

GOLETA SANITARY DISTRICT

ANNUAL AUDIT REPORT

Years Ended June 30, 2008 and 2007

Members of the Governing Board

John R. Fox, President
George W. Emerson
Steven T. Majoewsky
John S. Carter
Jerry D. Smith

General Manager/District Engineer/District Secretary

Kamil S. Azoury

Goleta Sanitary District
Annual Audit Report
Years Ended June 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Goleta Sanitary District
Goleta, California

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Goleta Sanitary District, as of and for the years ended June 30, 2008 and 2007, which comprise the District's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of the Goleta Sanitary District, as of June 30, 2008 and 2007, and the respective changes in financial position and its cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2008 on our consideration of the District's internal control over financial reporting and on our tests of the District's compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of *Management's Discussion and Analysis* and Supplementary Information. However, we did not audit the information and do not express an opinion on it.

Teaman Ramirez & Smith

November 12, 2008

Management's Discussion and Analysis

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 years ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with the audit report.

Financial Highlights

- The assets of the Goleta Sanitary District exceeded its liabilities by \$54,805,012 and \$52,158,220 at the close of the June 30, 2008 and 2007 fiscal year, respectively. Of this amount, \$16,752,928 and \$15,014,548 as of June 30, 2008 and 2007 respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,646,792 and \$1,541,168 as of June 30, 2008 and 2007 respectively. This increase in net assets is a combination of a \$1,749,816 and \$1,074,744 as of June 30, 2008 and 2007 respectively, gain from operating and non-operating revenues and expenses and a \$896,976 and \$466,424 as of June 30, 2008 and 2007 capital contribution to the District.
- The Goleta Sanitary District's total debt decreased by \$121,996 (2.8 percent) and \$118,674 (2.8 percent) during June 30, 2008 and 2007. The key factor in this decrease was the retirement outstanding balance on the State Revolving Loan.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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).

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

The financial statements can be found on pages 1-3 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 4-16 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.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Goleta Sanitary District, assets exceeded liabilities by \$54,805,012 and \$52,158,220 at the close of June 30, 2008 and 2007, respectively.

By far the largest portion of the Goleta Sanitary District's net assets, \$38,020,246 (69 percent) and \$37,113,208 (71 percent) as of June 30, 2008 and 2007, 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.

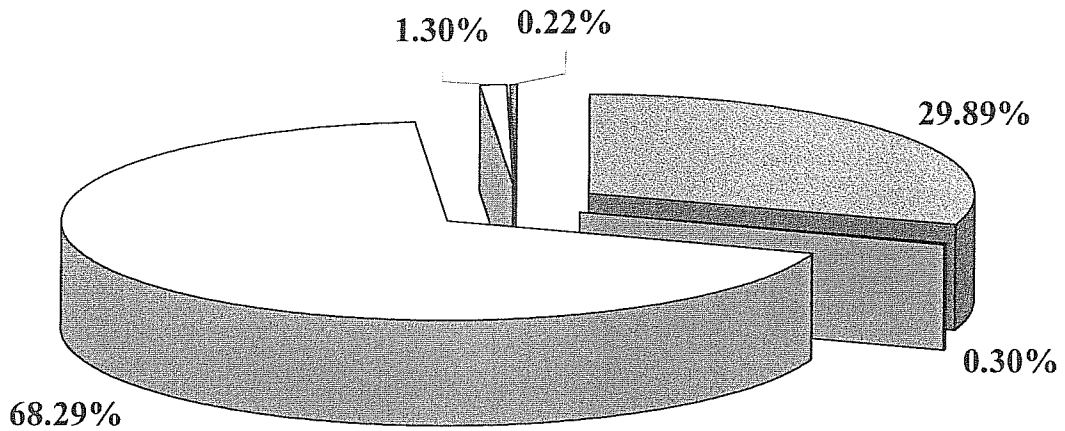
GOLETA SANITARY DISTRICT'S NET ASSETS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current Assets	\$ 18,064,586	\$ 15,600,420	\$ 16,422,999
Noncurrent Assets	<u>39,007,252</u>	<u>38,220,836</u>	<u>35,990,114</u>
Total Assets	<u>\$ 57,071,838</u>	<u>\$ 53,821,256</u>	<u>\$ 52,413,113</u>
Current liabilities	\$ 1,138,226	\$ 422,648	\$ 448,717
Noncurrent Liabilities	<u>1,128,600</u>	<u>1,240,388</u>	<u>1,347,344</u>
Total Liabilities	<u>\$ 2,266,826</u>	<u>\$ 1,663,036</u>	<u>\$ 1,796,061</u>
Net Assets:			
Invested in Capital Assets, Net of			
Related Debt	\$ 38,020,246	\$ 37,113,208	\$ 34,765,357
Restricted	31,838	30,464	28,919
Unrestricted	<u>16,752,928</u>	<u>15,014,548</u>	<u>15,822,776</u>
Total Net Assets	<u>\$ 54,805,012</u>	<u>\$ 52,158,220</u>	<u>\$ 50,617,052</u>

An additional portion of the Goleta Sanitary District's net assets, \$31,838, (0.1 percent) and \$30,464 (0.1 percent) as of June 30, 2008 and 2007, respectively, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$16,752,928 and \$15,014,548 as of June 30, 2008 and 2007, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

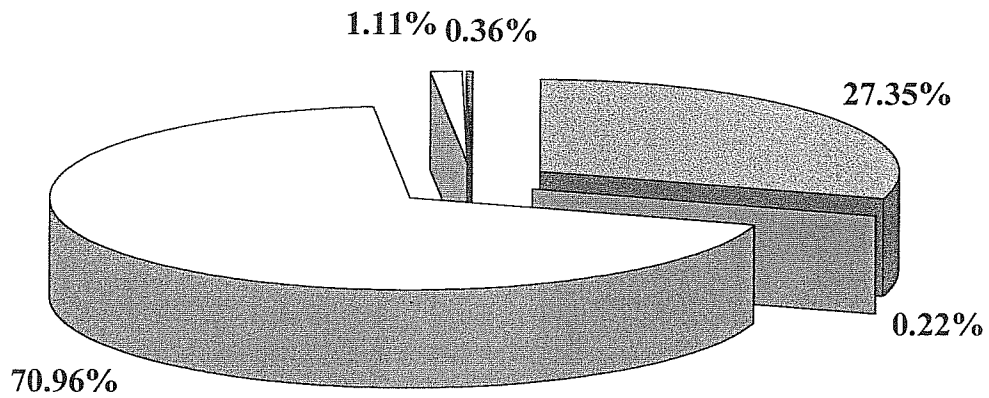
At the end of the current fiscal year, the Goleta Sanitary District is able to report positive balances in all three categories of net assets. The same situation held true for the prior two fiscal years.

ASSETS 2008



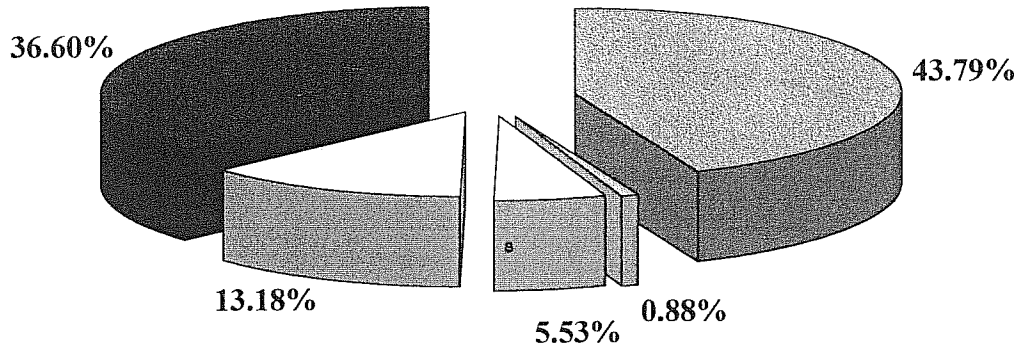
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| <input checked="" type="checkbox"/> Cash and Investments | <input type="checkbox"/> Prepaid Expenses and Inventory |
| <input type="checkbox"/> Capital Assets Less Dep. | <input type="checkbox"/> Accounts Receivable and Deposits A/R |
| <input checked="" type="checkbox"/> Accrued Interest | |

ASSETS 2007



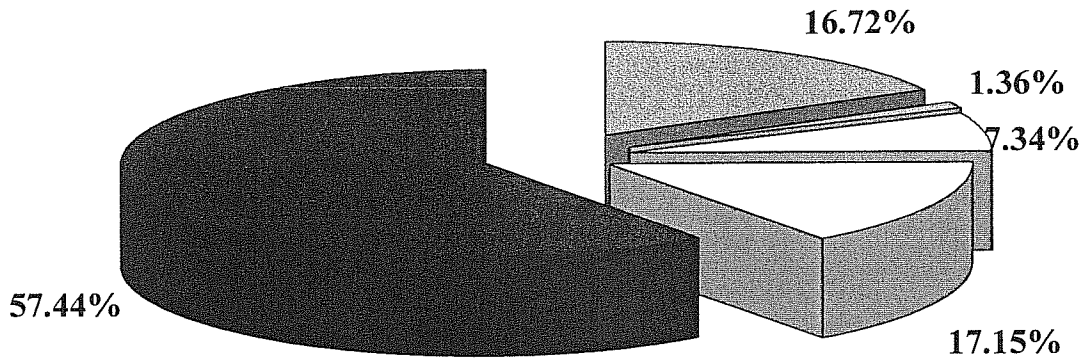
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| <input type="checkbox"/> Capital Assets Less Dep. | <input type="checkbox"/> Accounts Receivable and Deposits A/R |
| <input checked="" type="checkbox"/> Accrued Interest | |

LIABILITIES 2008



- Accounts Payable and Accrued Expenses
 Accrued Interest
- Debt Service
 Accrued Compensated Absences
- State Revolving Loan

LIABILITIES 2007



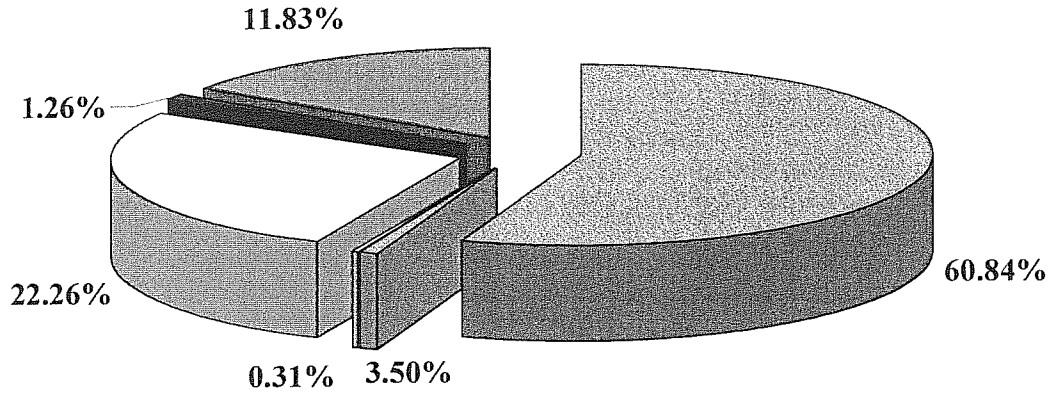
- Accounts Payable and Accrued Expenses
 Accrued Interest
- Debt Service
 Accrued Compensated Absences
- State Revolving Loan

Business-type activities. The business-type activities increased the Goleta Sanitary District's net assets by \$2,646,792 and \$1,541,168 as of June 30, 2008 and 2007, respectively. Key elements of this increase are as follows. Operating and non-operating revenues exceeded operating and non-operating expenses by \$1,749,816 and \$1,074,744 as of June 30, 2008 and 2007, respectively. Capital contributions to the District's system totaled \$896,976 and \$466,424 as of June 30, 2008 and 2007, respectively, for a net increase of \$2,646,792 and \$1,541,168, as of June 30, 2008 and 2007, respectively. Revenues exceeded expenses due to an increase in service charges of \$905,882 (20.36%), a decrease in interest revenue of \$99,802 (13.23%) and a decrease in annexation charges of \$21,932 (23.56%) during the 2007/2008 fiscal year. Revenue exceeded expenses due to increase in capital contributions of \$394,968 (552.74%), an increase in interest revenue of \$193,159 (34.43%), and an increase in annexation charges of \$62,991 (209.23%) during the 2006/2007 fiscal year.

GOLETA SANITARY DISTRICT'S CHANGE IN NET ASSETS

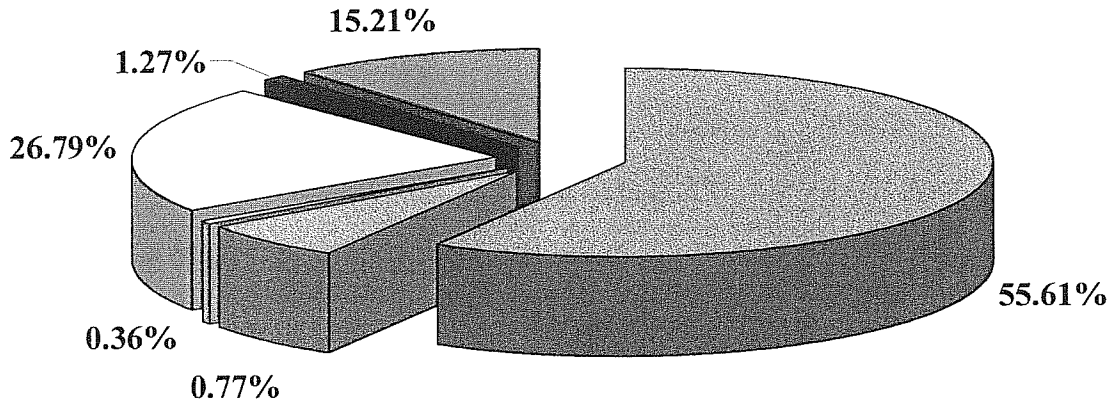
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Revenues:			
Service Charges	\$ 5,354,281	\$ 4,448,399	\$ 4,436,571
Other Operating	2,406,146	2,334,011	2,301,636
Capital Contributions	896,976	466,424	71,456
Non-operating	<u>1,040,806</u>	<u>1,216,431</u>	<u>836,043</u>
Total Revenues	<u>\$ 9,698,209</u>	<u>\$ 8,465,265</u>	<u>\$ 7,645,706</u>
Expenses:			
Sewer Collection	1,531,679	1,359,252	1,199,129
Sewage Treatment	3,795,751	3,821,256	3,439,386
Plant Pump Station	92,756	93,631	87,867
Sewage Disposal	110,117	114,109	113,233
Administrative	859,332	875,751	1,085,816
Wastewater Reclamation	<u>661,782</u>	<u>660,098</u>	<u>627,056</u>
Total Expenses	<u>\$ 7,051,417</u>	<u>\$ 6,924,097</u>	<u>\$ 6,552,487</u>
Increase in Net Assets	2,646,792	1,541,168	1,093,219
Net Assets – Beginning of Year	<u>52,158,220</u>	<u>50,617,052</u>	<u>49,523,833</u>
Net Assets – End of Year	<u>\$ 54,805,012</u>	<u>\$ 52,158,220</u>	<u>\$ 50,617,052</u>

REVENUES 2008



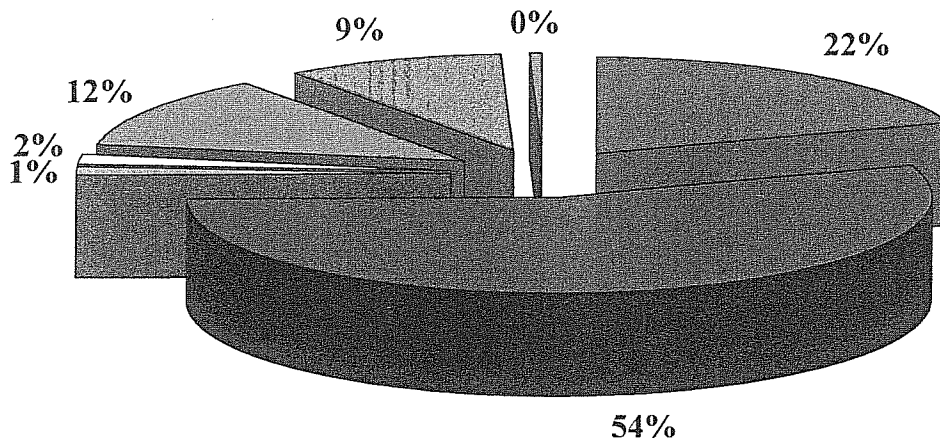
- Service Charges
- Connection Fees
- Permit/Inspection Fees
- Sewage Treatment- Others
- Administrative and Annexation Charges
- Non-Operatating Revenue

REVENUES 2007



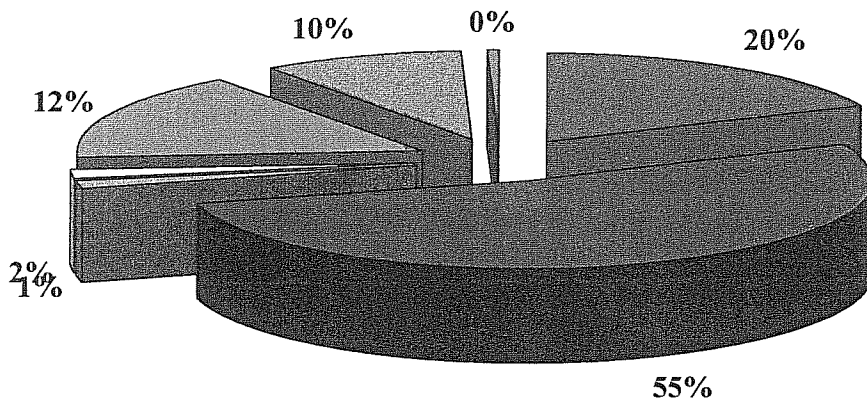
- Service Charges
- Connection Fees
- Permit/Inspection Fees
- Sewage Treatment- Others
- Administrative and Annexation Charges
- Non-Operatating Revenue

EXPENSES 2008



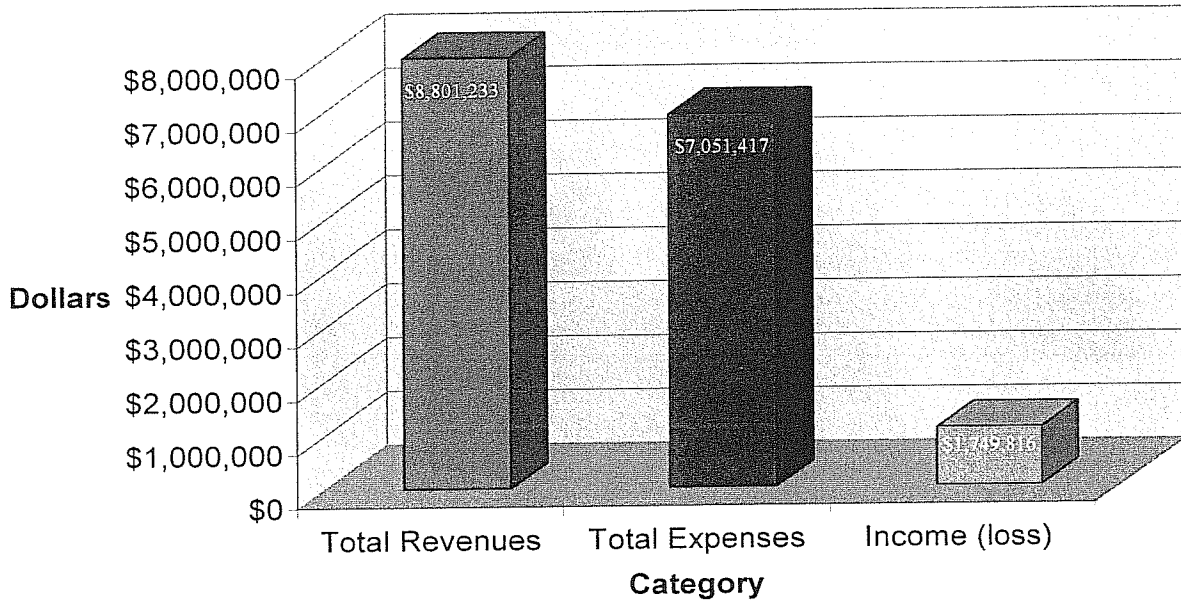
- Sewage Collection ■ Sewage Treatment ■ Plant Pump Station
- Sewage Disposal ■ Administrative and General ■ Reclamation
- Non-operating Expenses

EXPENSES 2007

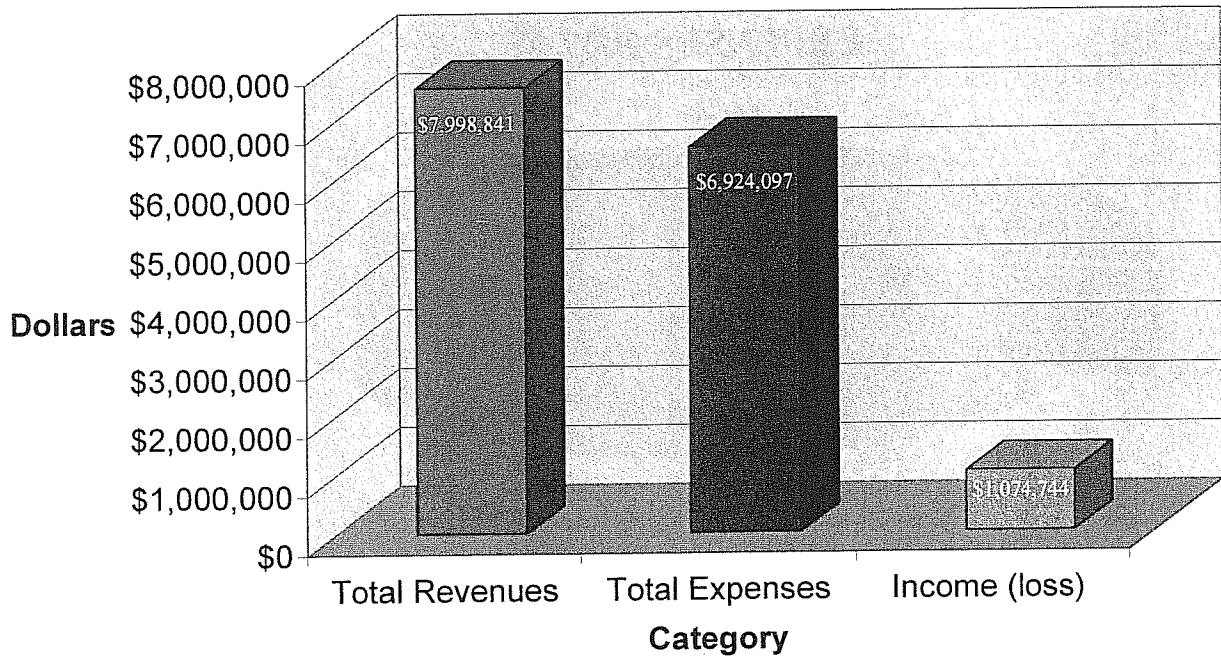


- Sewage Collection ■ Sewage Treatment ■ Plant Pump Station
- Sewage Disposal ■ Administrative and General ■ Reclamation
- Non-operating Expenses

REVENUES AND EXPENSES 2008



REVENUES AND EXPENSES 2007



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, 2008 and June 30, 2007 amounts to \$38,975,414 and \$38,190,372 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. The total increase in the Goleta Sanitary District's investment in capital assets for the current fiscal year was 2.1%. This increase is primarily due to the decrease in construction in progress during the year, which decreased by 32.57% due to the increase of various projects completed. As of June 30, 2007, the total increase in the Goleta Sanitary District's investment in capital assets was 6.2%. This increase was due to the increase in construction in progress during the prior fiscal year, which increased by 253.261% due to increase in various projects.

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

- Construction in Progress
 - Santa Barbara Airport/Hollister Pump Station (Planning)
 - Creek Crossing Pipe Repair
 - El Sueno Lift Station Sewer Relocation
 - 2006 Sewer Rehab Lining
 - Upgrade Environmental Review
 - Fairview Sewer Relocation
 - Firestone Road Lift Station
 - Plant Refurb Project 08/Plant and Liftstation
- Treatment and Lift Station Equipment
- Collection System Equipment

GOLETA SANITARY DISTRICT'S CAPITAL ASSETS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Land	\$ 327,243	\$ 327,243	\$ 327,243
Construction in Progress	2,446,773	3,628,907	1,374,953
Collection Facilities	12,688,360	10,825,604	10,349,480
Treatment Facilities	28,495,032	26,970,315	25,994,357
Disposal Facilities	3,752,501	3,735,304	3,695,653
Admin Facilities	2,768,208	2,690,054	2,683,554
Wastewater Reclamation	<u>14,838,299</u>	<u>14,755,052</u>	<u>14,723,463</u>
Total	<u>\$ 65,316,416</u>	<u>\$ 62,932,479</u>	<u>\$ 59,148,703</u>
Less Accumulated Depreciation	<u>\$ (26,341,002)</u>	<u>\$ (24,742,107)</u>	<u>\$ (23,187,508)</u>
Net Capital Assets	<u>\$ 38,975,414</u>	<u>\$ 38,190,372</u>	<u>\$ 35,961,195</u>

Additional information on the Goleta Sanitary District's capital assets can be found in note 3 on page 10 of this report.

Long-term debt. At the end of June 30, 2008 and 2007, the Goleta Sanitary District had total long-term debt of \$955,168 and \$1,077,164. This debt was incurred for the Outfall Reballasting project. The term of this loan runs through 2015. A portion of the annual debt payment is reimbursed by the District's contracted users, Santa Barbara County, Goleta West Sanitary District, Santa Barbara Municipal Airport, and the University of California, Santa Barbara. The District funds its portion of the annual payment from sewer service charges.

GOLETA SANITARY DISTRICT'S OUTSTANDING DEBT

	<u>2008</u>	<u>2007</u>	<u>2006</u>
State Revolving Fund Loan	\$ 955,168	\$ 1,077,164	\$ 1,195,838
Total	<u>\$ 955,168</u>	<u>\$ 1,077,164</u>	<u>\$ 1,195,838</u>

The Goleta Sanitary District's total debt decreased by \$121,966 (11.5 percent), \$118,674 (9.7 Percent), and \$115,441 (8.8 percent) during June 30, 2008, 2007 and 2006, respectively. The key factor of the decrease was the annual principal payment on the District's only outstanding debt, the State Revolving Fund Loan.

Additional information on the Goleta Sanitary District's long-term debt can be found in note 4 on pages 10 - 11 of this report.

Economic Factors and Next Year's Budgets and Rates

The District reviewed its sewer service fees for 2008-2009 and determined that an increase was necessary to balance the budget and ensure that revenues would cover expenses. The District set its user rate schedule to accommodate the current annual contribution to its depreciation reserve fund and its estimated budget for fiscal year 2008-09. This scenario has been the conventional approach to balancing the District's annual O&M needs inclusive of its depreciation funding. The 2008-09 single family dwelling user charge is \$33.86 per month which is about 37% over the 2007-08 rate of \$24.86 per month.

The sewer service charge increase is essential to cover anticipated increases in expenses due to inflation, and as the first of future anticipated adjustments to partially fund the cost of upgrading the treatment plant to full secondary level.

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 93116.

Goleta Sanitary District
Statements of Net Assets
June 30, 2008 and 2007

	2008	2007
ASSETS		
Current Assets:		
Cash and Investments (Notes 1F and 2)	\$ 17,026,572	\$ 14,688,147
Accounts Receivable	743,938	594,384
Accrued Interest Receivable	125,673	192,496
Deposits		5,091
Prepaid Expenses	37,708	44,516
Inventory (Note 1G)	130,695	75,786
Total Current Assets	18,064,586	15,600,420
Noncurrent Assets:		
Restricted Assets:		
Cash and Investments (Notes 1F and 2)	31,594	30,077
Accrued Interest Receivable	244	387
Capital Assets, Net of Depreciation (Notes 1H and 3)	38,975,414	38,190,372
Total Noncurrent Assets	39,007,252	38,220,836
Total Assets	57,071,838	53,821,256
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses	986,755	271,512
Deposits Payable	6,000	6,500
Accrued Interest Payable - State Revolving Loan (Note 4)	20,059	22,640
Current Portion - State Revolving Loan (Note 4)	125,412	121,996
Total Current Liabilities	1,138,226	422,648
Noncurrent Liabilities:		
Accrued Liability for Compensated Absences (Note 1I)	298,844	285,220
State Revolving Loan (Note 4)	829,756	955,168
Total Noncurrent Liabilities	1,128,600	1,240,388
Total Liabilities	2,266,826	1,663,036
NET ASSETS (Note 1J and Note 6)		
Invested in Capital Assets, Net of Related Debt	38,020,246	37,113,208
Restricted	31,838	30,464
Unrestricted	16,752,928	15,014,548
Total Net Assets	\$ 54,805,012	\$ 52,158,220

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

Goleta Sanitary District
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Service Charges	\$ 5,354,281	\$ 4,448,399
Connection Charges	308,308	61,302
Permit and Inspection Fees	27,565	28,742
Sewage Treatment - Other Agencies	1,959,062	2,142,695
Administrative Charges	110,811	100,472
Annexation Processing Charges	400	800
Total Operating Revenues	7,760,427	6,782,410
OPERATING EXPENSES (Including Depreciation, Note 3)		
Sewage Collection	1,531,679	1,359,252
Sewage Treatment	3,795,751	3,821,256
Plant Pump Station	92,756	93,631
Sewage Disposal	110,117	114,109
Administrative and General	831,743	841,949
Wastewater Reclamation	661,782	660,098
Total Operating Expenses	7,023,828	6,890,295
Operating Income (Loss)	736,599	(107,885)
NONOPERATING REVENUES (EXPENSES)		
Interest Revenue	654,373	754,175
Property Tax Allocated	115,781	112,504
Annexation Charges	71,165	93,097
Aid from Participating Agencies	6,528	73,853
Interest Expense	(27,589)	(33,802)
Other	192,959	182,802
Total Nonoperating Revenues (Expenses)	1,013,217	1,182,629
Income (Loss) Before Contributions	1,749,816	1,074,744
Capital Contributions (Note 1K)	896,976	466,424
Change in Net Assets	2,646,792	1,541,168
Net Assets at Beginning of Year	52,158,220	50,617,052
Net Assets at End of Year	\$ 54,805,012	\$ 52,158,220

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

Goleta Sanitary District
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 7,615,966	\$ 6,811,692
Payments to Suppliers	(1,383,739)	(2,011,397)
Payments to Employees	(3,360,929)	(3,349,698)
	2,871,298	1,450,597
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	115,782	112,504
Reimbursements From Other Governments	6,528	73,853
Annexation Charges	71,165	93,097
Other Non-operating Income	192,959	182,802
	386,434	462,256
Net Cash Provided (Used) by Noncapital Financing Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Long-Term Debt	(121,997)	(118,673)
Interest Paid on Long-Term Debt	(30,170)	(33,484)
Acquisition of Capital Assets	(1,486,963)	(3,317,354)
	(1,639,130)	(3,469,511)
Net Cash Provided (Used) by Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	721,340	733,855
	721,340	733,855
Net Cash Provided (Used) by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	2,339,942	(822,803)
Cash and Cash Equivalents - Beginning of the Year	14,718,224	15,541,027
Cash and Cash Equivalents - End of the Year	\$ 17,058,166	\$ 14,718,224
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 736,599	\$ (107,885)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	1,598,895	1,554,599
Change in Assets and Liabilities:		
Accounts Receivable	(149,553)	31,790
Deposits Receivable	5,091	(2,508)
Prepays	6,808	(10,546)
Inventory	(54,909)	(184)
Accounts Payable	714,743	(29,709)
Compensated Absences	13,624	15,040
	13,624	15,040
Net Cash Provided By Operating Activities	\$ 2,871,298	\$ 1,450,597

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

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

Goleta Sanitary 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 and plant were 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.

B) 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 ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for governmental accounting financial reporting purposes.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, and Amendment of GASB Statement No. 33*, No. 37 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

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. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which 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.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental enterprise funds. In accordance with GASB Statement 20, the District has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, with the exception of those that conflict with or contradict GASB Pronouncements.

C) 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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Plant Capacity Rights - Continued

For the 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%

D) 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 expenditures and cash reserves needed for operations.

E) Statement of Cash Flows

For purposes 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.

F) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the District's investments are stated at fair value except for interest-earning investment contracts.

In applying GASB 31, the District utilized the following methods and assumptions:

- 1) Fair value is based on quoted market prices as of the valuation date;
- 2) The portfolio did not hold investments in any of the following:
 - a) Items required to be reported at amortized cost,
 - b) Items in external pools that are not SEC registered,
 - c) Items subject to involuntary participation in an external pool, and
 - d) Items associated with a fund other than the fund to which the income is assigned;
- 3) The gain/loss resulting from valuation will be reported within the "interest revenue" account on the Statement of Revenues, Expenses and Changes in Net Assets.

G) Inventories

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

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H) Capital Assets

Capital assets are shown at their original cost, or if donated, at approximate value on the date contributed. The District does not capitalize interest costs incurred on the construction of capital assets. Depreciation is computed 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

I) 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. In accordance with accounting principles generally accepted in the United States of America, the liability is reflected on the Statement of Net Assets and the current year allocation has been expensed.

Any regular District employee who has accumulated a minimum of 18 days of sick leave, as of November 30, may elect to cash out any amounts above the 18 day minimum. The cash out is then paid on the first payday of December. Sick leave is not paid to employees upon termination, therefore, an estimated amount is used, based on past cash outs, for booking the liability and expense for the current year. In accordance with accounting principles generally accepted in the United States of America, the liability is reflected on the Statement of Net Assets and the current year allocation has been expensed.

J) Restricted Assets

These assets consist of cash and other monetary assets restricted for various purposes, some of which are the subject of a legal reserve of retained earnings.

K) Capital Contributions

Contributed capital represents cash or utility plant additions contributed to the District by property owners or developers desiring services that require capital expenditures or capacity commitment from the date the District was formed until June 30, 2000. Effective July 1, 2000, in accordance with GASB Statement 33 all such capital contributions are reflected as non-operating revenues. Depreciation of contributed utility plant additions is charged to operations.

L) Uncollectible Accounts

Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectibility of existing specific accounts.

M) 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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

M) Property Taxes - Continued

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

Tax collections are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments; the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on 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 year, the District received \$115,781 in property taxes. 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.

N) 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.

O) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2) CASH AND INVESTMENTS

Cash and Investments as of June 30 are classified in the accompanying financial statements as follows:

	<u>2008</u>	<u>2007</u>
Statement of Net Assets:		
Cash and Investments	\$ 17,026,572	\$ 14,688,147
Restricted:		
Cash and Investments	<u>31,594</u>	<u>30,077</u>
Total Cash and Investments	<u>\$ 17,058,166</u>	<u>\$ 14,718,224</u>

Cash and investments as of June 30 consist of the following:

	<u>2008</u>	<u>2007</u>
Cash on Hand	\$ 500	\$ 500
Deposit with Financial Institutions	734,680	
Investments	<u>16,322,986</u>	<u>14,717,724</u>
Total Cash and Investments	<u>\$ 17,058,166</u>	<u>\$ 14,718,224</u>

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

2) **CASH AND INVESTMENTS - Continued**

Investments Authorized by the District's Investment Policy

The District's investment policy authorizes investment in compliance with Government Code Sections 53600 through 53683. The District's investment policy authorizes those investments authorized under Government Code Sections 53601 and 16429.1, as said sections may be amended from time to time, subject to the limitations and requirements set forth therein. Such authorized investments include investment in the LAIF. The District's investment policy does not authorize any of the prohibited investments specified under Government Code Sections 53601.6 and 53631.5, as said sections may be amended from time to time.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that 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 rates. As of the year end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 10.5 months.

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 maturity date of each investment:

			<u>Maturity Date</u>
State Investment Pool	\$	16,322,986	10.5 months average maturity

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 a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District's investments (other than U.S. Treasury securities, mutual funds and external investment pools).

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 Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposition by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Collateral for Deposits

The collateral for certificates of deposit 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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

2) CASH AND INVESTMENTS - Continued

Collateral for Deposits - Continued

The Treasurer, at his or her discretion, may waive the 110% collateral requirement for deposits which are insured up to \$100,000 by the FDIC.

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 Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. 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 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 financial statements at amounts based upon the Entity'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.

Local Agency Investment Fund (LAIF)

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each district may invest up to \$40,000,000 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. The amortized cost and fair value of the LAIF Pool at June 30, 2008, was \$70,027,950,242 and \$70,024,464,150, respectively. The amortized cost and fair value of the LAIF Pool at June 30, 2007, was \$65,786,597,418 and \$65,756,665,933, respectively. The District's share of the Pool at June 30, 2008 and 2007, was approximately 0.0244 and 0.0223 percent, respectively. Included in LAIF's investment portfolio at June 30, 2008 and June 30, 2007, are certain derivative securities of similar products in the form of asset backed securities totaling \$4,188,272,000 and \$1,501,103,000, respectively. 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."

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

3) CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated:				
Land	\$ 327,243	\$	\$	\$ 327,243
Construction in Progress	<u>3,628,907</u>	<u>1,037,048</u>	<u>(2,219,182)</u>	<u>2,446,773</u>
Total Capital Assets, Not Depreciated	<u>3,956,150</u>	<u>1,037,048</u>	<u>(2,219,182)</u>	<u>2,774,016</u>
Capital Assets, Being Depreciated:				
Collection Facilities	10,825,604	1,862,756		12,688,360
Treatment Facilities	26,970,315	1,524,717		28,495,032
Disposal Facilities	3,735,304	17,197		3,752,501
General Administrative Facilities	2,690,054	78,154		2,768,208
Wastewater Reclamation Facility	<u>14,755,052</u>	<u>83,247</u>		<u>14,838,299</u>
Total Capital Assets Being Depreciated	<u>58,976,329</u>	<u>3,566,071</u>		<u>62,542,400</u>
Less: Accumulated Depreciation	<u>(24,742,107)</u>	<u>(1,753,567)</u>	<u>154,672*</u>	<u>(26,341,002)</u>
Total Capital Assets Being Depreciated, Net	<u>34,234,222</u>	<u>1,812,504</u>	<u>154,672</u>	<u>36,201,398</u>
Capital Assets, Net of Depreciation	<u>\$ 38,190,372</u>	<u>\$ 2,849,552</u>	<u>\$ (2,064,510)</u>	<u>\$ 38,975,414</u>

*Decrease is due to reclassification of assets.

4) LONG-TERM LIABILITIES

The following table summarizes the changes in long-term liabilities for the year:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
State Revolving Fund Loan	\$ 1,077,164	\$	\$ (121,996)	\$ 955,168	\$ 125,412
Total Long-Term Liabilities	<u>\$ 1,077,164</u>	<u>\$ 0</u>	<u>\$ (121,996)</u>	<u>\$ 955,168</u>	<u>\$ 125,412</u>

State Revolving Fund Loan

A \$2,279,438 California State Revolving Fund Loan was funded under the Clean Water Act by the United States Environmental Protection Agency. The loan funds were used to partially fund the outfall reballasting project completed in October 1994. The loan bears interest at the rate of 2.8 percent per annum.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

4) LONG-TERM LIABILITIES

The annual requirements to amortize the state revolving fund loan are as follows:

<u>Year End</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 125,412	\$ 26,745	\$ 152,157
2010	128,924	23,233	152,157
2011	132,534	19,623	152,157
2012	136,245	15,912	152,157
2013	140,060	12,097	152,157
2014	<u>291,993</u>	<u>12,321</u>	<u>304,314</u>
Total	<u>\$ 955,168</u>	<u>\$ 109,931</u>	<u>\$ 1,065,099</u>

5) OPERATING LEASE

In August 8, 2008, the District entered into a noncancelable lease for a copy machine. The lease is for 60 months. At the end of the lease term, the District has the option of either returning the equipment or purchasing it at its fair market value.

The following table summarizes the annual lease obligation over the life of the lease:

<u>Year Ending June 30</u>	<u>Payments</u>
2009	\$ 3,540
2010	3,540
2011	3,540
2012	3,540
2013	<u>3,540</u>
Total	<u>\$ 17,700</u>

6) NET ASSETS

There are three main components of net assets: invested in capital assets (net of related debt), restricted and unrestricted. Invested in capital assets, net of related debt represents the District's capital assets net of depreciation that are unencumbered by debt. Restricted net assets consist of amounts that have legal restrictions imposed by parties outside of the reporting entity.

Unrestricted net assets is a catchall for all remaining net assets not accounted for in the other two categories.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

6) NET ASSETS - Continued

Net assets at year end consisted of the following:

	2008	2007
Invested in Capital Assets, Net of Related Debt:		
Capital Assets, Net	\$ 38,975,414	\$ 38,190,372
Less Long-Term Debt Obligations	(955,168)	(1,077,164)
Total Invested in Capital Assets, Net of Related Debt	\$ 38,020,246	\$ 37,113,208
Restricted Net Assets:		
Restricted Assets	31,838	30,464
Total Restricted Net Assets	31,838	30,464
Unrestricted Net Assets	16,752,928	15,014,548
Total Net Assets	\$ 54,805,012	\$ 52,158,220

Included in Unrestricted Net Assets are the following:

Reserve for Plant Capacity Expansion

This reserve is related to that portion of the District's net assets attributable to capacity expansion connection fees. Such fees can only be used for plant expansion. At June 30, 2008 and 2007, this reserve was \$ 1,719,477 and \$1,615,003, respectively.

Reserve for OPEB Funding

This reserve is related to the portion of the District's net assets attributable to Other Post Employment Benefit (OPEB) not yet placed in an irrevocable trust fund for the purpose of financing the OPEB obligation which consists of the retiree medical insurance health benefit. At June 30, 2008 and 2007, this reserve was \$175,684 and \$63,319, respectively.

Dry Period Financing

Among other things, included in this amount are funds needed for approximately six months of dry period financing.

For many California District's, revenues are not received monthly. Instead they receive their revenues based on collection of the county's tax rolls (see property taxes in Note 1). As a result there are periods of time between which little or no revenue is received while operations continue and expenses are paid. This is commonly referred to as Dry Period Financing. This financing can be financed internally or externally. However, external financing usually results in higher costs (Interest).

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

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 J50.103:

a) Description of Joint Powers Authority

The Authority is comprised of 54 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 \$10,750,000. The pool layer is subject to retrospective adjustment. The Goleta Sanitary 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 \$3,000,000 are covered by excess insurance purchased by the participating district, as a part of the pool, to a limit of \$10 million. The Goleta Sanitary District participates in the Authority's Workers Compensation Program.

Property Protection:

The Goleta Sanitary 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.

8) DEFERRED COMPENSATION PLAN

On August 30, 1996, the provisions of Internal Revenue Code (IRC) Section 457 were amended to require new plans to place all assets and income of the Plan in trust for the exclusive benefit of participants and their beneficiaries. Plans in existence as of the date of this change must place the Plan assets and income in trust by January 1, 1999. Once the assets and income are placed in trust the District no longer owns the amounts deferred by employees and related income. Prior to this IRC Section 457 Amendment, the deferred amounts and related income remained as property of the District until withdrawn by the employee.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

8) DEFERRED COMPENSATION PLAN - Continued

During the 1998-99 fiscal year, the District placed its Deferred Compensation Plan assets and related income in trust as allowed by IRC Section 457 and as result the asset and corresponding liability are no longer presented in these financial statements. This change had no impact on the District's equity.

9) DISTRICT EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

The Goleta Sanitary District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and district ordinance. As of fiscal year 2007, entities participating in the California Public Employees Retirement System (PERS) with less than one hundred members, are mandated by the State to be in a risk pool. The Goleta Sanitary District has less than one hundred members participating in PERS and has presented information based on the requirements of cost-sharing multiple-employer defined benefits plans since certain information for an agent multiple-employer defined benefit plan are unavailable. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Participants are required to contribute 7% of their annual covered salary. The Goleta Sanitary District makes the contributions required of District employees on their behalf and for their account. The District is to contribute at an actuarially determined rate; the required employer contribution rate for year ended June 30, 2008 was 11.889% for miscellaneous employees of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

Three Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/06	301,984	100%	0
6/30/07	377,677	100%	0
6/30/08	378,245	100%	0

10) WASTEWATER RECLAMATION PROJECT

The District entered into an agreement, dated October 15, 1990, with the Goleta Water District for construction and operation of a wastewater reclamation project. The project provides for additional treatment of the District's wastewater and to distribute the resulting reclaimed wastewater for use by the Water District's customers.

The District agreed to provide the additional treatment facilities, which are integrated into the current treatment plant. The 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 Water District ultimately pay all of the costs associated with the design and construction of the project, as well as the operation costs once the facility is completed. The 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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

11) CONTINGENCIES

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 subject to 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 (1) year, the land will revert to the seller or its successor, at the acquisition price.

California Regional Water Quality Control Board - Secondary Treatment

In November 2004 the District reached an agreement with the California Regional Water Quality Control Board on a 10 year conversion plan to convert its operations to comply with secondary treatment requirements set forth in 40 C.F.R. Part 133, other than 40 C.F.R. Part 133.105 (secondary treatment). Conversion to full secondary treatment requires a substantial commitment to capital assets over a 10 year period. According to the conversion schedule most of the design and construction will not occur until 2008.

12) OTHER POST EMPLOYMENT BENEFITS

At the December 13, 2004 Board of Directors meeting, the Board adopted a medical insurance premium payment program for retirees of the District. They also decided to pre-fund this program rather than wait for the liability to occur. Each year when the budget is adopted, a transfer will be included to set aside money for the purpose of pre-funding this program. As a result, a transfer will be made in December of each year equal to the budgeted amount. The accumulated balance including earnings will be held there pending payment of qualified insurance premiums.

The July 2, 2007 action provided the following requirements for the program:

- a. Starting in January 2008, the District will offer existing employees a new health insurance plan with the California Public Employees Retirement System (CalPERS) based on the PERS Choice family plan. Employees wishing to consider a more expensive plan will have to pay the additional premium costs themselves.
- b. Starting in January 2008, the District will offer its retirees a CalPERS Choice family health plan with a minimum contribution of \$1.00 per retiree per month. Such monthly contribution will increase annually by 5% of the medical insurance premium offered to active employees.
- c. Starting in January 2012, the District will offer its retirees full medical insurance premium based on the CalPERS Choice family health plan offered by PERS for all its active employees.
- d. The District, on annual basis, will adjust the allowable health premium cost to reflect the current cost of CalPERS Choice plan for all its active and retired employees.
- e. The District to authorize an actuarial analysis of the current staffing model to define the Annual Required Contribution as specified by Governmental Accounting Standards Board (GASB) Statement 45.
- f. New employees will qualify for the retirement medical insurance benefit offered by the District at 50% of the insurance premium payment after 10 years of active employment with the District, and at 100% of the insurance premium payment after 20 years of active employment with the District.
- g. The District to establish an Other Post Employment Benefit (OPEB) irrevocable trust fund for the purpose of financing the OPEB obligation which consists of the retiree medical insurance health benefit. All funds in the current sinking fund are to be transferred to the District's trust fund before fiscal year 2009-2010.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

12) OTHER POST EMPLOYMENT BENEFITS - Continued

- h. At such time in the future that CalPERS establishes a multi-employer OPEB trust fund, the District should consider transferring its own trust fund into the PERS OPEB trust fund.
- i. Before fiscal year 2009-2010, the District's annual contribution must be equal to or more than the ARC defined by GASB 45.
- j. The District reserves its right to modify and/or change this plan at any time in the future.
- k. District staff is to return to the Board with alternative options that would limit or terminate the District's open-ended funding burden of the supplemental medical insurance plan for District retirees after age 65.