

**SUMMERLAND
SANITARY DISTRICT**

June 30, 2014 and 2013

FINANCIAL STATEMENTS



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

SUMMERLAND SANITARY DISTRICT

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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, 2014 and 2013, 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, 2014 and 2013, 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 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bartlett, Pringle & Wolf, LLP

December 11, 2014

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 year ended June 30, 2014. 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 12 through 26.

Financial Highlights

- The District's net position increased by .9% or \$22,976 to \$2,670,640 in fiscal year 2014 as a result of operations. In the prior year, the District's net position decreased 2.8% or \$76,671 to \$2,647,664 as a result of operations.
- The District's operating revenues increased by 9.7% or \$68,140 in 2014. In the prior year, operating revenues increased by 2.2% or \$15,164. The increase in the current year revenue is primarily a result of an increase in yearly fees and new pumping charges.

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 liabilities – 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, 2014 totaled \$2,670,640 compared to \$2,647,664 at June 30, 2013. 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, 2014 compared to June 30, 2013:

	2014	2013	Change
Assets:			
Current assets	\$ 777,170	\$ 691,574	\$ 85,596
Capital assets, net	2,152,625	2,197,754	(45,129)
Other assets	4,348	4,348	0
Total assets	<u>2,934,143</u>	<u>2,893,676</u>	<u>40,467</u>
Liabilities:			
Current liabilities	7,000	8,903	(1,903)
Long-term liabilities	256,503	237,109	19,394
Total liabilities	<u>263,503</u>	<u>246,012</u>	<u>17,491</u>
Net Position:			
Net investment in capital assets	2,152,625	2,197,754	(45,129)
Unrestricted	518,015	449,910	68,105
Total net position	<u>\$ 2,670,640</u>	<u>\$ 2,647,664</u>	<u>\$ 22,976</u>

The following is a summary of the District's statement of net position as of June 30, 2013 compared to June 30, 2012:

	2013	2012	Change
Assets:			
Current assets	\$ 691,574	\$ 721,538	\$ (29,964)
Capital assets, net	2,197,754	2,226,766	(29,012)
Other assets	4,348	18,826	(14,478)
Total assets	<u>2,893,676</u>	<u>2,967,130</u>	<u>(73,454)</u>
Liabilities:			
Current liabilities	8,903	12,235	(3,332)
Long-term liabilities	237,109	230,560	6,549
Total liabilities	<u>246,012</u>	<u>242,795</u>	<u>3,217</u>
Net Position:			
Net investment in capital assets	2,197,754	2,226,766	(29,012)
Unrestricted	449,910	497,569	(47,659)
Total net position	<u>\$ 2,647,664</u>	<u>\$ 2,724,335</u>	<u>\$ (76,671)</u>

SUMMERLAND SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Net Position (continued)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceed liabilities by \$2,670,640 as of June 30, 2014 and \$2,647,664 as of June 30, 2013.

A large portion of the District's net position (81% and 83% as of June 30, 2014 and June 30, 2013, 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.

At the end of the fiscal years 2014 and 2013, the District shows a positive balance in its unrestricted net position of \$518,015 and \$449,910, respectively, which may be utilized in future years.

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 \$22,976 for the fiscal year ended June 30, 2014 and decreased by \$76,671 for the fiscal year ended June 30, 2013. Following is a summary of the District's statement of revenues, expenses and changes in net position for the year ending June 30, 2014 compared to June 30, 2013:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 769,512	\$ 701,372	\$ 68,140
Non-operating revenues	202,677	189,851	12,826
Total revenues	<u>972,189</u>	<u>891,223</u>	<u>80,966</u>
Expenses:			
Operating expenses	832,195	855,121	(22,926)
Depreciation	117,018	112,773	4,245
Total expenses	<u>949,213</u>	<u>967,894</u>	<u>(18,681)</u>
Change in net position	22,976	(76,671)	99,647
Net position, beginning of year	<u>2,647,664</u>	<u>2,724,335</u>	<u>(76,671)</u>
Net position, end of year	<u>\$ 2,670,640</u>	<u>\$ 2,647,664</u>	<u>\$ 22,976</u>

SUMMERLAND SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

In 2014 the District's total revenues increased by \$80,966, due primarily to the increased yearly user fees and new pumping charges. In addition, total expenses decreased by \$18,681 primarily due to decreased professional and special services.

Following is a summary of the District's statement of revenues, expenses and changes in net position for the year ending June 30, 2013 compared to June 30, 2012:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 701,372	\$ 686,208	\$ 15,164
Non-operating revenues	<u>189,851</u>	<u>194,750</u>	<u>(4,899)</u>
Total revenues	<u>891,223</u>	<u>880,958</u>	<u>10,265</u>
Expenses:			
Operating expenses	855,121	846,951	8,170
Depreciation	<u>112,773</u>	<u>112,880</u>	<u>(107)</u>
Total expenses	<u>967,894</u>	<u>959,831</u>	<u>8,063</u>
Change in net position	(76,671)	(78,873)	2,202
Net position, beginning of year	<u>2,724,335</u>	<u>2,803,208</u>	<u>(78,873)</u>
Net position, end of year	<u>\$ 2,647,664</u>	<u>\$ 2,724,335</u>	<u>\$ (76,671)</u>

In 2013 the District's total revenues increased by \$10,265, due primarily to the increased yearly user fees. In addition, total expenses increased by \$8,063 primarily due to increased repair costs.

Capital Assets

Changes in capital assets for fiscal year ending June 30, 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets	\$ 2,525	\$ -	\$ -	\$ 2,525
Depreciable assets	4,242,161	71,889		4,314,050
Accumulated depreciation	<u>(2,046,932)</u>	<u>(117,018)</u>		<u>(2,163,950)</u>
Total capital assets, net	<u>\$ 2,197,754</u>	<u>\$ (45,129)</u>	<u>\$ -</u>	<u>\$ 2,152,625</u>

SUMMERLAND SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets (continued)

Changes in capital assets for fiscal year ending June 30, 2013 were as follows:

	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
Non-depreciable assets	\$ 2,525	\$ -	\$ -	\$ 2,525
Depreciable assets	4,158,400	83,761		4,242,161
Accumulated depreciation	(1,934,159)	(112,773)		(2,046,932)
Total capital assets, net	<u>\$ 2,226,766</u>	<u>\$ (29,012)</u>	<u>\$ -</u>	<u>\$ 2,197,754</u>

At the end of fiscal years 2014 and 2013, the District's investment in capital assets net of accumulated depreciation amounted to \$2,152,625 and \$2,197,754, respectively. This investment in capital assets includes land, sewage treatment facilities, subsurface lines, ocean outfall lines and equipment. Capital assets additions during 2014 include \$9,140 for sewer treatment facilities, \$9,397 for equipment additions and \$53,352 for subsurface lines. During 2013 additions included \$36,701 for sewer treatment facilities, \$21,137 for equipment additions and \$25,923 for subsurface lines.

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, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 771,249	\$ 691,016
Interest receivable	754	558
Prepaid Expenses	5,167	-
Total current assets	<u>777,170</u>	<u>691,574</u>
Property and equipment:		
Total property and equipment	4,316,575	4,244,686
Accumulated depreciation	(2,163,950)	(2,046,932)
Net property and equipment (Notes 1 and 3)	<u>2,152,625</u>	<u>2,197,754</u>
Other assets:		
Other receivable	4,348	4,348
Total assets	<u>2,934,143</u>	<u>2,893,676</u>
LIABILITIES		
Current liabilities:		
Accounts payable	7,000	8,903
Total current liabilities	<u>7,000</u>	<u>8,903</u>
Long-term liabilities:		
Accrued compensated absences (Note 1)	68,156	54,343
Deposits	2,543	2,543
Other post-employment benefits liability (Note 5)	32,804	27,223
Other accrued expenses (Note 7)	153,000	153,000
Total long-term liabilities	<u>256,503</u>	<u>237,109</u>
Total liabilities	<u>263,503</u>	<u>246,012</u>
NET POSITION		
Net investment in capital assets	2,152,625	2,197,754
Unrestricted	518,015	449,910
Total net position	<u>\$ 2,670,640</u>	<u>\$ 2,647,664</u>

See accompanying notes

SUMMERLAND SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Service charges	\$ 769,087	\$ 701,222
Inspection fees	425	150
Total operating revenues	<u>769,512</u>	<u>701,372</u>
Operating expenses:		
Salaries and benefits	596,165	608,120
Facilities	102,743	110,862
Services and supplies	133,287	136,139
Depreciation	117,018	112,773
Total operating expenses	<u>949,213</u>	<u>967,894</u>
Operating loss	<u>(179,701)</u>	<u>(266,522)</u>
Non-operating revenues (expenses):		
Property taxes	198,178	190,226
Investment earnings (losses)	4,499	(375)
Net non-operating income	<u>202,677</u>	<u>189,851</u>
Change in net position	22,976	(76,671)
Net position at beginning of year	<u>2,647,664</u>	<u>2,724,335</u>
Net position at end of year	<u>\$ 2,670,640</u>	<u>\$ 2,647,664</u>

See accompanying notes

SUMMERLAND SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Cash received from customers	\$ 769,512	\$ 715,850
Cash payments to suppliers for goods and services	(237,519)	(242,142)
Cash payments to employees for services	<u>(582,352)</u>	<u>(609,762)</u>
Net cash used by operating activities	<u>(50,359)</u>	<u>(136,054)</u>
Cash Flows from Noncapital Financing Activities:		
Proceeds from property taxes	198,178	190,226
Net cash provided by noncapital financing activities	<u>198,178</u>	<u>190,226</u>
Cash Flows from Capital and Related Financing Activities:		
Additions-equipment	(9,397)	(21,137)
Additions-subsurface lines	(53,352)	(25,923)
Additions-disposal plant	<u>(9,140)</u>	<u>(36,701)</u>
Net cash used by capital and related financing activities	<u>(71,889)</u>	<u>(83,761)</u>
Cash Flows from Investing Activities:		
Investment earnings	<u>4,303</u>	<u>338</u>
Net cash provided by investing activities	<u>4,303</u>	<u>338</u>
Net change in cash	80,233	(29,251)
Cash at beginning of period	<u>691,016</u>	<u>720,267</u>
Cash at end of period	<u>\$ 771,249</u>	<u>\$ 691,016</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (179,701)	\$ (266,522)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	117,018	112,773
Decrease (increase) in:		
Prepaid expenses	(5,167)	
Other receivable	-	14,478
Increase (decrease) in:		
Accounts payable and other post-retirement benefits	3,678	4,859
Accrued compensated absences	<u>13,813</u>	<u>(1,642)</u>
Net cash used by operating activities	<u>\$ (50,359)</u>	<u>\$ (136,054)</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)

Years of Service <u>Completed</u>	Maximum Vacation <u>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:

Years of Service <u>Completed</u>	Sick Leave <u>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 voluntary 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, 2014 and 2013 compensated absences were \$68,156 and \$54,343, respectively.

G) Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$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 liabilities and is classified into three components as follows:

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

Restricted – This component of net position consists of assets which are legally restricted by outside parties for use for a specific purpose. The District had no restricted net position as of June 30, 2014 and 2013.

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) New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statement has been implemented in the current financial statements:

GASB Statement No. 65 - Items Previously Reported as Assets and Liabilities. This Statement amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows or resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The implementation of GASB 65 did not have a material impact on the District's financial statements as of and for the period ended June 30, 2014.

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

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan. The effect of the implementation of GASB 68 has yet to be determined as of June 30, 2014.

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

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash and Cash Equivalents (continued)

Authorized Deposits and Investments (continued)

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>2014</u>	<u>2013</u>
Deposits held with financial institutions	\$ 30,922	\$ 30,295
Deposits held with Santa Barbara County Pooled Investment Fund (SBCPIF)	<u>740,327</u>	<u>660,721</u>
Total	<u>\$ 771,249</u>	<u>\$ 691,016</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 at market value as determined by quoted market prices. All investors in the Pool proportionately share any gains or losses. Credit and market risk is unknown for the District's Pool share.

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 does 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

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash and Cash Equivalents (continued)

Custodial Credit Risk (continued)

deposited by the public agencies. The District had deposits with bank balances of \$30,922 and \$30,295 and as of June 30, 2014 and 2013, respectively. 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 contains 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 - Capital Assets

Capital assets additions during 2014 include \$9,140 for sewer treatment facilities, \$9,397 for equipment additions and \$53,352 for subsurface lines. Changes in capital assets during 2014 were as follows:

	Balance 2013	Additions	Transfers	Balance 2014
Non-depreciable assets:				
Land	\$ 2,525	-	-	\$ 2,525
Total non-depreciable assets	<u>2,525</u>	<u>-</u>	<u>-</u>	<u>2,525</u>
Depreciable assets:				
Sewage treatment facilities	2,929,353	9,140	-	2,938,493
Subsurface lines	473,747	53,352	-	527,099
Ocean outfall lines	52,961	-	-	52,961
Equipment	786,100	9,397	-	795,497
Total depreciable assets	<u>4,242,161</u>	<u>71,889</u>	<u>-</u>	<u>4,314,050</u>
Accumulated depreciation	<u>(2,046,932)</u>	<u>(117,018)</u>	<u>-</u>	<u>(2,163,950)</u>
Total depreciable assets, net	<u>2,195,229</u>	<u>(45,129)</u>	<u>-</u>	<u>2,150,100</u>
Total capital assets, net	<u><u>\$ 2,197,754</u></u>			<u><u>\$ 2,152,625</u></u>

Capital assets additions during 2013 include \$36,701 for sewer treatment facilities, \$21,137 for equipment additions and \$25,923 for subsurface lines. Changes in capital assets during 2013 were as follows:

	Balance 2012	Additions	Transfers	Balance 2013
Non-depreciable assets:				
Land	\$ 2,525	-	-	\$ 2,525
Total non-depreciable assets	<u>2,525</u>	<u>-</u>	<u>-</u>	<u>2,525</u>
Depreciable assets:				
Sewage treatment facilities	2,892,652	36,701	-	2,929,353
Subsurface lines	447,824	25,923	-	473,747
Ocean outfall lines	52,961	-	-	52,961
Equipment	764,963	21,137	-	786,100
Total depreciable assets	<u>4,158,400</u>	<u>83,761</u>	<u>-</u>	<u>4,242,161</u>
Accumulated depreciation	<u>(1,934,159)</u>	<u>(112,773)</u>	<u>-</u>	<u>(2,046,932)</u>
Total depreciable assets, net	<u>2,224,241</u>	<u>(29,012)</u>	<u>-</u>	<u>2,195,229</u>
Total capital assets, net	<u><u>\$ 2,226,766</u></u>			<u><u>\$ 2,197,754</u></u>

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 4 - Retirement Plan

Plan Description

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.

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.

Members include all permanent employees working full or at least 50% part time for the County, Carpinteria-Summerland Fire Protection District, Goleta Cemetery District, Santa Maria Cemetery District, Carpinteria Cemetery District, Summerland Sanitary District, Oak Hill Cemetery District, Mosquito and Vector Management District of Santa Barbara County, Santa Barbara County Air Pollution Control District, the Santa Barbara County Association of Governments, and Santa Barbara County of Superior Court

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 or by writing to the Santa Barbara County Employees' Retirement System at 3916 State Street, Suite 210, Santa Barbara, CA 93105.

Funding Policy

Contributions are made by the District and District employees at rates recommended by an independent actuary, approved by the Board of Retirement, and adopted by the Santa Barbara County Board of Supervisors. Employee contributions are based upon each individual member's age of entry into the system. Employee contributions cannot be withdrawn until separation from employment. The District's contribution to the System for the years ended June 30, 2014 and 2013 was \$119,185 and \$123,417, respectively.

SUMMERLAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 4 - Retirement Plan (continued)

Employer/Employee Contribution

Employer and employee contribution rates are as follows:

	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
<u>Open for New Enrollment</u>		
General Plan 8	25.84%	7.70%
<u>Closed to New Enrollment</u>		
General Plan 5B	32.40%	*5.54% - 11.44%

* This District absorbs the employee's contribution.

Annual Pension Cost

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for the fiscal year 2014 and the three preceding fiscal years were as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net Pension Obligation</u>
06/30/12	120,614	100%	-
06/30/13	123,417	100%	-
06/30/14	119,185	100%	-

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 4 - Retirement Plan (continued)

Actuarial Methods and Assumptions (continued)

The following simplifying assumptions were made:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level Percent of Projected Payroll
Amortization Period for UAAL	Open/rolling period of 17 years
Asset Valuation Method	5 Year Smoothed Market
Actuarial Assumptions	
Rate of Return on Investments	7.75%
Payroll Growth	3.75%
Cost-of-Living Adjustment	3.00%

Under an open/rolling amortization method, the entire unfunded actuarial accrued liability is amortized over a constant period, in this case, 17 years. The amortization factor does not change from year to year unless the discount rate or salary assumption is changed.

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 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

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5 - Other Post Employment Benefits (OPEB) (continued)

Plan Benefits (continued)

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.

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.

SUMMERLAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 5 - Other Post Employment Benefits (OPEB) (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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	\$ 9,027
Interest on Net OPEB Obligation	787
Adjustment to annual required contribution	(679)
Annual OPEB cost (expense)	<u>9,135</u>
Contributions made	(3,554)
Increase in net OPEB	5,581
Net OPEB obligation - beginning of year	<u>27,223</u>
Net OPEB obligation - end of year	<u><u>\$ 32,804</u></u>

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 2013 and the two preceding fiscal years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/12	8,137	20%	19,032
06/30/13	9,768	16%	27,223
06/30/14	9,135	39%	32,804

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$95,842, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$95,842.

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. The schedule of funding progress is presented below, and presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

SUMMERLAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 5 - Other Post Employment Benefits (OPEB) (continued)

Funded Status and Funding Progress (continued)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-		Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Simplified Entry Age (b)	AAL (UAAL) (b-a)				
06/30/10	-	\$ 83,111	\$ 83,111		-	\$ 348,290	24%
06/30/12	-	95,842	95,842		-	369,901	26%

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.

The following simplifying assumptions were made:

Valuation Date	June 30, 2012
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	N/A
Actuarial Assumptions	
Rate of return on investments	4.00%
Payroll Growth	3.75%
Inflation	3.25%

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, 2014, 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 years ending June 30,

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6 - Risk Management (continued)

2014 and 2013. 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 were no IBNR claims payable as of June 30, 2014 and 2013.

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.

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 11, 2014, the date that the financial statements were available to be issued.