GOLETA SANITARY DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2018

GOLETA SANITARY DISTRICT

Financial Statements
June 30, 2018

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FINANCIAL SECTION

FECHTER
& COMPANY
Certified Public Accountants

Craig R. Fechter, CPA, MST

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Goleta Sanitary District
Goleta, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Goleta Sanitary District (District) as of and for the fiscal year ended June 30, 2018, and the related notes to the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation 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 standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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To the Board of Directors
Goleta Sanitary District
Goleta, California

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 respective financial position of the Goleta Sanitary District, as of June 30, 2018, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, the Schedule of Funding Progress for Post-Employment Benefits Other than Pensions on page 44, the Schedule of Proportionate Share of Net Pension Liability on page 45, and the Schedule of Pension Contributions on page 46, 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.

Report on Summarized Comparative Information

Other auditors previously audited the Goleta Sanitary District's 2017 financial statements, and they expressed an unmodified audit opinion on those audited financial statements in their report dated January 5, 2018.

To the Board of Directors
Goleta Sanitary District
Goleta, California

Implementation of New Accounting Standards

As disclosed in Note 1 of the financial statements, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*, during fiscal year 2018. Our opinion is not modified with respect to this matter.

Fechter & Company, Certified Public Accountants

Fechter & Company, CPAS

Sacramento, CA
November 28, 2018

Management's Discussion and Analysis
For the Year Ended June 30, 2018

As management of the Goleta Sanitary District, we offer readers of the Goleta Sanitary District's financial statements this narrative overview and analysis of the financial activities of the Goleta Sanitary District for the fiscal year ending June 30, 2018. We encourage readers to consider the information presented here in conjunction with the audit report.

Financial Highlights

- The assets and deferred outflows of resources of the Goleta Sanitary District exceeded its liabilities and deferred inflows of resources by $91,681,051 and $93,092,933 at the close of the June 30, 2018 and 2017 fiscal year, respectively.

- The District's total net position decreased by $1,411,882 as of June 30, 2018 and increased by $817,452 as of June 30, 2017.

- The combination of operating and non-operating revenues, less operating expenses results in net income in the amount of $399,335 as of June 30, 2018 and a loss in the amount of ($15,203) as of June 30, 2017.

- Capital contributions were made to the District in the amount of $497,547 and $832,655 as of June 30, 2018 and 2017, respectively.

- The District is not carrying any debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Goleta Sanitary District's basic financial statements. The Goleta Sanitary District's basic financial statements comprise two components: 1) government-wide financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The statement of net position presents information on all of the Goleta Sanitary District's assets, deferred outflows of resources, deferred inflows of resources, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Goleta Sanitary District's is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave, or compensated absences).

The Goleta Sanitary District has only business type activities and that business-type activity is the provision of sanitation services to the community.

The financial statements can be found on pages 15-18 of the audit report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Goleta Sanitary District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The various funds are presented in the accompanying financial statements as a proprietary fund category, enterprise fund type.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 19-43 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Goleta Sanitary District's progress in funding its obligation to provide pension benefits to its employees on pages 44-47.

Government-wide Financial 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 Goleta Sanitary District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $91,681,051 and $93,092,933 at the close of June 30, 2018 and 2017, respectively.

By far the largest portion of the Goleta Sanitary District's net position, $72,193,967 (78.8 percent) and $74,248,579 (79.8 percent) as of June 30, 2018 and 2017, respectively, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Goleta Sanitary District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Goleta Sanitary District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

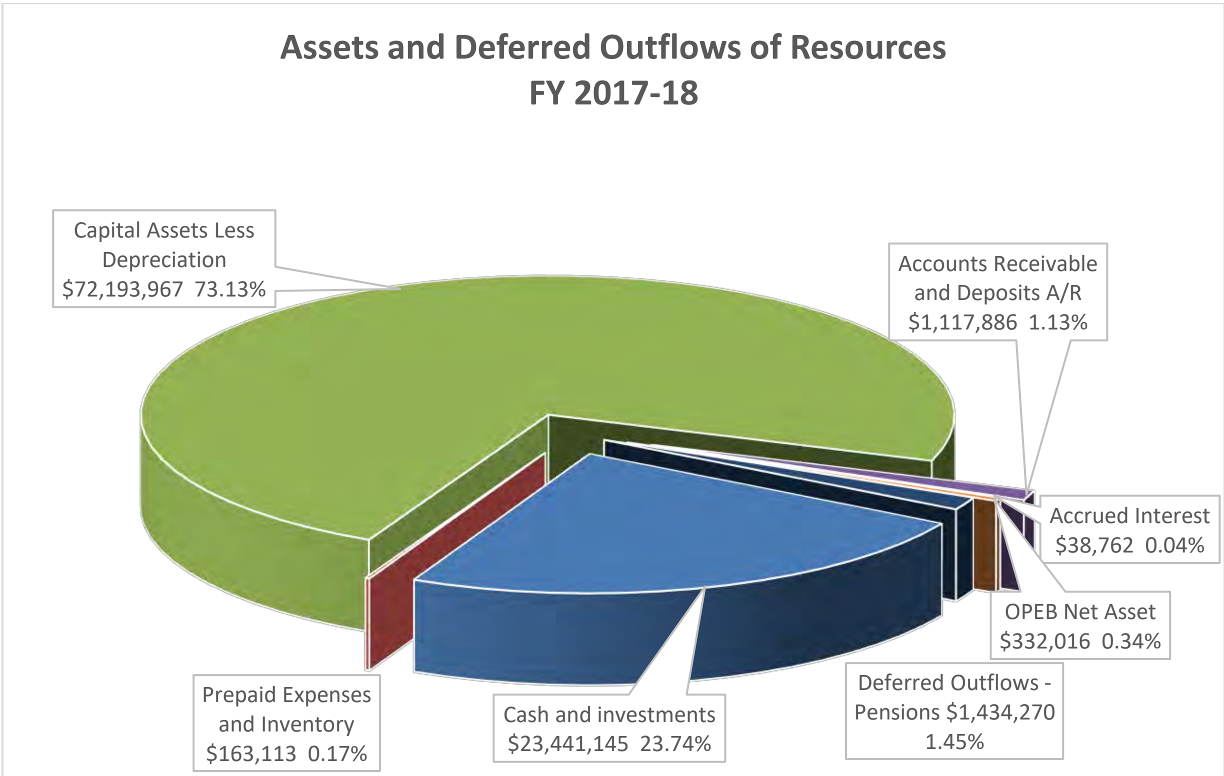
GOLETA SANITARY DISTRICT'S NET ASSETS

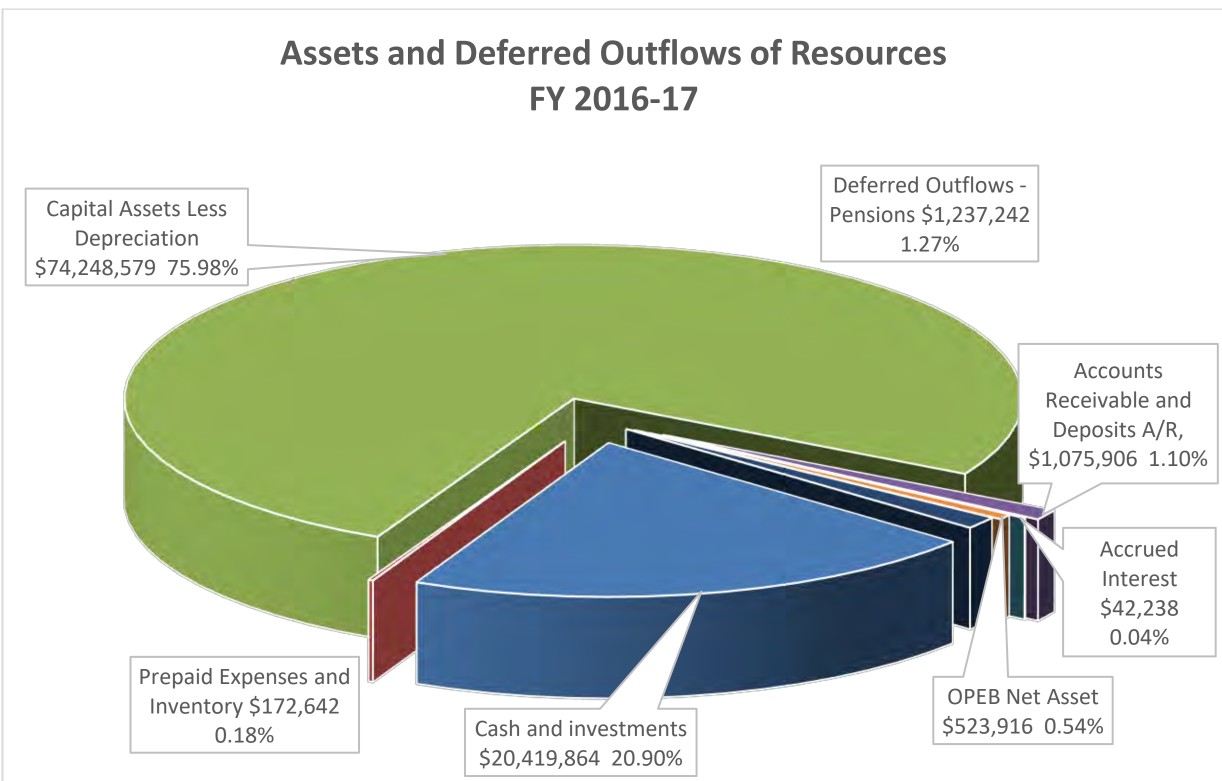
	2018	2017
Current Assets	$ 19,171,026	$ 16,393,977
Noncurrent Assets	77,783,847	80,089,168
Total Assets	$ 96,954,873	$ 96,483,145
Deferred Outflow of Resources	$ 1,766,286	$ 1,237,242
Current Liabilities	$ 439,084	$ 621,079
Noncurrent Liabilities	6,447,860	3,820,252
Total Liabilities	$ 6,886,944	$ 4,441,331
Deferred Inflows of Resources	$ 153,164	$ 186,123
Net Position:		
Net Investment in Capital Assets	$ 72,193,967	$ 74,248,579
Restricted	5,589,880	5,840,589
Unrestricted	13,897,204	13,003,765
Total Net Position	$ 91,681,051	$ 93,092,933

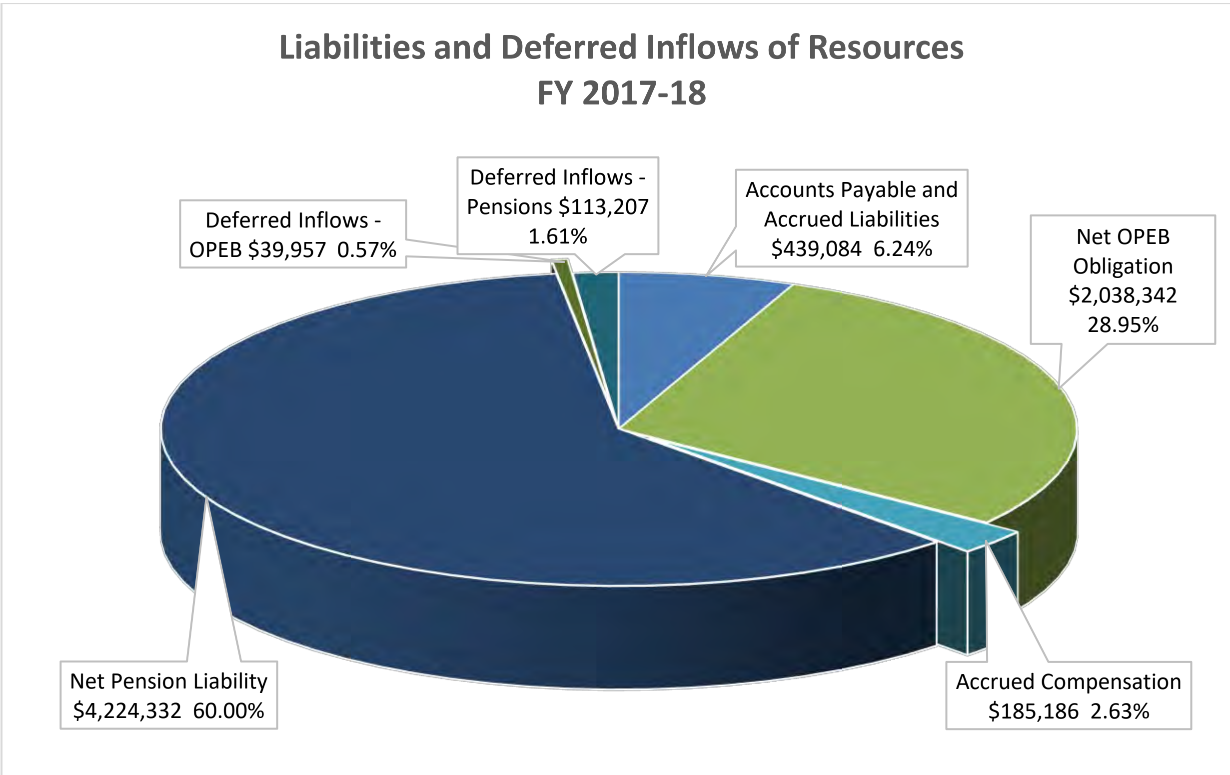
An additional portion of the Goleta Sanitary District's net position, $5,589,880 (6.1%) and $5,840,589 (6.3%) as of June 30, 2018 and 2017, respectively, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $13,897,204 and $13,003,765 as of June 30, 2018 and 2017, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

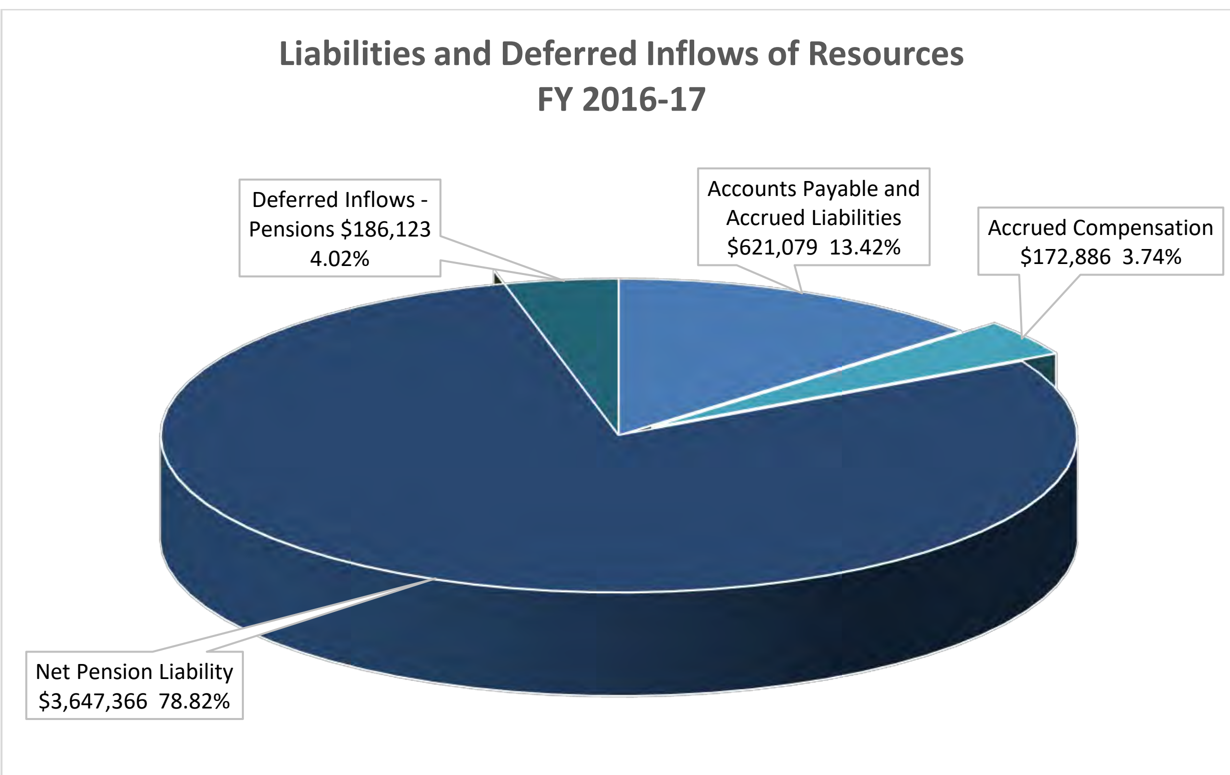
At the end of the current fiscal year, the Goleta Sanitary District is able to report positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

Charts comparing the Assets and Deferred Outflows of Resources and Liabilities and Deferred Inflows of Resources of the last two fiscal years are represented on the following two pages.


Assets and Deferred Outflows of Resources
FY 2017-18
Capital Assets Less Depreciation $72,193,967 73.13%
Accounts Receivable and Deposits A/R $1,117,886 1.13%
Accrued Interest $38,762 0.04%
OPEB Net Asset $332,016 0.34%
Deferred Outflows - Pensions $1,434,270 1.45%
Cash and investments $23,441,145 23.74%
Prepaid Expenses and Inventory $163,113 0.17%


Assets and Deferred Outflows of Resources
FY 2016-17
Capital Assets Less Depreciation $74,248,579 75.98%
Deferred Outflows - Pensions $1,237,242 1.27%
Accounts Receivable and Deposits A/R, $1,075,906 1.10%
Accrued Interest $42,238 0.04%
OPEB Net Asset $523,916 0.54%
Cash and investments $20,419,864 20.90%
Prepaid Expenses and Inventory $172,642 0.18%

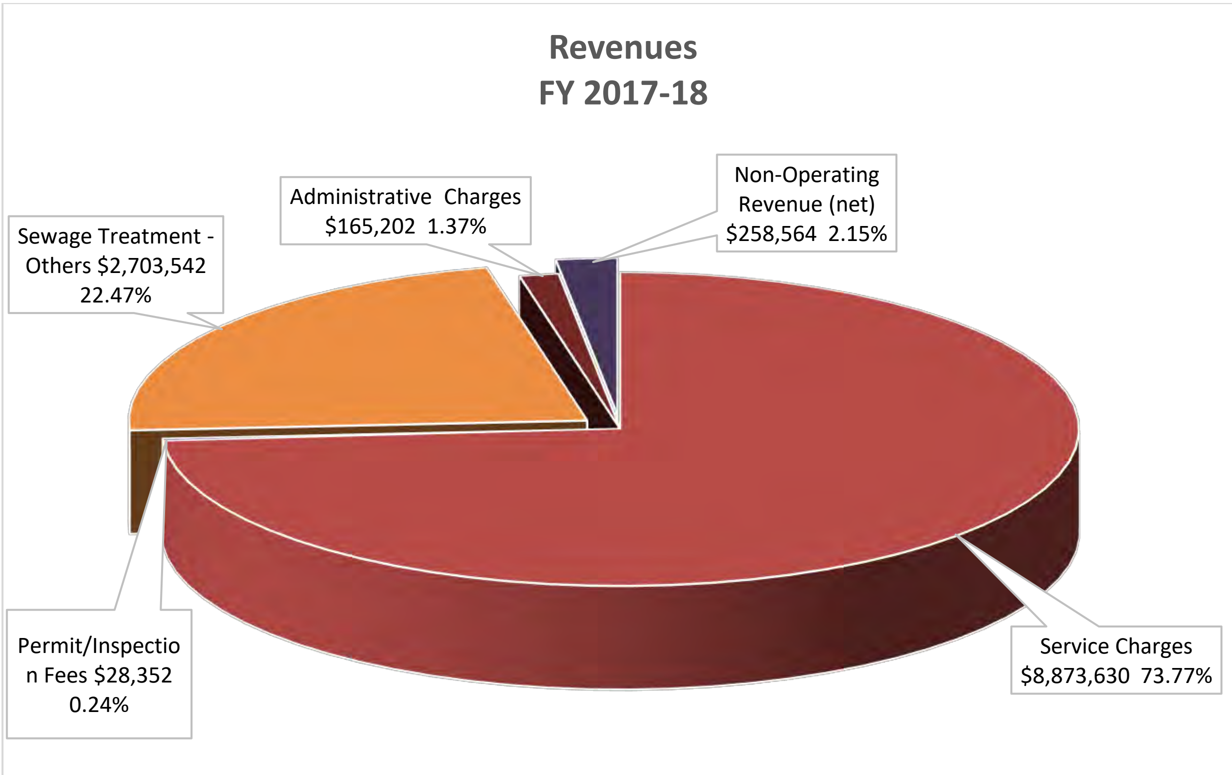

Liabilities and Deferred Inflows of Resources
FY 2017-18
Deferred Inflows - OPEB $39,957 0.57%
Deferred Inflows - Pensions $113,207 1.61%
Accounts Payable and Accrued Liabilities $439,084 6.24%
Net OPEB Obligation $2,038,342 28.95%
Net Pension Liability $4,224,332 60.00%
Accrued Compensation $185,186 2.63%

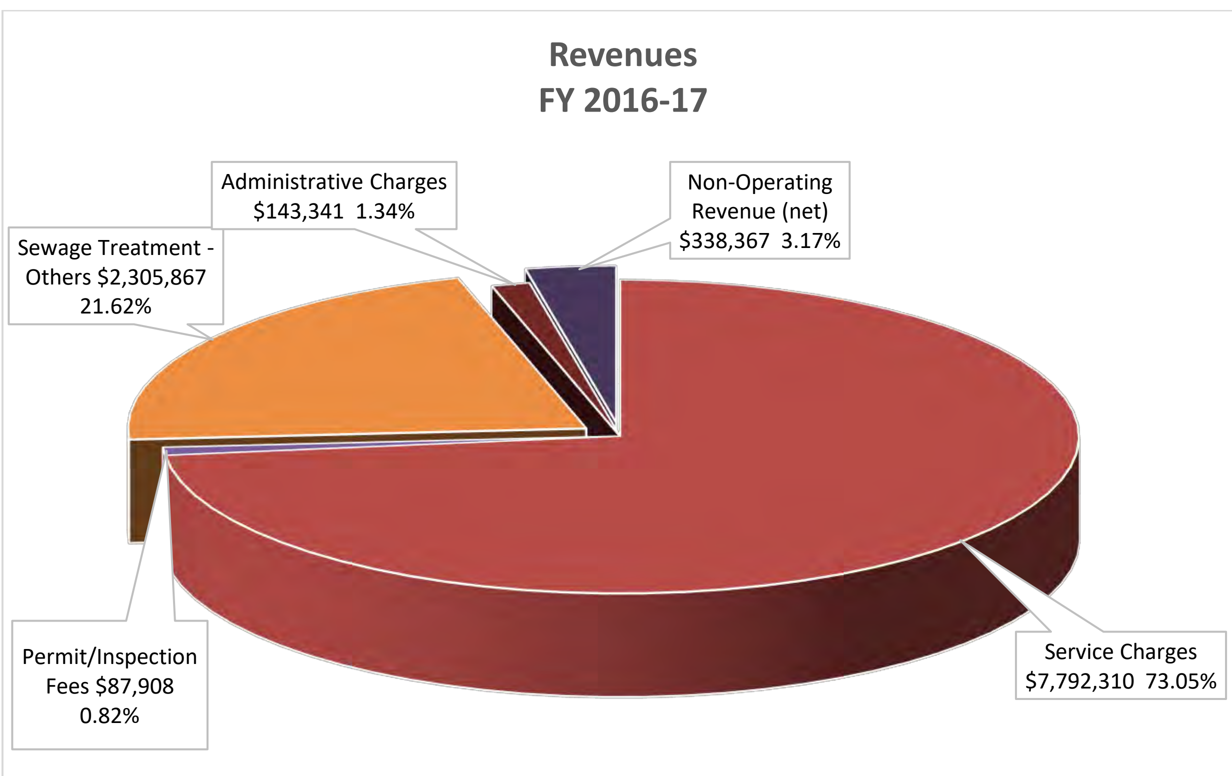

Liabilities and Deferred Inflows of Resources
FY 2016-17
Deferred Inflows - Pensions $186,123 4.02%
Accounts Payable and Accrued Liabilities $621,079 13.42%
Accrued Compensation $172,886 3.74%
Net Pension Liability $3,647,366 78.82%

Business-type activities. The business-type activities increased the Goleta Sanitary District's net position by $896,882 and $817,452 as of June 30, 2018 and 2017, respectively. The key elements are as follows: operating and non-operating revenues exceeded operating and non-operating expenses by $399,335 as of June 30, 2018 whereas operating and non-operating expenses exceeded operating and non-operating revenues by $15,203 as of June 30, 2017. Capital contributions to the District's system totaled $497,547 and $832,655 as of June 30, 2018 and 2017, respectively. This is a net decrease of $335,108 in capital contributions as of June 30, 2018 and there was a net increase of $353,061 reported as of June 30, 2017. The total revenues and capital contributions exceeded expenses during the 2017-2018 fiscal year. The District's construction in progress value of $999,489 has been recorded as capitalized amounts as detailed in Note 4 on page 31.

GOLETA SANITARY DISTRICT'S CHANGE IN NET POSITION

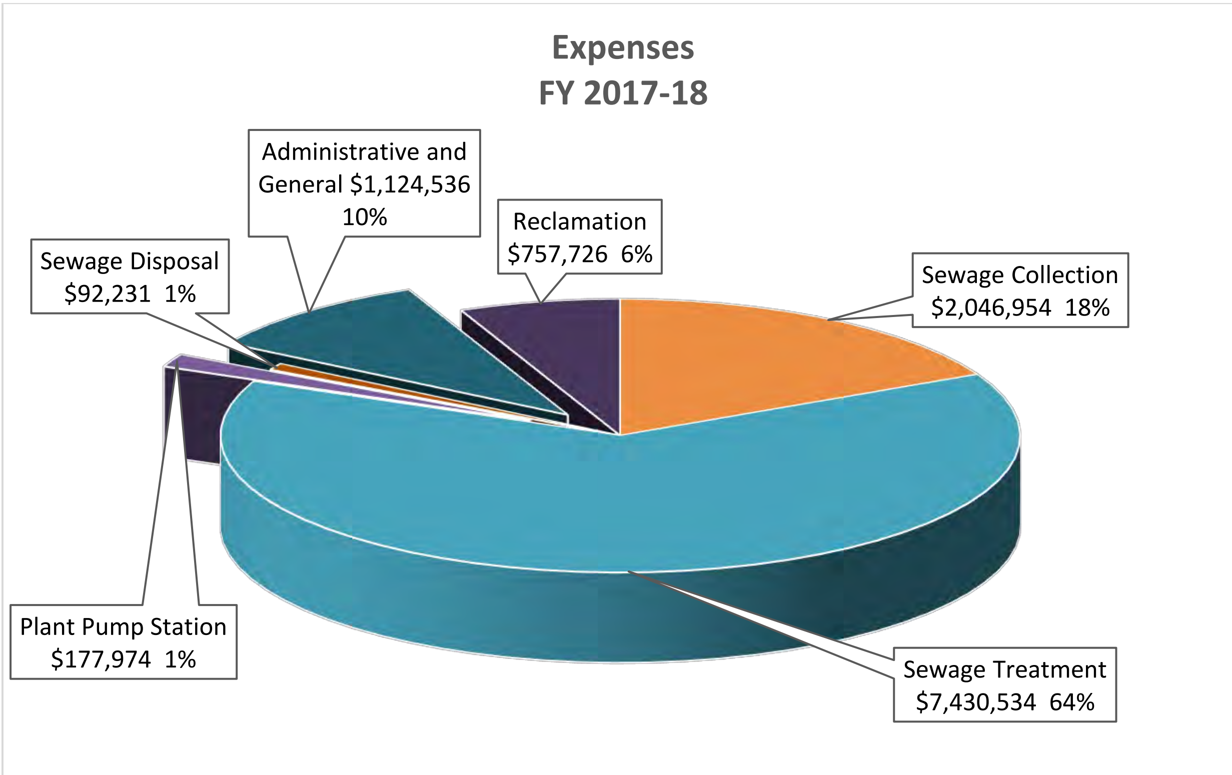
	2018	2017
Revenues:		
Service Charges	$ 8,873,630	$ 7,792,310
Other Operating	2,897,096	2,537,116
Non-operating	258,564	338,367
Subtotal	12,029,290	10,667,793
Expenses:		
Sewer Collection	2,046,954	1,834,239
Sewage Treatment	7,430,534	6,701,156
Plant Pump Station	177,974	165,130
Sewage Disposal	92,231	198,789
Administrative	1,124,536	1,094,159
Wastewater Reclamation	757,726	689,523
Non-operating	-	-
Total Expenses	11,629,955	10,682,996
Net Income (Loss) Before Capital Contributions	399,335	(15,203)
Capital Contributions	497,547	832,655
Increase in Net Position	497,547	817,452
Net Position – Beginning of Year	93,092,933	92,275,481
Prior Period Adjustment	(2,308,764)	-
Net Position – End of Year	$ 91,681,051	$ 93,092,933

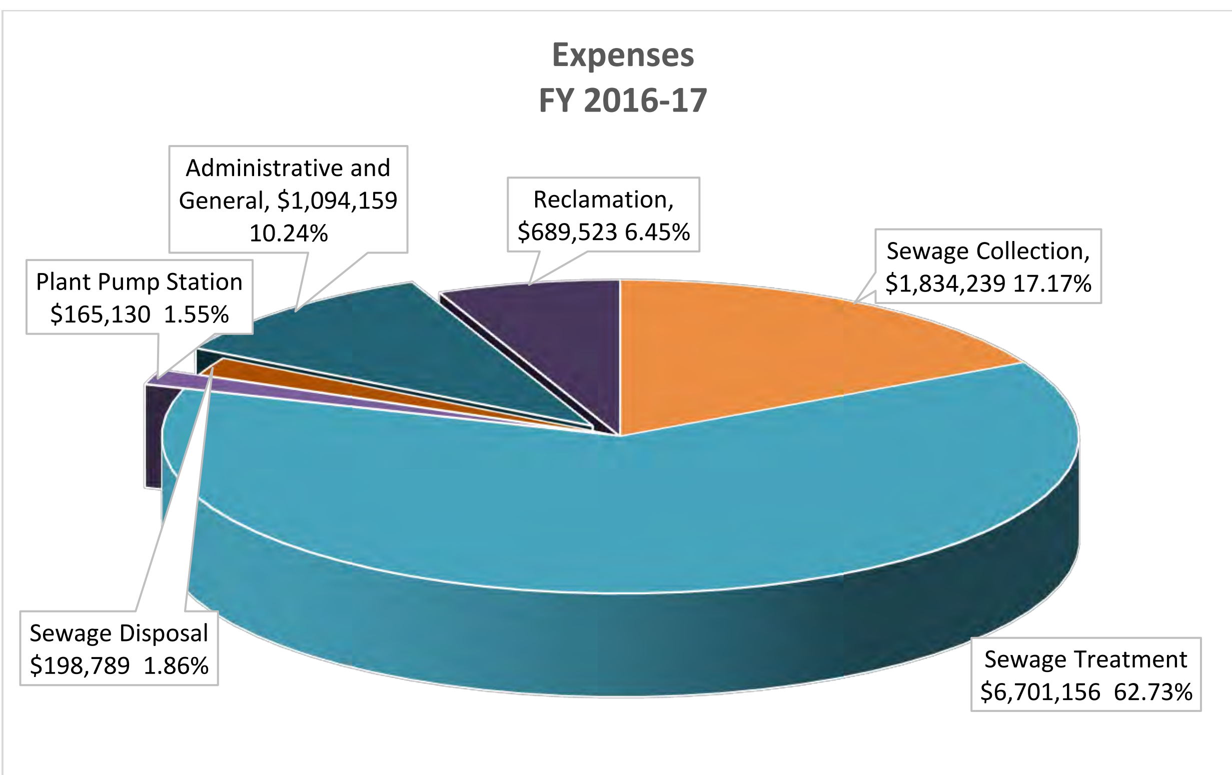

Revenues
FY 2017-18
Administrative Charges $165,202 1.37%
Non-Operating Revenue (net) $258,564 2.15%
Sewage Treatment - Others $2,703,542 22.47%
Permit/Inspectio n Fees $28,352 0.24%
Service Charges $8,873,630 73.77%

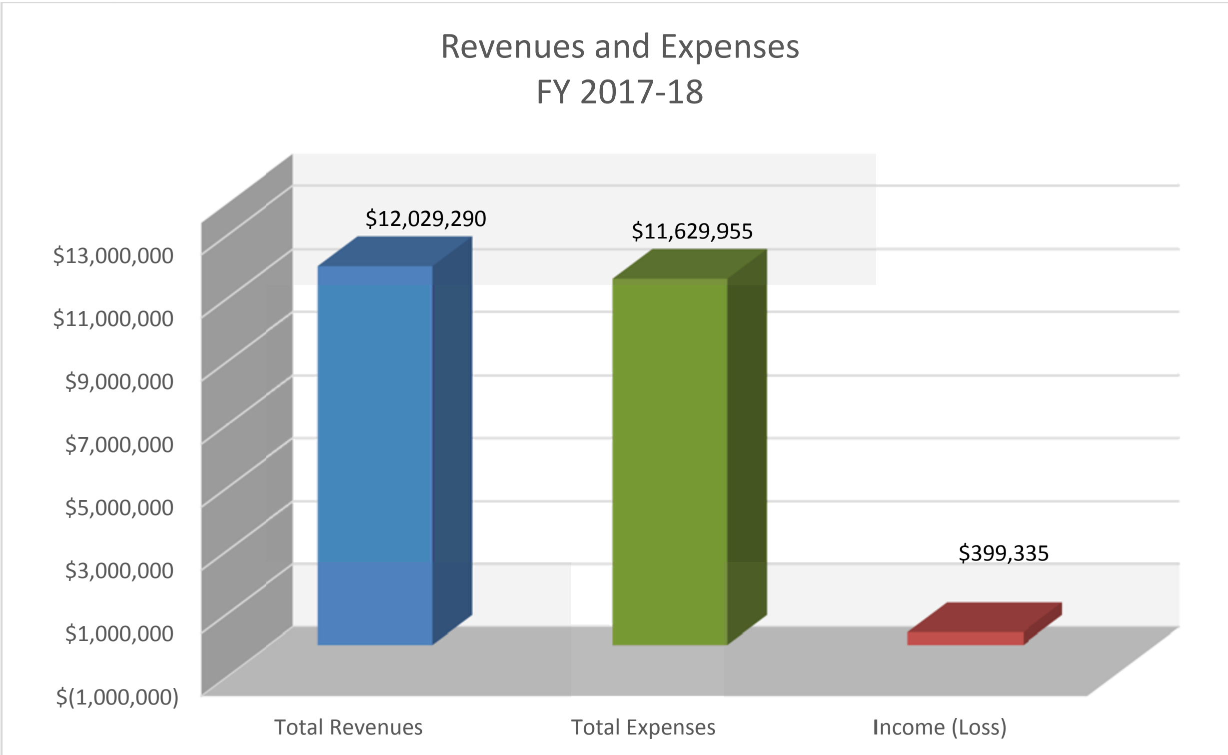

Revenues
FY 2016-17
Administrative Charges $143,341 1.34%
Non-Operating Revenue (net) $338,367 3.17%
Sewage Treatment - Others $2,305,867 21.62%
Permit/Inspection Fees $87,908 0.82%
Service Charges $7,792,310 73.05%

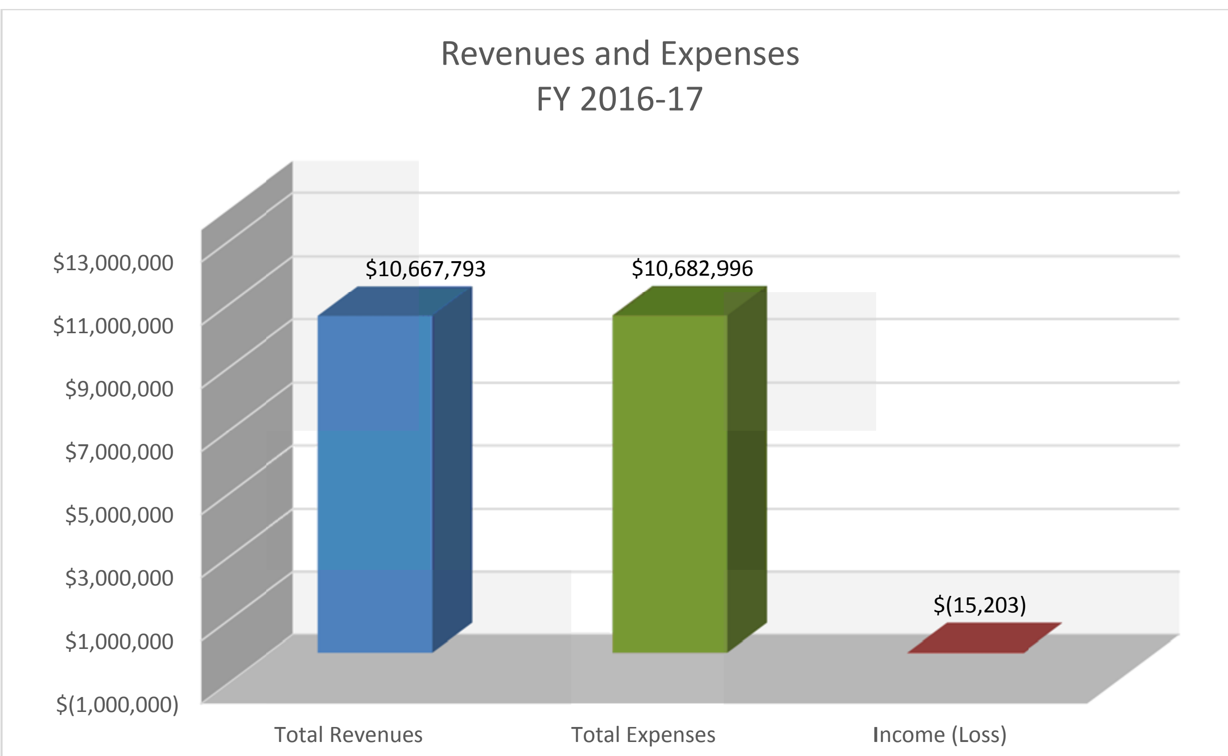
GOLETA SANITARY DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018






Revenues and Expenses
FY 2017-18
$12,029,290
$11,629,955
$399,335
$13,000,000
$11,000,000
$9,000,000
$7,000,000
$5,000,000
$3,000,000
$1,000,000
$(1,000,000)
Total Revenues
Total Expenses
Income (Loss)


Revenues and Expenses
FY 2016-17
$10,667,793
$10,682,996
$(15,203)
$13,000,000
$11,000,000
$9,000,000
$7,000,000
$5,000,000
$3,000,000
$1,000,000
$(1,000,000)
Total Revenues
Total Expenses
Income (Loss)

Capital Asset and Debt Administration

Capital Assets. The Goleta Sanitary District's investment in capital assets for its business-type activities as of June 30, 2018 and June 30, 2017 amounts to $72,193,967 and $74,248,579 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment.

Major capital asset events during the current fiscal year included the following:

The Via Los Santos / Cervato Way sewer pipeline rehabilitation project for the Collections Department was completed and the CCTV Van retrofit. The Treatment Plant completed LED lighting replacement project, Storm Water Draining project, Chemical feed line replacement project, ODS pump replacement, Flare pipe and meter project, and added 10" Portable Trash Pump, Cat Loader, Pipe Threader and Quantum parts. The schedule of assets had a detailed review and adjustments were made to remove assets no longer in service due to replacement.

Construction in progress projects includes 2018 pipeline rehabilitation project and asset management project for the Collections department. The treatment Plant has ongoing projects related to the Diesel Tank replacement; Asset management program; Biosolids handling project and transition to Lucity.

GOLETA SANITARY DISTRICT'S CAPITAL ASSETS

	June 30, 2018	June 30, 2017	June 30, 2016
Land	$ 327,243	$ 327,243	$ 327,243
Construction in Progress	999,489	937,140	806,837
Collection Facilities	25,277,243	24,429,599	23,063,296
Treatment Facilities	68,844,920	69,201,033	68,536,536
Disposal Facilities	3,743,731	3,743,731	3,743,731
Admin Facilities and all Vehicles	3,200,857	3,183,668	3,415,649
Wastewater Reclamation	15,073,252	15,154,981	15,134,534
Total	$ 116,140,003	$ 116,977,395	$ 115,027,826

Additional information on the Goleta Sanitary District's capital assets can be found in Note 4 on page 31 of this report.

Long-term debt. At the end of June 30, 2018 and 2017, the Goleta Sanitary District did not hold any current or long-term debt besides compensated absences and pension liability. Information on these two liabilities can be found in Note 5 on page 32 of this report.

Economic Factors and Next Year's Budgets and Rates

The District sets its user rate schedule to cover the total O&M costs and accommodate an annual contribution to its depreciation reserve fund. The District reviewed and adjusted its sewer service rates for FY 2017-18 to accommodate increased O&M costs due to inflation.

Other Post-Employment Benefits

The District provides other post-employment benefits (OPEB) through the California Employers' Retiree Benefit fund which is administered by CalPERS. In 2009, the District joined the CalPERS medical program. An actuarial was performed during the 2017-2018 fiscal year to complete a valuation of the District's postemployment medical program as of June 30, 2017 measurement date compliant under GASB 75. The purpose of the valuation is to determine the value of the expected postretirement benefits for current and future retirees and the net OPEB Liability and OPEB Benefit Cost for the fiscal year ending June 30, 2018. GASB 75 has many accounting and features that are similar to GASB 68 related to pensions. Implementation of GASB 75 includes a requirement to restate the prior period to show the cumulative effect of applying the new standard as such the Financials show a prior period adjustment of $2,308,764. The Actuarial Report noted that the Plan Net OPEB liability at $2,038,342. Actual cash contributions to CERBT for Plan year 17-18 came to $330,513 in the form of direct payments to CERBT, reimbursements to retirees and direct premium payments to CalPERS.

Requests for Information

This financial report is designed to provide a general overview of the Goleta Sanitary District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, Goleta Sanitary District, One William Moffett Place, Goleta, CA 93117.

GOLETA SANITARY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018 and 2017

	2018	2017
ASSETS		
Current:		
Cash and investments	$ 17,852,916	$ 15,115,239
Receivables:		
Accounts	1,117,886	1,075,906
Accrued interest	37,111	30,190
Inventory	94,500	106,646
Prepaid expenses	68,613	65,996
Total Current Assets	19,171,026	16,393,977
Noncurrent:		
Restricted:		
Cash and investments	5,588,229	5,304,625
Accrued interest receivable	1,651	12,048
Net OPEB asset	-	523,916
Capital assets - net	72,193,967	74,248,579
Total Noncurrent Assets	77,783,847	80,089,168
TOTAL ASSETS	96,954,873	96,483,145
DEFERRED OUTFLOWS OF RESOURCES		
Deferred OPEB (footnote 9)	332,016	-
Deferred pensions	1,434,270	1,237,242
Total Deferred Outlfows of Resources	1,766,286	1,237,242
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	439,084	621,079
Total Current Liabilities	439,084	621,079
Noncurrent:		
Accrued compensation	185,186	172,886
Net OPEB liability	2,038,342	-
Net pension liability	4,224,332	3,647,366
Total Noncurrent Liabilities	6,447,860	3,820,252
Total Liabilities	6,886,944	4,441,331
DEFERRED INFLOWS OF RESOURCES		
Deferred OPEB (footnote 9)	39,957	-
Deferred pensions	113,207	186,123
Total Deferred Inlfows of Resources	153,164	186,123
NET POSITION		
Net invested in capital assets	72,193,967	74,248,579
Restricted	5,589,880	5,840,589
Unrestricted	13,897,204	13,003,765
TOTAL NET POSITION	$ 91,681,051	$ 93,092,933

The accompanying notes are an integral part of these financial statements

GOLETA SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION - ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

	2018	2017
Operating Revenues:		
Service charges	$ 8,873,630	$ 7,792,310
Permit and inspection fees	28,352	87,908
Sewage treatment-other agencies	2,703,542	2,305,867
Adminsitrative charges	165,202	143,341
Total operating revenues	11,770,726	10,329,426
Operating Expenses:		
Sewage collection	2,046,954	1,834,239
Sewage treatment	7,430,534	6,701,156
Plant pump station	177,974	165,130
Sewage disposal	92,231	198,789
Administrative and general	1,124,536	1,094,159
Wastewater reclaimation	757,726	689,523
Total operating expenses	11,629,955	10,682,996
Operating income (loss)	140,771	(353,570)
Nonoperating Revenues (Expenses):		
Property tax	160,435	148,801
Intergovernmental	782	766
Investment earnings	125,635	73,530
Annexation charges	-	24,799
Reimbursements from participating agencies	4,462	6,295
Other	110,263	49,750
Gain (loss) on disposal of capital assets	(143,013)	34,425
Total nonoperating revenue (expenses)	258,564	338,366
Capital contributions	497,547	832,655
Change in net position	896,882	817,451
Net position, beginning of fiscal year	93,092,933	92,275,482
Prior period adjustment (note 2Q)	(2,308,764)	-
Net position, end of fiscal year	$ 91,681,051	$ 93,092,933

The accompanying notes are an integral part of these financial statements

GOLETA SANITARY DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 11,728,746	$ 10,210,341
Payments to suppliers	(3,395,722)	(2,986,375)
Payments to employees	(4,679,290)	(4,680,789)
Net cash provided by (used in) operating activities	3,653,734	2,543,177
CASH FLOWS FROM FINANCING ACTIVITIES		
Property taxes	160,435	148,801
Intergovernmental	782	766
Reimbursements from other governments	4,462	6,295
Annexation charges	-	24,799
Other revenue	110,263	49,751
Net cash provided by financing activities	275,942	230,412
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	497,547	832,655
Acquisition and construction of capital assets	(1,700,335)	(2,535,223)
Proceeds from sales of capital assets	165,282	34,425
Net cash provided by (used in) capital and related financing activities	(1,037,506)	(1,668,143)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	129,111	78,698
Net cash provided by investing activities	129,111	78,698
Net increase in cash and cash equivalents	3,021,281	1,184,144
Cash and cash equivalents, July 1	20,419,864	19,235,720
Cash and cash equivalents, June 30	$ 23,441,145	$ 20,419,864
Reconciliation to Statement of Net Position:		
Cash and investments	17,852,916	15,115,239
Restricted cash and investments	5,588,229	5,304,625
	$ 23,441,145	$ 20,419,864

The accompanying notes are an integral part of these financial statements.

GOLETA SANITARY DISTRICT
STATEMENT OF CASH FLOWS (continued)
ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

	2018		2017	
Reconciliation of operating loss to net cash used by operating activities:				
Operating income (loss)	$	140,771	$	(353,570)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation		3,448,069		3,362,452
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources				
Accounts receivable		(41,982)		(119,085)
Inventory		12,146		12,561
Prepaid expenses		(2,617)		(6,195)
Deferred outflows		(529,044)		(639,978)
Accounts payable		(183,410)		(154,568)
Net OPEB obligation (less prior period adjustment)		253,494		(221,319)
Compensated absences		12,300		17,025
Net pension liability		576,966		908,265
Deferred inflows		(32,959)		(262,411)
Net cash used by operating activities	$	3,653,734	$	2,543,177

The accompanying notes are an integral part of these financial statements.

NOTE 1: REPORTING ENTITY

The Goleta Sanitary District (District) was formed in 1942 to provide sewage service for the unincorporated community of Goleta. In 2002, the City of Goleta was incorporated as a general law city of the State of California. The original plant site was owned by the District and the University of California at Santa Barbara. The District is now the sole owner of the plant and the site.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements of the Goleta Sanitary District have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the accepted setting body for governmental accounting financial reporting purposes.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise of assets, liabilities, fund equity, revenues, and expenses. This system permits separate accounting for each established fund for purposes of complying with applicable legal provisions, Board of Director's ordinances and resolutions and other requirements. Also, the accounts have been maintained in accordance with the California State Controller's uniform system of accounts.

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 goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

The District distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by wastewater services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying wastewater treatment services.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

The District applies all applicable GASB pronouncements in accounting and reporting for proprietary operations. It does not apply any FASB Statements and Interpretations issued after November 30, 1989.

B. Plant Capacity Rights

In 1950, the District entered into an agreement with the University of California at Santa Barbara for the construction and mutual use of a treatment plant and sewer lines. Since that time three other agencies have acquired capacity rights in the sewage treatment facilities.

For the fiscal year, agreements were in effect for the following capacity rights:

	Capacity Rights in Plant	Capacity Rights In Ocean Outfall Line
Goleta Sanitary District	47.87%	55.81%
Goleta West Sanitary District	40.78%	35.00%
University of California at Santa Barbara	7.09%	4.70%
City of Santa Barbara	2.84%	2.60%
County of Santa Barbara	1.42%	1.89%
	100.00%	100.00%

C. Budgetary Procedures

Budgetary information is not presented because the District is not legally required to adopt a budget. Although not legally required, an annual budget is prepared, which includes estimates for the District's principal income sources to be received during the fiscal year, as well as estimated expenses and cash reserves needed for operations.

D. Deposits and Investments

For purpose of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity period, at purchase, of three months or less to be cash equivalents.

As a governmental entity other than an external investment pool in accordance with GASB Statement No. 31, the District's investments are stated at fair value except for interest-earning investment contracts.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

E. Prepaid Costs

Payments to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items. The District utilizes the consumption method of accounting for purchases, and accounts for prepaid costs in the period that the benefit was received and recognizes expenses as consumed.

F. Inventories

Inventories are priced using the lower of cost or market method as determined on a first-in, first-out basis. Inventories consist of expendable supplies, spare parts and fittings.

G. Capital Assets

Capital assets, which include property, plant equipment, and infrastructure assets, are reported in the District's enterprise fund. Capital assets are defined by the District as assets with an initial, individual cost of more than $2,500.

As the District constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the District values these capital assets at the original estimate.

Construction in Progress – The District occasionally constructs capital assets for its own use in the plant operations and within its sewer collection system. The costs associated within these projects are accumulated in a construction in progress account while the project is being developed. Once the project is completed, the entire cost of the constructed assets are transferred to the capital assets account and depreciated over the estimated useful life of the capital assets.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, if material. For the current fiscal year, no interest was capitalized.

Capital assets are depreciated using the straight-line method over estimated useful lives as follows:

Collection Lines	50 years
Buildings	40 years
Pumping and Treatment Equipment	10 – 25 years
Office Equipment	3 – 10 years

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

H. Compensated Absences Liability

Employees are entitled to accumulate vacation leave at a rate of two, three, four, or five weeks per year, depending on the number of years of service completed. Vacation leave is fully vested and any unused leave will be paid to employees upon termination of employment. Employees are also entitled to accumulate comp time when they work overtime, they are called back to work, or they are on standby. The rates of the accrual vary by employees and no employee can accumulate more than 40 hours.

In accordance with accounting principles generally accepted in the United States of America, the liability is reflected on the Statement of Net Position and the current year allocation has been expensed. The balance at June 30, 2018 and 2017 was $185,186 and $172,886 respectively. The full amount is shown as a noncurrent liability because it is not expected to be paid out within the next year.

I. Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indenture, by law, or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of capital assets.

J. Capital Contributions

Capital contributions represent utility plant additions contributed to the District by property owners, other agencies, or developers. Depreciation of contributed utility plant assets are charged to operations.

K. Uncollectible Accounts

Uncollectible accounts are determined using the allowance method based upon prior experience and management’s assessment of the collectability of existing specific accounts.

L. Property Taxes

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

L. Property Taxes - continued

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

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

The District does not receive a substantial amount of property taxes. For the fiscal year ended June 30, 2018 and 2017, the District received $160,435 and $148,801, respectively. The District does not receive property tax from every parcel in its service area, only those parcels for which the property taxes were negotiated at the time it was annexed.

M. Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from those amounts.

N. 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 the Goleta Sanitary District's California Public Employee's Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

O. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,"* and GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities,"* the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred outflows of resources the District has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualify for reporting in this category; refer to Note 8 for a detailed listing of the deferred inflows of resources the District has reported.

P. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted. Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

Q. New Accounting Pronouncements & Prior Period Adjustments

During the fiscal year ended June 30, 2018, the District adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement requires the Agency recognize in its financial statements the total OPEB liability for the health benefits provided to retirees, less the amounts held in an irrevocable trust account. Due to the implementation of this Statement, total liabilities increased by $2,121,139 and total net position decreased by $2,308,764 as of July 1, 2017.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

R. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 86	"Certain Debt Extinguishment Issues"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

S. Comparative Data/Totals Only

Comparative total data for the prior fiscal year has been presented in certain accompanying financial statements in order to provide an understanding of the changes in the District's financial position, operations, and cash flows. Also, certain prior fiscal amounts have been reclassified to conform to the current fiscal year financial statements presentation.

NOTE 3: CASH AND INVESTMENTS

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

	2018	2017
Cash on hand	$ 500	$ 259
Deposits with financial institutions	16,175,399	1,643,355
Investments	7,265,246	18,776,250
	$ 23,441,145	$ 20,419,864

Cash and investments listed above, are presented on the accompanying statement of net position, as follows:

	2018	2017
Cash and investments	$ 17,852,916	$ 15,115,239
Restricted cash and investments	5,588,229	5,304,625
Total cash and investments	$ 23,441,145	$ 20,419,864

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the Local Agency Investment Fund, however, this external pool is not measured under Level 1, 2 or 3.

NOTE 3: CASH AND INVESTMENTS - continued

Investments Authorized by the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	5 years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
State Registered Warrants, Notes or Bonds	N/A	None	None
Notes and Bonds for Other Local California Agencies	5 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE 3: CASH AND INVESTMENTS - continued

Disclosures Relating to Interest Rate Risk - continued

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

2018

Investment Type	Carrying Amount	Remaining Maturity in Months: 12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
State investment pool (LAIF)	$ 7,265,246	$ 7,265,246	$ -	$ -	$ -
	$ 7,265,246	$ 7,265,246	$ -	$ -	$ -

2017

Investment Type	Carrying Amount	Remaining Maturity in Months: 12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
State investment pool (LAIF)	$ 18,776,250	$ 18,776,250	$ --	$ --	$ --
	$ 18,776,250	$ 18,776,250	$ --	$ --	$ --

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below, is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

NOTE 3: CASH AND INVESTMENTS - continued

Disclosures Relating to Credit Risk – continued

2018

Investment Type	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End AAA	A+	BAA	Not Rated
State investment pool (LAIF)	$ 7,265,246	N/A	$ -	$ -	$ -	$ 7,265,246
	$ 7,265,246		$ -	$ -	$ -	$ 7,265,246

2017

Investment Type	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End AAA	A+	BAA	Not Rated
State investment pool (LAIF)	$ 18,776,250	N/A	$ --	$ --	$ --	$ 18,776,250
	$ 18,776,250		$ --	$ --	$ --	$ 18,776,250

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2018, $16,175,399 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollaterized accounts.

NOTE 3: CASH AND INVESTMENTS - continued

Collateral for Deposits

The collateral for deposits is generally held in safekeeping by the Federal Home Loan Bank in San Francisco as the third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintain detailed records of the security pool which are coordinated and updated weekly.

The Treasurer, at his or her discretion, may waive the 110% collateral requirement for deposits. Deposit accounts are insured up to $250,000.

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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investment. With respect to investments, custodial credit risk generally applies to direct investments in marketable securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each entity may invest up to $50,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California.

LAIF's and the District's exposure to risk (credit, market or legal) is not currently available. Section 16429.3 states that "money placed with the State Treasurer for deposit in the LAIF shall not be subject to impoundment or seizure by any State official or State Agency.

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 and June 30, 2017 was as follows:

	Balance July 1, 2017	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2018
Capital assets not being depreciated:					
Land	$ 327,243	$ -	$ -	$ -	$ 327,243
Construction in progress	937,140	1,216,108	-	(1,153,759)	999,489
Total capital assets not being depreciated	1,264,383	1,216,108	-	(1,153,759)	1,326,732
Capital assets being depreciated:					
Collection facilities	24,429,599	148,692	(12,440)	711,392	25,277,243
Treatment facilities	69,201,033	294,652	(1,093,132)	442,367	68,844,920
Disposal facilities	3,743,731	-	-	-	3,743,731
General administrative facilities	3,183,668	20,019	(2,830)	-	3,200,857
Wastewater reclamation facility	15,154,981	19,779	(101,508)	-	15,073,252
	115,713,012	483,142	(1,209,910)	1,153,759	116,140,003
Less: accumulated depreciation	42,728,816	3,447,785	(903,833)	-	45,272,768
Total capital assets being depreciated, net	72,984,196	(2,964,643)	(306,077)	1,153,759	70,867,235
Net capital assets	$ 74,248,579	$ (1,748,535)	$ (306,077)	$ -	$ 72,193,967

	Balance July 1, 2016	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2017
Capital assets not being depreciated:					
Land	$ 327,243	$ --	$ --	$ --	$ 327,243
Construction in progress	806,837	1,601,354	--	(1,471,051)	937,140
Total capital assets not being depreciated	1,134,080	1,601,354	--	(1,471,051)	1,264,383
Capital assets being depreciated:					
Collection facilities	23,063,296	--	(60,260)	1,426,563	24,429,599
Treatment facilities	68,536,536	768,331	(148,322)	44,488	69,201,033
Disposal facilities	3,743,731	--	--	--	3,743,731
General administrative facilities	3,415,649	145,091	(377,072)	--	3,183,668
Wastewater reclamation facility	15,134,534	20,447	--	--	15,154,981
	113,893,746	933,869	(585,654)	1,471,051	115,713,012
Less: accumulated depreciation	39,927,647	3,362,452	561,283	--	42,728,816
Total capital assets being depreciated, net	73,966,099	(2,428,583)	(24,371)	1,471,051	72,984,196
Net capital assets	$ 75,100,179	$ (827,229)	$ (24,371)	$ --	$ 74,248,579

NOTE 5: LONG-TERM LIABILITIES

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2018 and June 30, 2017:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Compensated absences	$ 172,886	$ 12,300	$ -	$ 185,186	$ -
Net OPEB liability	-	2,038,342	-	2,038,342	
Net pension liability	3,647,366	576,966	-	4,224,332	-
Total long-term liabilities	$ 3,820,252	$ 2,627,608	$ -	$ 6,447,860	$ -

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Compensated absences	$ 155,861	$ 167,334	$ 150,309	$ 172,886	$ --
Net pension liability	2,739,101	1,465,446	557,181	3,647,366	--
Total long-term liabilities	$ 2,894,962	$ 1,632,780	$ 707,490	$ 3,820,252	$ --

NOTE 6: NET POSITION

There are three main components of net position: Net Investment in Capital Assets, restricted and unrestricted. Net Investment in Capital Assets represents the District's capital assets net of depreciation that are unencumbered by debt. Restricted net position consists of amounts that have legal restrictions imposed by parties outside of the reporting entity. Unrestricted net position is a catchfall for all remaining net position not accounted for in the other two categories. The following is included in Restricted Net Position:

Reserve for Plant Capacity Expansion

This reserve is related to that portion of the District's net position attributable to capacity expansion connection fees. Such fees can only be used for plant expansion. At June 30, 2018 and 2017, this reserve was $5,589,880 and $5,316,673, respectively.

Reserve for Other Post-employment Benefits

This reserve is for the amount set aside to pay for future other postemployment benefit costs. At June 30, 2018 and 2017, this reserve was $0 and $523,916, respectively.

NOTE 7: RISK MANAGEMENT

The District is a member of the California Sanitation Risk Management Authority ("Authority"). The following disclosures are made in compliance with GASB Code Section JS0.103:

NOTE 7: RISK MANAGEMENT - continued

A. Description of Joint Powers Authority

The Authority is comprised of 60 members and is organized under a Joint Exercise Powers Agreement pursuant to the California Government Code. The purpose of the Authority is to arrange and administer programs of insurance and risk management for the pooling of self-insured losses and to purchase excess insurance coverage.

Each member has a representative on the Board of Directors. Officers of the Authority are elected annually by the Board members.

B. Self-Insurance Programs of the Authority

General Liability Insurance

Annual deposits are paid by member districts and are adjusted retrospectively to cover costs. Each member district self-insures at a variable amount for each loss; however, annual premiums are set such that this self-insured retention level is funded on an annual basis through required premiums. Participating districts then share in the next shared pool layer per loss occurrence. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, errors and omissions, sudden and accidental pollution and employment practice liability. Separate deposits are collected from member districts to cover claims between $0 and $15,500,000. The pool layer is subject to retrospective adjustment. The District participates in the Authority's General Liability Program.

Workers Compensation Insurance

Annual deposits are paid by member districts and are adjusted retrospectively to cover costs. Each member district has first dollar coverage. Losses in excess of $750,000 are covered by excess insurance purchased by the participating district, as part of the pool, to a limit of $1 million per accident. The District participates in the Authority's Workers Compensation Program.

Property Protection

The District participates in the All Risks, Boiler and Machinery, and Flood Property Protection Program, which is underwritten by five insurance companies. The annual deposits are paid by participating member districts and are based upon value at risk and not subject to retroactive adjustments.

The Insurance Authority establishes claim liabilities based on actuarial estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported.

NOTE 8: PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statue and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payment	Monthly for life	Monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.5%
Require employer contribution rate	9.599%	6.908%
Unfunded liability payment	$ 230,085	$ 51

NOTE 8: PENSION PLAN - continued

A. General Information about the Pension Plan - continued

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were $545,176 for the fiscal year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of $4,224,332 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants as actuarially determined. At June 30, 2017, the District's proportion share of net pension liability for June 30, 2016 and 2017 was as follows:

Proportion – June 30, 2016	.04215%
Proportion – June 30, 2017	.04260%
Change – increase (decrease)	.00044%

NOTE 8: PENSION PLAN - continued

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - continued

For the year ended June 30, 2018, the District recognized pension expense of $736,795. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2018, the 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
Change in assumptions	$ 652,318	$ -
Differences between expected and actual experiences	-	75,848
Net difference between projected and actual earnings on retirement plan investments	159,705	-
Difference in proportions	91,220	37,359
Differences between actual contributions and proportional share of contributions	92,327	-
District contributions subsequent to the measurement date	545,176	-
Total	$ 1,540,746	$ 113,207

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.

$545,176 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

Fiscal Year Ending June 30,	Amount
2019	$ 256,391
2020	457,053
2021	263,740
2022	(94,820)
	$ 882,364

NOTE 8: PENSION PLAN - continued

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - continued

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date Measurement Date Actuarial Cost Method Actuarial Assumptions:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net Pension Plan Investment and Administrative Expenses; Includes Inflation
Maturity	Derived Using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the

NOTE 8: PENSION PLAN - continued

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - continued

Discount Rate - continued

Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

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

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

NOTE 8: PENSION PLAN - continued

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - continued

Discount Rate - continued

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100.0%		

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

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

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

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65 percent) or 1-percentage point higher (8.65 percent) than the current rate:

	1% Decrease 6.65%	Discount Rate 7.65%	1% Increase 8.65%
District's proportionate share of the net pension plan liability	$ 6,552,050	$ 4,224,333	$ 2,296,475

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 8: PENSION PLAN - continued

C. Payable to Pension Plan

At June 30, 2018, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2018.

NOTE 9: OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

The District provides other post-employment benefits (OPEB) through the California Employers' Retiree Benefit Fund (CERBT), an agent multiple-employer defined benefit healthcare plan administered by the California Public Employees' Retirement System (CalPERS). Benefits are provided to employees who retire at age 50 or older with five years of eligible CalPERS service. Coverage is also provided to eligible retirees, spouses and surviving spouses. These benefits are provided per contract between the District and the employee associations. Separate financial statements of the CERBT may be obtained by writing to CalPERS at Lincoln Plaza North 400 Q Street, Sacramento, and CA 95814 or by visiting the CalPERS website at www.calpers.ca.gov.

B. Funding Policy

In 2009, the District joined the CalPERS medical program. In 2018, the District contributed the full cost of retiree and spousal coverage, up to the cost of PERS Choice coverage in comparison to the "unequal contribution" approach that was used at the inception of the CalPERS medical program. The District's contribution will be based on each retiree's age and enrollment status. The contribution requirements of plan members and the District are established and may be amended by the District and the employee associations. Currently, contributions are not required from plan members.

C. Employees Covered by Benefit Terms

At the OPEB liability measurement date of June 30, 2017, the following employees were covered by the benefit terms:

- Retired employees – 40
- Active employees – 31

D. Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

NOTE 9: OTHER POST EMPLOYMENT BENEFITS - continued

E. Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00%
Salary increases	3.25%
Medical cost trend	5-8% increases
Discount rate	7.28%

F. Actuarial Assumptions and Other Inputs

The total OPEB calculation for the 2018 year is as follows:

	2018
Total OPEB liability- 6/30/2017	$ 2,121,139
Service Cost	147,974
Interest	284,763
Benefit payments	(143,019)
Experience changes	1,341
Administrative cost	926
Contributions	(193,272)
Investment earnings	(181,510)
Net change in total OPEB liability	(82,797)
Total OPEB liability - ending	$ 2,038,342

G. Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB 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 discount rate:

	1% Decrease 6.28%	Discount Rate 7.28%	1% Increase 8.28%
District's proportionate share of the net OPEB plan liability	$ 2,659,116	$ 2,038,342	$ 1,531,879

NOTE 9: OTHER POST EMPLOYMENT BENEFITS - continued

H. Sensitivity of the District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB 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 discount rate:

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB plan liability	$ 1,477,331	$ 2,038,342	$ 2,735,959

I. OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018 the District recognized OPEB expense of $292,300. The following are the components of the OPEB expense (which was measured as of June 30, 2017):

	2018
Service Cost	$ 147,974
Interest on OPEB liability	284,763
Recognized experience changes	190
Administrative cost	926
Recognized investment earnings	(141,553)
Total OPEB liability - ending	$ 292,300

At June 30, 2018 the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings	$ -	$ 39,957
Differences between expected and actual experience	1,151	
Contributions subsequent to measurement date	330,865	-
	$ 332,016	$ 39,957

NOTE 9: OTHER POST EMPLOYMENT BENEFITS – continued

I. OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

The amounts reported as contributions subsequent to measurement date will be fully recognized in the 2019 fiscal year at the June 30, 2018 measurement date. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2019	$ (9,799)
2020	(9,799)
2021	(9,799)
2022	(9,800)
2023	391
Total	$ (38,806)

NOTE 10: WASTEWATER RECLAMATION PROJECT

District agreed to provide the additional treatment facilities, which are integrated into the current treatment plant. The Goleta Water District agreed to provide the pumping and distribution facilities for the delivery of the reclaimed water.

The District has provided the site for the Reclamation Facility. The Reclamation Facility is designed to have a treatment, storage, and pumping capacity of 3.3 million gallons per day.

The agreement with the Goleta Water District provides that the Goleta Water District ultimately pay all the costs associated with the design and construction of the project, as well as the operation costs once the facility is completed. The Goleta Water District has the right to the water produced, with certain options.

The project was substantially complete and officially placed in service in August 1994.

NOTE 11: COMMITMENTS AND CONTINGENCIES

A. LAND PURCHASE RESTRICTIONS

On December 23, 1980, the District acquired twenty-eight (28) acres of land adjacent to the original plant site for the construction of various structures, ponds and sludge lagoons for the plant expansion project. The acquisition is subjected the condition that should the District or its successors at any time within fifty-nine (59) years cease to use the land, as defined in the deed, for the operation of a wastewater treatment plant for a continuous period of one (l) year, and the land will revert to the seller or its successor, at the acquisition price.

REQUIRED SUPPLEMENTARY INFORMATION

GOLETA SANITARY DISTRICT

Schedule of Funding Progress for Post-Employment Benefits
Other than Pensions
For the Fiscal Year Ended June 30, 2018

	2018
Total OPEB liability- 6/30/2017	$ 2,121,139
Service Cost	147,974
Interest	284,763
Benefit payments	(143,019)
Experience changes	1,341
Administrative cost	926
Contributions	(193,272)
Investment earnings	(181,510)
Net change in total OPEB liability	(82,797)
Total OPEB liability - ending	$ 2,038,342
Covered-employee payroll	$ 2,714,527
Total OPEB liability as a percentage of covered payroll	75.09%
Plan fiduciary net position as a percentage of the total OPEB liability	50.59%
Measurement date	6/30/2017

GOLETA SANITARY DISTRICT

Schedule of Proportionate Share of Net Pension Liability
Last Ten Years*
As of June 30, 2018

	2018	2017	2016	2015
Proportion of the net pension liability	0.04260%	0.04215%	0.03991%	0.04434%
Proportionate share of the net pension liability	$ 4,224,333	$ 3,647,366	$ 2,739,101	$ 2,759,210
Covered-employee payroll	$ 2,995,198	$ 2,526,857	$ 2,378,509	$ 2,309,232
Proportionate share of the net pension liability as percentage of covered-employee payroll	141.04%	144.34%	115.16%	119.49%
Plan's total pension liability	$ 37,161,348,332	$ 33,358,627,624	$ 31,771,217,402	$ 30,829,966,631
Plan's fiduciary net position	27,244,095,376	$ 24,705,532,291	$ 24,907,305,871	$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	78.40%	79.82%

* Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

GOLETA SANITARY DISTRICT

Schedule of Pension Contributions
Last 10 Years*
As of June 30, 2018

The following table provides required supplementary information regarding the District's Pension Plan.

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 545,176	$ 429,773	$ 392,036	$ 398,321
Contribution in relation to the actuarially determined contributions	(545,176)	(429,773)	(392,036)	(398,321)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 2,995,198	$ 2,609,634	$ 2,526,857	$ 2,378,509
Contributions as a percentage of covered-employee payroll	18.20%	16.47%	15.51%	16.75%

Notes to Schedule

Valuation Date:	6/30/2016

Methods and assumptions used to determine contribution rates:

Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

GOLETA SANITARY DISTRICT

Schedule of Pension Contributions
Last 10 Years*
As of June 30, 2018

Valuation Date:	6/30/2017
Discount Rate:	7.65%

<u>Changes in assumptions</u>
The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent for an adjustment to exclude administrative expense.

* Fiscal year 2015 was the first year of implementation, therefore only four years are shown.