	917,547	102,268
Total liabilities	1,034,879	924,888	109,991
<b>Deferred Inflows of Resources:</b>			
Deferred pensions	92,582	91,920	662
Total deferred inflows of resources	92,582	91,920	662
<b>Net Position:</b>			
Net investment in capital assets	2,666,097	2,780,594	(114,497)
Restricted	303,231	16,961	286,270
Unrestricted	475,958	463,907	12,051
Total net position	\$ 3,445,286	\$ 3,261,462	\$ 183,824

Assets of the District exceed liabilities by \$3,445,286 as of June 30, 2017 and \$3,261,462 as of June 30, 2016.

A large portion of the District's net position (77% and 85% as of June 30, 2017 and June 30, 2016, respectively) reflects its net investment in capital assets used to acquire those assets that are still outstanding. The District uses these capital assets to provide sewer service to customers within the District's service area; consequently, these assets are *not* available for future spending.

Restricted net position as of June 30, 2017 and June 30, 2016 was \$303,231 and \$16,961, respectively, and is restricted for capital outlay.

At the end of the fiscal years 2017 and 2016, the District shows a positive balance in its unrestricted net position of \$475,958 and \$463,907, respectively, which may be utilized in future years.

**SUMMERLAND SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**Statement of Net Position (Continued)**

The following is a summary of the District's statement of net position as of June 30, 2016 compared to June 30, 2015:

	<u>2016</u>	<u>2015</u>	<u>Change</u>
<b>Assets:</b>			
Current assets	\$ 1,343,583	\$ 1,049,880	\$ 293,703
Capital assets, net	2,780,594	2,873,218	(92,624)
Other assets	4,348	4,348	-
Total assets	<u>4,128,525</u>	<u>3,927,446</u>	<u>201,079</u>
<b>Deferred Outflows of Resources:</b>			
Deferred pensions	149,745	112,763	36,982
Total deferred outflows of resources	<u>149,745</u>	<u>112,763</u>	<u>36,982</u>
<b>Liabilities:</b>			
Current liabilities	7,341	8,825	(1,484)
Long-term liabilities	917,547	835,095	82,452
Total liabilities	<u>924,888</u>	<u>843,920</u>	<u>80,968</u>
<b>Deferred Inflows of Resources:</b>			
Deferred pensions	91,920	165,846	(73,926)
Total deferred inflows of resources	<u>91,920</u>	<u>165,846</u>	<u>(73,926)</u>
<b>Net Position:</b>			
Net investment in capital assets	2,780,594	2,873,218	(92,624)
Restricted	16,961	-	16,961
Unrestricted	463,907	157,225	306,682
Total net position	<u>\$ 3,261,462</u>	<u>\$ 3,030,443</u>	<u>\$ 231,019</u>

Assets of the District exceed liabilities by \$3,261,462 as of June 30, 2016 and \$3,030,443 as of June 30, 2015.

A large portion of the District's net position (85% and 95% as of June 30, 2016 and June 30, 2015, respectively) reflects its net investment in capital assets used to acquire those assets that are still outstanding.

At the end of the fiscal years 2016 and 2015, the District shows a positive balance in its unrestricted net position of \$463,907 and \$157,225, respectively, which may be utilized in future years.



**SUMMERLAND SANITARY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

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

The Statement of Revenues, Expenses and Changes in Net Position shows how the District's net position changed during the fiscal year. Net position increased by \$183,824 for the fiscal year ended June 30, 2017 and increased by \$231,019 for the fiscal year ended June 30, 2016. Following is a summary of the District's statement of revenues, expenses and changes in net position for the year ending June 30, 2017 compared to June 30, 2016:

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 925,871	\$ 919,642	\$ 6,229
Non-operating revenues	230,384	219,584	10,800
Total revenues	<u>1,156,255</u>	<u>1,139,226</u>	<u>17,029</u>
Expenses:			
Operating expenses	828,398	769,271	59,127
Depreciation	144,033	138,936	5,097
Total expenses	<u>972,431</u>	<u>908,207</u>	<u>64,224</u>
Change in net position	183,824	231,019	(47,195)
Net position, beginning of year	<u>3,261,462</u>	<u>3,030,443</u>	<u>231,019</u>
Net position, end of year	<u>\$ 3,445,286</u>	<u>\$ 3,261,462</u>	<u>\$ 183,824</u>

In 2017 the District's total revenues increased by \$17,029, due primarily to increase in Sanitation Services and Property Taxes. Total expenses increased by \$64,224 primarily due to increased salaries and benefits. The increase in salaries and benefits was a result of one new employee as well as cost of living adjustments and merit increases.

**SUMMERLAND SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Revenues, Expenses and Changes in Net Position (Continued)**

Following is a summary of the District's statement of revenues, expenses and changes in net position for the year ending June 30, 2016 compared to June 30, 2015:

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 919,642	\$ 839,792	\$ 79,850
Non-operating revenues	219,584	213,311	6,273
Total revenues	<u>1,139,226</u>	<u>1,053,103</u>	<u>86,123</u>
Expenses:			
Operating expenses	769,271	723,579	45,692
Depreciation	138,936	140,313	(1,377)
Total expenses	<u>908,207</u>	<u>863,892</u>	<u>44,315</u>
Change in net position	<u>231,019</u>	<u>189,211</u>	<u>41,808</u>
Net position, beginning of year	3,030,443	2,670,640	359,803
Prior period adjustment	<u>-</u>	<u>170,592</u>	<u>(170,592)</u>
Net position, beginning of year, as restated	<u>3,030,443</u>	<u>2,841,232</u>	<u>189,211</u>
Net position, end of year	<u>\$ 3,261,462</u>	<u>\$ 3,030,443</u>	<u>\$ 231,019</u>

In 2016 the District's total revenues increased by \$86,123, due primarily to new connection fees, plan check fees, inspection fees, and annual user fees. Total expenses increased by \$44,315 primarily due to increased salaries and benefits.

**Property and Equipment**

Changes in property and equipment for fiscal year ending June 30, 2017 were as follows:

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets	\$ 2,525	\$ -	\$ -	\$ 2,525
Depreciable assets	5,289,612	34,984	(124,647)	5,199,949
Accumulated depreciation	<u>(2,511,543)</u>	<u>(144,033)</u>	<u>119,199</u>	<u>(2,536,377)</u>
Total property and equipment, net	<u>\$ 2,780,594</u>	<u>\$ (109,049)</u>	<u>\$ (5,448)</u>	<u>\$ 2,666,097</u>

**SUMMERLAND SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**Property and Equipment (Continued)**

Changes in property and equipment for fiscal year ending June 30, 2016 were as follows:

	<b>Balance 2015</b>	<b>Additions/ Transfers</b>	<b>Deletions/ Transfers</b>	<b>Balance 2016</b>
Non-depreciable assets	\$ 2,525	\$ -	\$ -	\$ 2,525
Depreciable assets	5,243,300	46,312	-	5,289,612
Accumulated depreciation	<u>(2,372,607)</u>	<u>(138,936)</u>	<u>-</u>	<u>(2,511,543)</u>
Total property and equipment, net	<u>\$ 2,873,218</u>	<u>\$ (92,624)</u>	<u>\$ -</u>	<u>\$ 2,780,594</u>

At the end of fiscal years 2017 and 2016, the District's investment in capital assets net of accumulated depreciation amounted to \$2,666,097 and \$2,780,594, respectively. This investment in capital assets includes land, sewage treatment facilities, subsurface lines, ocean outfall lines and equipment. Capital assets additions during 2017 include \$4,800 for sewage treatment facilities, \$7,270 for subsurface lines and \$22,914 for equipment additions. During 2016, additions include \$35,878 for subsurface lines and \$10,434 for equipment additions. Additionally, capital assets deletions during 2017 include \$124,647 for equipment with accumulated depreciation amounted to \$119,199.

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position or operating results in terms of past, present and future.

**Requests For Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 2435 Wallace Avenue, Summerland, CA 93067.

**SUMMERLAND SANITARY DISTRICT**

**STATEMENT OF NET POSITION**

**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,652,284	\$ 1,341,655
Interest receivable	3,517	1,928
Total current assets	<u>1,655,801</u>	<u>1,343,583</u>
Property and equipment:		
Total property and equipment	5,202,474	5,292,137
Accumulated depreciation	<u>(2,536,377)</u>	<u>(2,511,543)</u>
Net property and equipment (Notes 1 and 3)	<u>2,666,097</u>	<u>2,780,594</u>
Other assets:		
Other receivable	<u>1,723</u>	<u>4,348</u>
Total assets	<u>4,323,621</u>	<u>4,128,525</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pensions (Note 4)	<u>249,126</u>	<u>149,745</u>
Total deferred outflows of resources	<u>249,126</u>	<u>149,745</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	<u>15,064</u>	<u>7,341</u>
Total current liabilities	<u>15,064</u>	<u>7,341</u>
Long-term liabilities:		
Accrued compensated absences (Note 1)	74,978	78,257
Other post-employment benefits liability (Note 5)	52,009	45,250
Other accrued expenses (Note 7)	153,000	153,000
Net pension liability (Note 4)	739,828	641,040
Total long-term liabilities	<u>1,019,815</u>	<u>917,547</u>
Total liabilities	<u>1,034,879</u>	<u>924,888</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pensions (Note 4)	<u>92,582</u>	<u>91,920</u>
Total deferred inflows of resources	<u>92,582</u>	<u>91,920</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,666,097	2,780,594
Restricted	303,231	16,961
Unrestricted	475,958	463,907
Total net position	<u>\$ 3,445,286</u>	<u>\$ 3,261,462</u>

*See accompanying notes*

**SUMMERLAND SANITARY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Operating revenues:		
Service charges	\$ 888,364	\$ 847,842
Connection fees	34,700	67,950
Inspection fees	2,807	3,850
Total operating revenues	<u>925,871</u>	<u>919,642</u>
Operating expenses:		
Salaries and benefits	626,569	554,051
Facilities	86,553	98,783
Services and supplies	115,276	116,437
Depreciation	144,033	138,936
Total operating expenses	<u>972,431</u>	<u>908,207</u>
Operating income (loss)	<u>(46,560)</u>	<u>11,435</u>
Non-operating revenues (expenses):		
Property taxes	224,493	214,127
Investment earnings	5,891	5,457
Net non-operating income	<u>230,384</u>	<u>219,584</u>
Change in net position	<u>183,824</u>	<u>231,019</u>
Net position, beginning of year	<u>3,261,462</u>	<u>3,030,443</u>
Net position at end of year	<u>\$ 3,445,286</u>	<u>\$ 3,261,462</u>

*See accompanying notes*

**SUMMERLAND SANITARY DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 928,496	\$ 919,642
Cash payments to suppliers for goods and services	(181,899)	(210,905)
Cash payments to employees for services	(629,779)	(588,306)
Net cash provided by operating activities	<u>116,818</u>	<u>120,431</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from property taxes	<u>224,493</u>	<u>214,127</u>
Net cash provided by noncapital financing activities	<u>224,493</u>	<u>214,127</u>
Cash Flows from Capital and Related Financing Activities:		
Additions-equipment	(22,914)	(10,434)
Additions-subsurface lines	(7,270)	(35,878)
Additions-disposal plant	(4,800)	-
Net cash used by capital and related financing activities	<u>(34,984)</u>	<u>(46,312)</u>
Cash Flows from Investing Activities:		
Investment earnings	<u>4,302</u>	<u>4,555</u>
Net cash provided by investing activities	<u>4,302</u>	<u>4,555</u>
Net change in cash	310,629	292,801
Cash at beginning of period	<u>1,341,655</u>	<u>1,048,854</u>
Cash at end of period	<u>\$ 1,652,284</u>	<u>\$ 1,341,655</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (46,560)	\$ 11,435
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	144,033	138,936
Loss on disposal	5,448	-
Decrease (increase) in:		
Other receivable	2,625	-
Deferred pension outflow	(99,381)	(36,982)
Increase (decrease) in:		
Accounts payable and other post-retirement benefits	14,482	4,315
Customer deposits	-	-
Net pension liability	98,788	70,374
Deferred pension inflow	662	(73,926)
Accrued compensated absences	(3,279)	6,279
Net cash provided by operating activities	<u>\$ 116,818</u>	<u>\$ 120,431</u>

*See accompanying notes*

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

---

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies**

A) Organization and Operations of the Reporting Entity

Summerland Sanitary District (District) was formed in 1957, under the provisions of the Sanitary District Act of 1923 Health and Safety Code, State of California, Section 6400, et seq. The District is located in an area generally known as Summerland in Santa Barbara, California. The District was organized to provide sewage collection and treatment for residents within the District's geographical boundaries.

The District is governed by a Board of Directors consisting of five members elected at large. The Directors serve with minimal compensation for attendance at official board meetings or services as adopted through resolution 2006-01. The Board employs and is assisted by a General Manager, Secretary/Clerk of the Board, and such other personnel as are required to operate the District.

B) Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through use charges for sewer services and connection fees. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and the producing and delivering of goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges for sewer services and connection fees. Operating expenses of the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The District is responsible for funding all of its expenses, regardless of the operation or non-operating classification.

The financial statements of the District 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.

C) Use of Estimates

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

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

---

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

D) Budgetary Policies

The District prepares an annual budget which estimates major sources of revenue to be received during the fiscal year, as well as estimated expenditures needed for operation of District facilities.

E) Property Taxes and Sewer Service Charges

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations. Secured property taxes are levied on July 1 and become delinquent on December 10 and April 10, for the first and second installments, respectively. Unsecured personal property taxes are collected in one installment and become delinquent August 31.

Property taxes and sewer service charges are allocated on the County of Santa Barbara's annual tax bills to property owners who receive sewer service by the District. The County of Santa Barbara Tax Collector's Office collects the property taxes and sewer charge payments from the property owners and transfers the collection to the District's operating fund held with the County Treasurer's Office. During fiscal year 1994, the District adopted the *Teeter Plan* as defined under California Revenue and Taxation Code. Under the Teeter Plan, the District receives from the County 99.5% of the annual assessed secured and unsecured property taxes and 100% of its annual sewer service charges for the year, with the County responsible for the collection of any delinquent property taxes and sewer service charges.

Therefore, the County receives the benefits of collecting all penalty and interest charges on the delinquent property taxes and sewer service charges; hence, no accrual for uncollected property taxes and sewer service charges is recorded at year-end.

F) Compensated Absences

***Vacation Accrual***

Employees are encouraged to use their accrued vacation benefits each calendar year. Full and part-time employees may accrue up to a maximum of two times their annual accrual amount as indicated below based upon full-time employment.



**SUMMERLAND SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

---

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

F) Compensated Absences (Continued)

<u>Years of Service Completed</u>	<u>Maximum Vacation Accrual</u>
Up to 4 years	160 hours
5 to 9 years	240 hours
10 to 14 years	320 hours
15+ years	400 hours

In the event an employee's earned but unused vacation benefit reaches the maximum accrual that is allowed, vacation benefits will cease to accrue until the employee takes enough vacation to lower the maximum accrual entitlement. Vacation benefit accruals will then resume up to the maximum time allowed.

***Sick Leave Pay Out***

*Employees hired before May 2008*

Upon retirement from the District through the County Retirement System, all accrued unused sick leave up to a maximum of 90 (ninety) days shall be paid to the employee in accordance with the following schedule:

<u>Years of Service Completed</u>	<u>Sick Leave Pay Out</u>
Up to 10 years	50%
10 to 20 years	75%
20+ years	100%

Sick leave pay will be calculated based on the employee's current regular hourly rate of pay. Accumulated sick leave over 90 (ninety) days will be rolled over to the retirement system for service time credit.

*Employees hired after May 2008*

Upon retirement from the District accumulated sick leave will be rolled over into the retirement system for service time credit.

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

---

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

F) Compensated Absences (Continued)

Employees who voluntarily resign before retirement through the County Retirement System or are discharged from District service are not eligible for sick leave pay-out of any accrued and unused sick leave hours.

During fiscal year end June 30, 2017 and 2016 compensated absences were \$74,978 and \$78,257, respectively.

G) Property and Equipment

Property and equipment acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Sewage treatment facilities – 5 to 50 years
- Subsurface lines – 5 to 50 years
- Ocean outfall lines – 8 to 20 years
- Equipment – 3 to 30 years

H) Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, 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 assets which are legally restricted by outside parties for use for a specific purpose.

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

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

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

---

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

I) 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 Summerland Sanitary District's pension plan with Santa Barbara County Employees' Retirement System (SBCERS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by SBCERS. 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.

J) Implementation of New Accounting Pronouncements

For the year ended June 30, 2017, the District implemented the following Governmental Accounting Standards Board (GASB) Pronouncement:

Statement No. 82 Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73 addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this Statement have been adopted for the fiscal year ended June 30, 2017 and are reflected in the presentation of the required supplementary information.

K) Future Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement 75 and 85 listed below will be implemented in future financial statements. The aforementioned future GASB statements will be evaluated by the District to determine if they will have a material impact to the financial statements once effective.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement 45 and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit other postemployment benefits (OPEB), this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

---

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

K) Future Governmental Accounting Standards Board (GASB) Pronouncements (Continued)

Statement No. 85 Omnibus 2017, addresses practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

**Note 2 – Cash and Cash Equivalents**

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months to be cash equivalents.

Authorized Deposits and Investments

The District has adopted an investment policy directing the Fiscal Officer to deposit funds in financial institutions. Investments are to be made in the Santa Barbara County Pooled Investment Fund (SBCPIF).

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon liquidation or sale of investments.

Cash and cash equivalents as of June 30, consist of the following:

	<u>2017</u>	<u>2016</u>
Deposits held with financial institutions	\$ 30,147	\$ 29,573
Deposits held with Santa Barbara County Pooled Investment Fund (SBCPIF)	1,622,137	1,312,082
Total	<u>\$ 1,652,284</u>	<u>\$ 1,341,655</u>

Santa Barbara County Pooled Investment Fund

The cash with the County of Santa Barbara is managed by the County Treasurer's Office. Sewer service charges and property taxes collected for the District are deposited in the District's operating account (fund). The majority of expenses of the District are processed through this account. The Pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like Pool. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the County Treasurer must follow. These pooled funds are reported on an amortized cost basis. All investors in the Pool proportionately share any gains or losses. Credit and market risk is unknown for the District's Pool share. The fair value of the Pool is based on the value of the Pool shares.

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

---

**Note 2 – Cash and Cash Equivalents (Continued)**

Santa Barbara County Pooled Investment Fund (Continued)

The County of Santa Barbara's bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the County of Santa Barbara's Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of Santa Barbara Auditor-Controller's Office – 105 E. Anapamu Street, Santa Barbara, CA 93101.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depositor financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The District had deposits with bank balances of \$30,097 as of June 30, 2017. Of the bank balance, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as SBCPIF).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value is sensitive to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The SBCPIF is considered to have a maturity of less than 12 months.

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 3 – Property and Equipment**

Property and equipment additions during 2017 include \$4,800 for sewage treatment facilities, \$7,270 for subsurface lines and \$22,914 for equipment additions. Additionally, property and equipment deletions during 2017 include \$124,647 for equipment. Changes in capital assets during 2017 were as follows:

	<b>Balance 2016</b>	<b>Additions</b>	<b>Transfers</b>	<b>Balance 2017</b>
Non-depreciable assets:				
Land	\$ 2,525	\$ -	\$ -	\$ 2,525
Total non-depreciable assets	2,525	-	-	2,525
Depreciable assets:				
Sewage treatment facilities	2,943,984	4,800	-	2,948,784
Subsurface lines	1,474,248	7,270	-	1,481,518
Ocean outfall lines	52,961	-	-	52,961
Equipment	818,419	22,914	(124,647)	716,686
Total depreciable assets	5,289,612	34,984	(124,647)	5,199,949
Accumulated depreciation	(2,511,543)	(144,033)	119,199	(2,536,377)
Total depreciable assets, net	2,778,069	(109,049)	(5,448)	2,663,572
Total capital assets, net	<u>\$ 2,780,594</u>	<u>\$ (109,049)</u>	<u>\$ (5,448)</u>	<u>\$ 2,666,097</u>

Property and equipment additions during 2016 include \$35,878 for subsurface lines and \$10,434 for equipment additions. Changes in capital assets during 2016 were as follows:

	<b>Balance 2015</b>	<b>Additions</b>	<b>Transfers</b>	<b>Balance 2016</b>
Non-depreciable assets:				
Land	\$ 2,525	\$ -	\$ -	\$ 2,525
Total non-depreciable assets	2,525	-	-	2,525
Depreciable assets:				
Sewage treatment facilities	2,943,984	-	-	2,943,984
Subsurface lines	1,438,370	35,878	-	1,474,248
Ocean outfall lines	52,961	-	-	52,961
Equipment	807,985	10,434	-	818,419
Total depreciable assets	5,243,300	46,312	-	5,289,612
Accumulated depreciation	(2,372,607)	(138,936)	-	(2,511,543)
Total depreciable assets, net	2,870,693	(92,624)	-	2,778,069
Total capital assets, net	<u>\$ 2,873,218</u>	<u>\$ (92,624)</u>	<u>\$ -</u>	<u>\$ 2,780,594</u>

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 4 – Retirement Plan**

General Information about the Pension Plans

***Plan Descriptions*** –The District is a member of Santa Barbara County’s cost sharing multiple-employer defined benefit pension plan, which is administered by the Santa Barbara County Employees’ Retirement System (Retirement System). On April 28, 1994, the Board of Directors approved and adopted Resolution No. 1984-01, allowing the employees of the District to join the Santa Barbara County Employees’ Retirement System. The Retirement System was organized under the provision of the 1937 County Employees Retirement Act on January 1, 1944.

The District currently participates in General Plan 5B for employees who started prior to January 1, 2013, and PEPPRA Plan 8 for employees who started on or after January 1, 2013. All plans provide benefits as defined by law upon retirement, death or disability of members based upon a combination of age, years of service, final average salary (generally the 12 highest paid consecutive months), and the benefit options selected. Cost-of-living adjustments after retirement are provided in these plans.

***Fiduciary Responsibility*** –The Retirement System is controlled by its own Retirement Board, which acts as a fiduciary agent for the accounting and control of the member and employee contributions and investment income. The Retirement System issues its own Comprehensive Annual Financial Report which includes note disclosures and required supplementary information for the pension plan. This may be obtained online at [www.sbcers.org](http://www.sbcers.org) or by writing to the Santa Barbara County Employees’ Retirement System at 3916 State Street, Suite 210, Santa Barbara, CA 93105.

***Benefits Provided*** –All pension plans provide benefits, in accordance with CERL regulations, upon retirement, disability or death of members. Retirement benefits are based on years of service, final average compensation, and retirement age. Employees terminating before accruing 5 years of retirement service credit (5 year vesting) forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within the prescribed time period. Non-vested employees who terminate service are entitled to withdraw their accumulated contributions plus accrued interest. Employees who terminate service after earning 5 years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Differences between expected or actual experience for vested and non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

Service related disability benefits are based upon final average compensation or retirement benefits (if eligible). Non-service related disability benefits are based on 1) years of service and final average compensation or 2) retirement benefits (if eligible). Death benefits are based upon a variety of factors including whether the participant was retired or not. Annual cost-of-living adjustments (COLAs) after retirement are provided in all plans. COLAs are granted to eligible retired members each April based upon the Bureau of Labor Statistics Average Consumer Price Index (CPI) for All Urban Consumers for the Los Angeles-Riverside-Orange County area as of the preceding January 1 and is subject to an annual maximum dependent upon the provisions of the plans.

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 4 – Retirement Plan (Continued)**

Specific details for the retirement, disability or death benefit calculations and COLA maximums for each of the pension plans are available in the SBCERS' Comprehensive Annual Financial Report (CAFR).

**Contributions** – Per Article 16 of the Constitution of the State of California, contribution requirements of the active employees and the participating employers are established and may be amended by the SBCERS Board of Retirement. Depending upon the applicable plan, employees are required to contribute a certain percent of their annual pay. For each of the plans, the District's contractually required contribution (formerly known as the actuarially required contribution (ARC)) rate for the years ended June 30, 2017 and 2016, was a specified percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Additional amounts required to finance any unfunded accrued liability are the responsibility of the plan sponsors. Active members are plan members who are currently accruing benefits and/or paying contributions into the applicable plan.

The employer and employee contribution rates in effect at June 30, 2017, are summarized as follows:

	<u>General Plan 5B</u>	<u>PEPRA Plan 8</u>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 57	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-62	52-67
Monthly benefits, as a % of eligible compensation	0.6681% to 1.3093%	0.0200% to 0.0270%
Required employee contribution rates	5.54% - 11.44%	7.62%
Required employer contribution rates	31.48%	24.62%

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

	<u>General Plan 5B</u>	<u>PEPRA Plan 8</u>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 57	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-62	52-67
Monthly benefits, as a % of eligible compensation	0.6681% to 1.3093%	0.0200% to 0.0270%
Required employee contribution rates	5.54% - 11.44%	7.76%
Required employer contribution rates	32.08%	25.35%



**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 4 – Retirement Plan (Continued)**

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

As of June 30, 2017 and 2016, the Summerland Sanitary District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	June 30, 2017	June 30, 2016
Net Pension Liability	\$ 739,828	\$ 641,040

For the year ended June 30, 2017, the net pension liability of all of the Plans is measured as of June 30, 2016, 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, 2015 rolled forward to June 30, 2016 using standard update procedures.

For the year ended June 30, 2016, the net pension liability of all of the Plans is 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.

The District's proportion of the net pension liability was based on a projection of their long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for all Plans with an actuarial valuation and measurement date of June 30, 2014 and 2013 was as follows:

For the Year Ended June 30, 2017		For the Year Ended June 30, 2016	
Proportion - June 30, 2015	0.0881%	Proportion - June 30, 2014	0.0935%
Proportion - June 30, 2016	0.0880%	Proportion - June 30, 2015	0.0881%
Change - Increase (Decrease)	-0.0001%	Change - Increase (Decrease)	-0.0054%

For the years ended June 30, 2017 and 2016, the District recognized pension expense of \$108,406 and \$78,262, respectively.

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 4 – Retirement Plan (Continued)**

At June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 108,337	\$ -	\$ 118,796	\$ -
Differences between actual and expected experience	-	(36,695)	-	(19,664)
Changes in employer's proportion and difference between the employer's contributions and the employer's proportionate share of contributions	-	(55,887)	-	(72,256)
Net differences between projected and actual earnings on plan investments	140,789	-	30,949	-
	<u>\$ 249,126</u>	<u>\$ (92,582)</u>	<u>\$ 149,745</u>	<u>\$ (91,920)</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

Employer contributions of \$108,337 reported at June 30, 2017 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30:	Amount
2018	\$ (3,865)
2019	(3,865)
2020	34,871
2021	21,066
2022	-
Thereafter	-
	<u>\$ 48,207</u>

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 4 – Retirement Plan (Continued)**

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

	<u>For the Year Ended June 30, 2017</u>	<u>For the Year Ended June 30, 2016</u>
Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actual Cost Method	Entry Age	Entry Age
Actuarial Assumptions		
Amortization Growth Rate	3.50%	3.50%
Inflation	3.00%	3.50%
COLA Increases	3.00% for those with 3.00% cap; 2.00% for those with 2.00% COLA cap	3.00% for those with a 3.00% cap; 2.00% for those with 2.00% COLA cap
Projected Salary Increase	3.50% plus merit component	3.50% plus merit component
Investment Rate of Return	7.50% (1)	7.50% (1)
Post-Retirement Mortality	Sex distinct RP-2000 Combined Mortality, projected with generational improvements using Scale BB	Sex distinct RP-2000 Combined Mortality, projected with generational improvements using Scale BB

(1) Net of pension plan investment expense

The actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2013. Based upon the results of the 2013 actuarial experience study, there were no changes to the assumptions from the prior valuation.

**Discount Rate** –The long-term expected rate of return on pension plan investments (7.5 percent) 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. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund’s fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 4 – Retirement Plan (Continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized for the years ended June 30, 2017 and 2016 in the following table:

Asset Class	For the Year Ended June 30, 2017		For the Year Ended June 30, 2016	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	23%	5.30%	23%	5.40%
Investment grade bonds	10%	1.10%	10%	0.70%
Emerging market non-U.S. equity	10%	8.00%	10%	8.80%
Developed market non-U.S. equity	9%	5.60%	9%	6.00%
Private equity	7%	6.90%	7%	7.20%
Tips	7%	0.80%	7%	0.40%
Private real estate	6%	3.40%	6%	4.00%
High yield bonds	4%	4.30%	4%	3.60%
Foreign bonds	4%	0.10%	4%	-0.30%
Emerging market bonds	3%	3.60%	3%	3.50%
Natural resources (private)	3%	5.90%	3%	6.40%
Commodities	3%	1.60%	3%	2.20%
Bank loans	2%	3.20%	2%	2.40%
Infrastructure (private)	2%	4.20%	2%	4.50%
Infrastructure (public)	2%	5.30%	2%	5.60%
Natural resources (public)	2%	5.30%	2%	6.10%
Real estate investment trusts	2%	4.10%	2%	4.00%
Frontier market equity	1%	7.00%	1%	7.60%
Cash	0%	-0.20%	0%	-0.20%
<b>Total</b>	<b>100%</b>		<b>100%</b>	

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the District’s proportionate share of the net pension liability for all Plans, calculated using the discount rate for all Plans, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

For the Year Ended June 30, 2017		For the Year Ended June 30, 2016	
1% Decrease	6.5%	1% Decrease	6.5%
Net Pension Liability	\$ 1,155,033	Net Pension Liability	\$ 1,043,115
Current Discount Rate	7.5%	Current Discount Rate	7.5%
Net Pension Liability	\$ 739,828	Net Pension Liability	\$ 641,040
1% Increase	8.5%	1% Increase	8.5%
Net Pension Liability	\$ 399,550	Net Pension Liability	\$ 311,752

## SUMMERLAND SANITARY DISTRICT

### NOTES TO FINANCIAL STATEMENTS

---

#### Note 4 – **Retirement Plan (Continued)**

*Pension Plan Fiduciary Net Position* – Detailed information about each pension plan’s fiduciary net position is available in the separately issued SBCERS CAFR.

#### Note 5 – **Other Post Employment Benefits (OPEB)**

##### Plan Description

The District is a member of Santa Barbara County’s agent multiple-employer defined benefit postemployment healthcare plan (OPEB Plan), which is administered by the Santa Barbara County Employees’ Retirement System (Retirement System). The OPEB Plan provides medical benefits to eligible retired employees, as well as to their eligible dependents, pursuant to California Government Code Section 31694 et. seq.

In September 2008, the County and the Retirement System adopted an Internal Revenue Code (IRC) Section 401(h) account that provides for these benefits. Under GASB Statement 43, *Reporting for Post Employment Benefit Plans Other Than Pension Plans* and GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the liability related to the plan is required to be determined for both retirement systems and employers. GASB Statements 43 and 45 are not limited to the reporting of vested benefits.

The Retirement System issues its own Comprehensive Annual Financial Report which includes note disclosures and required supplementary information for the OPEB Plan. This may be obtained online at [www.sbcers.org](http://www.sbcers.org) or by writing to the Santa Barbara County Employees’ Retirement System at 3916 State Street, Suite 210, Santa Barbara, CA 93105.

##### Plan Benefits

The District participates in the Santa Barbara County Employees’ Retirement System (SBCERS) which negotiates health care contracts with providers for its participating retired members of the Retirement System. Retirees are offered the same health plans as active employees, as well as enhanced senior plans for retirees on Medicare. Retiree premiums are rated separately from active employees; as such, the District does not have a retiree premium implicit rate subsidy.

Pursuant to the OPEB Plan, the District has determined to provide a monthly insurance premium subsidy of \$15 (whole dollars) per year of credited service from the 401(h) account for Eligible Retired Participants participating in the health insurance plan. The monthly insurance premium subsidy is applied directly by the Retirement System to pay the premium and is not paid to the retiree or other party. The maximum amount paid in any month does not exceed the premium; any amount in excess of the premium is forfeited. If an Eligible Retired Participant does not participate in the health insurance plan, then the Retirement System reimburses the Eligible Retired Participant for other medical care expenses. The maximum monthly amount paid is \$4 (whole dollars) per year of credited service.

**SUMMERLAND SANITARY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

---

---

**Note 5 – Other Post Employment Benefits (OPEB) (Continued)**

If a member is eligible for a disability retirement benefit, the member can receive a monthly health plan subsidy of \$187 (whole dollars) per month or a subsidy of \$15 (whole dollars) per month per year of service, whichever is greater. This subsidy is treated as a nontaxable amount to the disabled recipient.

Survivors of Eligible Retired Participants (spouses and dependents) continue to receive a subsidy proportionate to their percentage of the retiree’s pension benefit (if any).

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and its board of directors. The required contribution is based on projected pay-as-you-go financing requirements. The District pays 100% of costs on behalf of the eligible participants.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize, over fifteen years, any unfunded actuarial accrued liabilities (UAAL) which consist of current retirees, current vested terminated and current active employees.

The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District’s net OPEB obligation for plan benefits:

Annual required contribution	\$ 10,928
Interest on Net OPEB Obligation	1,724
Adjustment to annual required contribution	(964)
Annual OPEB cost (expense)	<u>11,688</u>
Contributions made	<u>(4,929)</u>
Increase in net OPEB	6,759
Net OPEB obligation - beginning of year	<u>45,250</u>
Net OPEB obligation - end of year	<u><u>\$ 52,009</u></u>

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 5 – Other Post Employment Benefits (OPEB) (Continued)**

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2017 and the two preceding fiscal years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/15	\$ 10,699	39%	\$ 39,451
06/30/16	10,699	38%	45,250
06/30/17	11,688	42%	52,009

**Funded Status and Funding Progress**

As of June 30, 2016, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$155,556, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$155,556.

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, including assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the OPEB 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.

**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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**SUMMERLAND SANITARY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 5 – Other Post Employment Benefits (OPEB) (Continued)**

The following simplifying assumptions were made:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Amortization Period for UAAL	Open Period of 30 Years
Asset Valuation Method	Market value
Actuarial Assumptions	
Rate of return on investments	3.75%
Payroll Growth	3.00%
Inflation	N/A

**Note 6 – Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District, as a member of the Special District Risk Management Authority (SDRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. SDRMA's purpose is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017, the District participated in the liability and property programs of the SDRMA.

Settled claims have not exceeded any of the coverage amounts in any of the last two fiscal years and there were no reductions in the District's insurance coverage during the year ending June 30, 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include amounts for claims that have been incurred but not reported (IBNR). There was no IBNR claims payable as of June 30, 2017.

**Note 7 – Commitments and Contingencies**

The District has been notified by the U.S. Environmental Protection Agency (EPA) that it is considered a Potentially Responsible Party to the Casmalia Disposal Site (Site), an inactive commercial hazardous waste treatment, storage, and disposal facility. The District is one among thousands of waste generators that contributed waste to the Site.

On January 2, 2000, the EPA made a *de minimis* settlement offer to the District and other former customers of the Site. The settlement is being offered to waste contributors of the minimal amounts of waste in comparison to the other waste at the Site, and of the minimal amounts of toxic or other hazardous effects of the waste in comparison to other waste at the Site. The EPA has offered the *de minimis* parties the opportunity to fully resolve their liability in exchange for cash payments based on the volume of waste sent to the Site each year.



**SUMMERLAND SANITARY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

---

---

**Note 7 – Commitments and Contingencies (Continued)**

The District, along with the other members represented in the *de minimis* settlement offer, has not yet accepted the EPA's offer. The *de minimis* group has uncovered numerous deficiencies in the proposed settlement offer that need to be addressed. Consequently, the *de minimis* group has proposed a counter settlement offer, which the District believes the EPA will accept. This liability for the District was estimated not to exceed \$153,000 which was accrued and recorded by the District

**Note 8 – Subsequent Events**

Subsequent events have been evaluated through December 14, 2017, the date that the financial statements were available to be issued.

**SUMMERLAND SANITARY DISTRICT  
SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF SUMMERLAND SANITARY DISTRICT'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last 10 Years\***

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Valuation date	June 30, 2015	June 30, 2014	June 30, 2014
Measurement date	June 30, 2016	June 30, 2015	June 30, 2015
Proportion of the net pension liability	0.0880%	0.0881%	0.0935%
Proportionate share of the net pension liability	\$ 739,828	\$ 641,040	\$ 570,666
Covered - employee payroll	\$ 337,744	\$ 328,613	\$ 338,923
Proportionate share of the net pension liability as percentage of covered-employee payroll	219.0%	195.1%	168.4%
Plan fiduciary net position as a percentage of the total pension liability	75.2%	77.7%	80.5%

**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, 2014 valuation date.

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

**SUMMERLAND SANITARY DISTRICT  
SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF SUMMERLAND SANITARY DISTRICT'S CONTRIBUTIONS  
Last 10 Years\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 103,582	\$ 98,716	\$ 105,467
Contributions in relation to the actuarially determined contributions	\$ 103,582	\$ 98,716	\$ 105,467
Contribution deficiency (excess)	-	-	-
Covered - employee payroll	\$ 337,744	\$ 328,613	\$ 338,923
Contributions as a percentage of covered-employee payroll	30.67%	30.04%	31.12%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2015-16 were derived from the June 30, 2014 valuation report.

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

**SUMMERLAND SANITARY DISTRICT  
OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Simplified Entry Age (b)	Unfunded AAL (UAAL) (b -a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	-	\$ 95,842	\$ 95,842	-	\$ 369,901	26%
6/30/2014	-	\$ 145,272	\$ 145,272	-	\$ 309,171	47%
6/30/2016	-	\$ 155,556	\$ 155,556	-	\$ 337,744	46%

**Notes to Schedule:**

This information is intended to help users assess the District's OPEB plan's status on a going-concern basis and assess progress made in accumulating assets to pay benefits when due.