

**SUMMERLAND
SANITARY DISTRICT**

June 30, 2015

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 year ended June 30, 2015, 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 audit. We conducted our audit 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 audit 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, 2015, and the changes in net position and cash flows for the year 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.

Emphasis of Matters

As discussed in Note 1 and Note 8 to the basic financial statements, Summerland Sanitary District has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during fiscal year 2015. The adoption of this standard required retrospective application resulting in a \$672,334 reduction of net position as of July 1, 2014. Our opinion is not modified with respect to this matter.

Also discussed in Note 8 to the basic financial statements, Summerland Sanitary District restated the July 1, 2014 beginning net position to correct a misstatement. The District recorded a prior period adjustment during fiscal year 2015 to record contributed capital. The contributed capital resulted in a \$842,926 increase to net position as of July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7, the Santa Barbara County Employees' Retirement System Schedule of Summerland Sanitary District's Proportionate Share of the Net Pension Liability on page 30, the Santa Barbara County Employees' Retirement System Schedule of Summerland Sanitary District's Contributions on page 31, and the Other Postemployment Benefits (OPEB) Plan Schedule of Funding Progress on page 32, 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

December 10, 2015

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, 2015. 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 11 through 29.

Financial Highlights

- The District's net position increased by 13.5% or \$359,803 to \$3,030,443 in fiscal year 2015 as a result of \$189,211 from operations and \$170,592 from a prior period adjustment for GASB 68 and contributed capital that is reflected beginning July 1, 2014. The 2013/2014 fiscal year balance was not restated and is presented as previously stated.
- During the year ended June 30, 2015, the District adopted two new standards issued by the Governmental Accounting Standards Board (GASB) related to pension activity: Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. In order to implement the new standards a prior period adjustment of \$(672,334) was made to decrease the July 1, 2014 net position. See footnote 4 for a discussion of the District's defined benefit pension plan and footnote 8 for a discussion of the prior period adjustment. Certain amounts necessary to fully restate fiscal year 2013/2014 financial information was not available at the time of the issuance of these financial statements, therefore prior year balances presented in the Management Discussion and Analysis section have not been restated and are not fully comparable.
- The District restated the July 1, 2014 beginning net position to record sewer extension lines gifted by Pacifica Graduate School to the District in 2012. This adjustment was made to conform to Governmental Accounting Standards Board (GASB) Statement No. 34. An adjustment of \$842,926 was made to increase the fiscal year 2014/2015 beginning net position. The effect on the July 1, 2014 balances was to increase property and equipment by \$911,271 and to increase accumulated depreciation by \$68,345. Prior year balances presented in the Management Discussion and Analysis section have not been restated and are not fully comparable.

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.

SUMMERLAND SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015 totaled \$3,030,443 compared to \$2,670,640 at June 30, 2014. The increase in net position can be attributed to District revenues exceeding expenses and the prior period adjustment for GASB 68 and contributed capital.

Condensed Statement of Net Position

The following is a summary of the District's statement of net position as of June 30, 2015 compared to June 30, 2014:

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Assets:			
Current assets	\$ 1,049,880	\$ 777,170	\$ 272,710
Capital assets, net	2,873,218	2,152,625	720,593
Other assets	4,348	4,348	-
Total assets	<u>3,927,446</u>	<u>2,934,143</u>	<u>993,303</u>
Deferred Outflows of Resources:			
Deferred pensions	112,763	-	112,763
Total deferred outflows of resources	<u>112,763</u>	<u>-</u>	<u>112,763</u>
Liabilities:			
Current liabilities	8,825	7,000	1,825
Long-term liabilities	835,095	256,503	578,592
Total liabilities	<u>843,920</u>	<u>263,503</u>	<u>580,417</u>
Deferred Inflows of Resources:			
Deferred pensions	165,846	-	165,846
Total deferred inflows of resources	<u>165,846</u>	<u>-</u>	<u>165,846</u>
Net Position:			
Net investment in capital assets	2,873,218	2,152,625	720,593
Unrestricted	157,225	518,015	(360,790)
Total net position	<u>\$ 3,030,443</u>	<u>\$ 2,670,640</u>	<u>\$ 359,803</u>

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

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 \$3,030,443 as of June 30, 2015 and \$2,670,640 as of June 30, 2014.

A large portion of the District's net position (95% and 81% as of June 30, 2015 and June 30, 2014, 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 2015 and 2014, the District shows a positive balance in its unrestricted net position of \$157,225 and \$518,015, 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 \$359,803 for the fiscal year ended June 30, 2015 and increased by \$22,976 for the fiscal year ended June 30, 2014. Following is a summary of the District's statement of revenues, expenses and changes in net position for the year ending June 30, 2015 compared to June 30, 2014:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 839,792	\$ 769,512	\$ 70,280
Non-operating revenues	213,311	202,677	10,634
Total revenues	<u>1,053,103</u>	<u>972,189</u>	<u>80,914</u>
Expenses:			
Operating expenses	723,579	832,195	(108,616)
Depreciation	140,313	117,018	23,295
Total expenses	<u>863,892</u>	<u>949,213</u>	<u>(85,321)</u>
Change in net position	<u>189,211</u>	<u>22,976</u>	<u>166,235</u>
Net position, beginning of year	2,670,640	2,647,664	22,976
Prior period adjustment	170,592	-	170,592
Net position, beginning of year, as restated	<u>2,841,232</u>	<u>2,647,664</u>	<u>193,568</u>
Net position, end of year	<u>\$ 3,030,443</u>	<u>\$ 2,670,640</u>	<u>\$ 359,803</u>

In 2015 the District's total revenues increased by \$80,914, due primarily to new connection fees, plan check fees, inspection fees, and annual user fees. In addition, total expenses decreased by \$85,321 primarily due to decreased salaries and services.

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

Property and Equipment

Changes in property and equipment for fiscal year ending June 30, 2015 were as follows:

	Balance 2014	Prior Period Adjustment	July 1, 2014 Restated	Additions/ Transfers	Balance 2015
Non-depreciable assets	\$ 2,525	\$ -	\$ 2,525	\$ -	\$ 2,525
Depreciable assets	4,314,050	911,271	5,225,321	17,979	5,243,300
Accumulated depreciation	(2,163,950)	(68,345)	(2,232,295)	(140,312)	(2,372,607)
Total property and equipment, net	<u>\$ 2,152,625</u>	<u>\$ 842,926</u>	<u>\$ 2,995,551</u>	<u>\$ (122,333)</u>	<u>\$ 2,873,218</u>

At the end of fiscal years 2015 and 2014, the District's investment in capital assets net of accumulated depreciation amounted to \$2,873,218 and \$2,152,625, respectively. This investment in capital assets includes land, sewage treatment facilities, subsurface lines, ocean outfall lines and equipment. Capital assets additions during 2015 include \$5,491 for sewer treatment facilities, \$12,488 for equipment additions. Additionally, the District restated the July 1, 2014 beginning net position to record sewer extension lines gifted by Pacifica Graduate Institute to the District in 2012, and related depreciation expense. The adjustment of \$842,926 on the July 1, 2014 balances was to increase property and equipment by \$911,271 and to increase accumulated depreciation by \$68,345.

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, 2015

	2015
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 1,048,854
Interest receivable	1,026
Total current assets	1,049,880
Property and equipment:	
Total property and equipment	5,245,825
Accumulated depreciation	(2,372,607)
Net property and equipment (Notes 1 and 3)	2,873,218
Other assets:	
Other receivable	4,348
Total assets	3,927,446
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pensions (Note 4)	112,763
Total deferred outflows of resources	112,763
LIABILITIES	
Current liabilities:	
Accounts payable	8,825
Total current liabilities	8,825
Long-term liabilities:	
Accrued compensated absences (Note 1)	71,978
Other post-employment benefits liability (Note 5)	39,451
Other accrued expenses (Note 7)	153,000
Net pension liability (Note 4)	570,666
Total long-term liabilities	835,095
Total liabilities	843,920
DEFERRED INFLOWS OF RESOURCES	
Deferred pensions (Note 4)	165,846
Total deferred inflows of resources	165,846
NET POSITION	
Net investment in capital assets	2,873,218
Unrestricted	157,225
Total net position	\$ 3,030,443

See accompanying notes

SUMMERLAND SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2015

	2015
Operating revenues:	
Service charges	\$ 803,509
Connection fees	32,115
Inspection fees	4,168
Total operating revenues	839,792
Operating expenses:	
Salaries and benefits	503,390
Facilities	108,922
Services and supplies	111,267
Depreciation	140,313
Total operating expenses	863,892
Operating loss	(24,100)
Non-operating revenues (expenses):	
Property taxes	209,183
Investment earnings	4,128
Net non-operating income	213,311
Change in net position	189,211
Net position, beginning of year, as previously stated	2,670,640
Effect of prior period adjustment as a result of a change in accounting policy and correction of an error (Note 8)	170,592
Net position at beginning of year, as restated	2,841,232
Net position at end of year	\$ 3,030,443

See accompanying notes

**SUMMERLAND SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015**

	2015
Cash Flows from Operating Activities:	
Cash received from customers	\$ 837,249
Cash payments to suppliers for goods and services	(206,551)
Cash payments to employees for services	(548,153)
Net cash provided by operating activities	<u>82,545</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from property taxes	<u>209,183</u>
Net cash provided by noncapital financing activities	<u>209,183</u>
Cash Flows from Capital and Related Financing Activities:	
Additions-equipment	(12,488)
Additions-disposal plant	(5,491)
Net cash used by capital and related financing activities	<u>(17,979)</u>
Cash Flows from Investing Activities:	
Investment earnings	<u>3,856</u>
Net cash provided by investing activities	<u>3,856</u>
Net change in cash	277,605
Cash at beginning of period	<u>771,249</u>
Cash at end of period	<u><u>\$ 1,048,854</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (24,100)
Adjustments to reconcile operating loss to net cash provided	
by operating activities:	
Depreciation	140,313
Decrease (increase) in:	
Prepaid expenses	5,167
Deferred pension outflow	(7,296)
Increase (decrease) in:	
Accounts payable and other post-retirement benefits	8,471
Customer deposits	(2,543)
Net pension liability	(207,135)
Deferred pension inflow	165,846
Accrued compensated absences	3,822
Net cash provided by operating activities	<u><u>\$ 82,545</u></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, 2015 and 2014 compensated absences were \$71,978 and \$68,156, 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. The District had no restricted net position as of June 30, 2015.

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) New Accounting Pronouncements

For the year ended June 30, 2015, Summerland Sanitary District implemented the following Governmental Accounting Standards Board (GASB) Pronouncements:

Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement amends paragraph 137 of Statement No. 68. The requirements of this Statement apply to all state and local governments that are required to apply the provisions of Statement No. 68 for defined benefit pensions. This statement recognizes that at the beginning of the period in which the provisions of Statement No. 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

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>2015</u>
Deposits held with financial institutions	\$ 29,603
Deposits held with Santa Barbara County Pooled Investment Fund (SBCPIF)	<u>1,018,669</u>
Total	<u>\$ 1,048,854</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.

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash and Cash Equivalents (continued)

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 deposited by the public agencies. The District had deposits with bank balances of \$29,603 as of June 30, 2015. 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 - Property and Equipment

Property and equipment additions during 2015 include \$5,491 for sewer treatment facilities and \$12,489 for equipment additions. Changes in capital assets during 2015 were as follows:

	<u>Balance 2014</u>	<u>Prior Period Adjustment</u>	<u>July 1, 2014 Restated</u>	<u>Additions</u>	<u>Balance 2015</u>
Non-depreciable assets:					
Land	\$ 2,525	\$ -	\$ 2,525	\$ -	\$ 2,525
Total non-depreciable assets	<u>2,525</u>	<u>-</u>	<u>2,525</u>	<u>-</u>	<u>2,525</u>
Depreciable assets:					
Sewage treatment facilities	2,938,493	-	2,938,493	5,491	2,943,984
Subsurface lines	527,099	911,271	1,438,370	-	1,438,370
Ocean outfall lines	52,961	-	52,961	-	52,961
Equipment	795,497	-	795,497	12,488	807,985
Total depreciable assets	4,314,050	911,271	5,225,321	17,979	5,243,300
Accumulated depreciation	<u>(2,163,950)</u>	<u>(68,345)</u>	<u>(2,232,295)</u>	<u>(140,312)</u>	<u>(2,372,607)</u>
Total depreciable assets, net	<u>2,150,100</u>	<u>842,926</u>	<u>2,993,026</u>	<u>(122,333)</u>	<u>2,870,693</u>
Total capital assets, net	<u><u>\$2,152,625</u></u>				<u><u>\$2,873,218</u></u>

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 PEPRA 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. As of the valuation date there were no eligible participants in PEPRA Plan 8. Accordingly, not all disclosures reflect PEPRA Plan 8.

SUMMERLAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 4 - Retirement Plan (continued)

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.

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 pension plans.

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).

SUMMERLAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 4 - Retirement Plan (continued)

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

	<u>General Plan 5B</u>	<u>PEPRA Plan 8</u>
	Prior to January 1,	On or after January 1,
Hire date	2013	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	0.6681% to 1.3093%	0.0100% to 0.0250%
Required employee contribution rates	5.19% - 10.73%	7.0%
Required employer contribution rates	32.4%	25.8%

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 year ended June 30, 2015, 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.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>
Contributions – employer	\$ 13,571

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

As of June 30, 2015, the Summerland Sanitary District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate</u>
Miscellaneous	\$ 570,666

SUMMERLAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 4 - Retirement Plan (continued)

Summerland Sanitary District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, 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, 2013 rolled forward to June 30, 2014 using standard update procedures.

Summerland Sanitary 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. Summerland Sanitary District's proportionate share of the net pension liability for all Plans as of June 30, 2013 and 2014 was as follows:

	Miscellaneous
Proportion - June 30, 2013	0.0995%
Proportion - June 30, 2014	0.0935%
Change - Increase (Decrease)	0.0060%

For the year ended June 30, 2015, Summerland Sanitary District recognized pension expense of \$64,179. At June 30, 2015, Summerland Sanitary District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 112,763	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Changes in employer's proportion and difference between the employer's contributions and the employer's proportionate share of contributions		(42,477)
Net differences between projected and actual earnings on plan investments		(123,369)
	\$ 112,763	\$ (165,846)

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.

\$112,763 reported 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

SUMMERLAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 4 - Retirement Plan (continued)

Year Ended June 30:	Amount
2016	\$ (41,279)
2017	(41,279)
2018	(41,279)
2019	(41,279)
2020	(730)
Thereafter	-
	\$ (165,846)

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actual Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions	
Amortization Growth Rate	3.50%
Inflation	3.00%
COLA Increases	2.75% for those with a 3.00% cap; 2.00% for those with a 2.00% COLA cap
Projected Salary Increase	3.50% plus merit component
Investment Rate of Return	7.50% (1)
Post-Retirement Mortality	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, 2014 valuation 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.

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 4 - Retirement Plan (continued)

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 target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	23%	5.40%
Investment grade bonds	10%	0.70%
Emerging market non-U.S. equity	10%	8.80%
Developed market non-U.S. equity	9%	6.00%
Private equity	7%	7.20%
Tips	7%	0.40%
Private real estate	6%	4.00%
High yield bonds	4%	3.60%
Foreign bonds	4%	-0.30%
Emerging market bonds	3%	3.50%
Natural resources (private)	3%	6.40%
Commodities	3%	2.20%
Bank loans	2%	2.40%
Infrastructure (private)	2%	4.50%
Infrastructure (public)	2%	5.60%
Natural resources (public)	2%	6.10%
Real estate investment trusts	2%	4.00%
Frontier market equity	1%	7.60%
Cash	0%	-0.20%
Small cap	0%	0.00%
Total	100%	

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)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents Summerland Sanitary District’s proportionate share of the net pension liability for all Plans, calculated using the discount rate for all Plans, as well as what Summerland Sanitary 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:

Miscellaneous	
1% Decrease	6.5%
Net Pension Liability	\$ 984,545
Current Discount Rate	7.5%
Net Pension Liability	\$ 570,666
1% Increase	8.5%
Net Pension Liability	\$ 232,805

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

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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.

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	\$ 10,555
Interest on Net OPEB Obligation	1,346
Adjustment to annual required contribution	<u>(1,202)</u>
Annual OPEB cost (expense)	10,699
Contributions made	<u>(4,052)</u>
Increase in net OPEB	6,647
Net OPEB obligation - beginning of year	<u>32,804</u>
Net OPEB obligation - end of year	<u><u>\$ 39,451</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 2015 and the two preceding fiscal years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/13	\$ 9,768	16%	\$ 27,223
06/30/14	9,135	39%	32,804
06/30/15	10,699	38%	39,451

Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$145,272, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$145,272.

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)

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, 2014
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	4.00%
Payroll Growth	3.50%
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, 2015, 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, 2015. 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, 2015.

SUMMERLAND SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

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 - Prior Period Adjustment

Net Pension Liability

Note 1 describes the GASB pronouncements Summerland Sanitary District is adopting for this and the prior fiscal years. There is a financial impact for the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*.

Implementation of GASB Statement No. 68 recognizes a liability for Summerland Sanitary District's proportionate share of the net pension liability of all employers for benefits provided through the Santa Barbara County Employees' Retirement System (SBCERS). Additionally, Summerland Sanitary District is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows or resources and deferred inflows of resources related to pensions. The effect of this adjustment can be seen below. Because of all the information required to restate prior year was not available at the time the financial statements were available to be issued, comparative data is not presented.

An adjustment of \$672,334 was made to decrease the fiscal year 2014/2015 beginning net position. The effects on the July 1, 2014 balances was an increase in pension liability of \$777,801 and an increase in deferred outflow of resources of \$105,467. The net adjustment can be seen below.

SUMMERLAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 8 - Prior Period Adjustment (continued)

Contributed Capital

The District restated the July 1, 2014 beginning net position to record sewer extension lines gifted by Pacifica Graduate School to the District in 2012. This adjustment was made to conform with Governmental Accounting Standards Board (GASB) Statement No. 34.

An adjustment of \$842,926 was made to increase the fiscal year 2014/2015 beginning net position. The effect on the July 1, 2014 balances was to increase property and equipment by \$911,271 and to increase accumulated depreciation by \$68,345. The net effect of this adjustment can be seen below.

The following table presents the net effect of the prior period adjustment on the June 30, 2015 financial statement balances.

Net position at July 1, 2014, as originally stated	\$ 2,670,640
Decrease in net position due to net pension liability	(672,334)
Increase in net position due to contributed capital	<u>842,926</u>
Net position at July 1, 2014, as restated	<u><u>\$ 2,841,232</u></u>

Note 9 - Subsequent Events

Subsequent events have been evaluated through December 10, 2015, the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**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***

		<u>2015</u>
Proportion of the net pension liability		0.0935%
Proportionate share of the net pension liability	\$	570,666
Covered - employee payroll	\$	338,923
Proportionate share of the net pension liability as percentage of covered-employee payroll		168.4%
Plan fiduciary net position as a percentage of the total pension liability		80.5%

Notes to Schedule:

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

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

		<u>2015</u>
Contractually required contribution (actuarially determined)	\$	62,361
Contributions in relation to the actuarially determined contributions	\$	62,361
Contribution deficiency (excess)		-
Covered - employee payroll	\$	338,923
Contributions as a percentage of covered-employee payroll		18.40%

Notes to Schedule:

Valuation date: 6/30/2013

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is 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)
3/1/2012	-	\$ 95,842	\$ 95,842	-	\$ 369,901	26%
3/1/2014	-	\$ 145,272	\$ 145,272	-	\$ 309,171	47%

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.