CERTIFIED PUBLIC ACCOUNTANTS

GOLETA SANITARY DISTRICT

ANNUAL AUDIT REPORT

YEARS ENDED
JUNE 30, 2011 AND 2010

Members of the Governing Board

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

General Manager/District Engineer/District Secretary

Kamil S. Azoury

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GOLETA SANITARY DISTRICT

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YEARS ENDED
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YEARS ENDED JUNE 30, 2011 AND 2010

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
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  A Professional Corporation
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- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Goleta Sanitary District
Goleta, California

We have audited the accompanying financial statements for the Goleta Sanitary District, Goleta, California (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District management. Our responsibility is to express opinions 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the District as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year 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 our report dated September 6, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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

Board of Directors
Goleta Sanitary District

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.

Lance, Soll & Lunghard, LLP

Brea, California
September 6, 2011

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 year ending June 30, 2011. 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 $ 70,803,072 and $64,571,807 at the close of the June 30, 2011 and 2010 fiscal year, respectively. Of this amount, $16,288,857 and $15,927,385 as of June 30, 2011 and 2010 respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets increased by $6,231,265 and $5,345,383 as of June 30, 2011 and 2010 respectively**.** This increase in net assets is a combination of a $4,084,908 and $2,576,178 as of June 30, 2011 and 2010 respectively, gain from operating and non-operating revenues and expenses and a $2,146,357 and $2,769,205 as of June 30, 2011 and 2010 capital contribution to the District.

- The Goleta Sanitary District's total debt decreased by $132,534 (18.9 percent) and $128,924 (15.5 percent) during June 30, 2011 and 2010. The key factor of the decrease was the annual principal payment on the District's only outstanding debt, the State Revolving Fund 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 13-16 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 17-30 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 $70,803,072 and $64,571,807 at the close of June 30, 2011 and 2010, respectively.

By far the largest portion of the Goleta Sanitary District's net assets, $52,583,978 (74 percent) and $46,755,138 (72 percent) as of June 30, 2011 and 2010, 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.

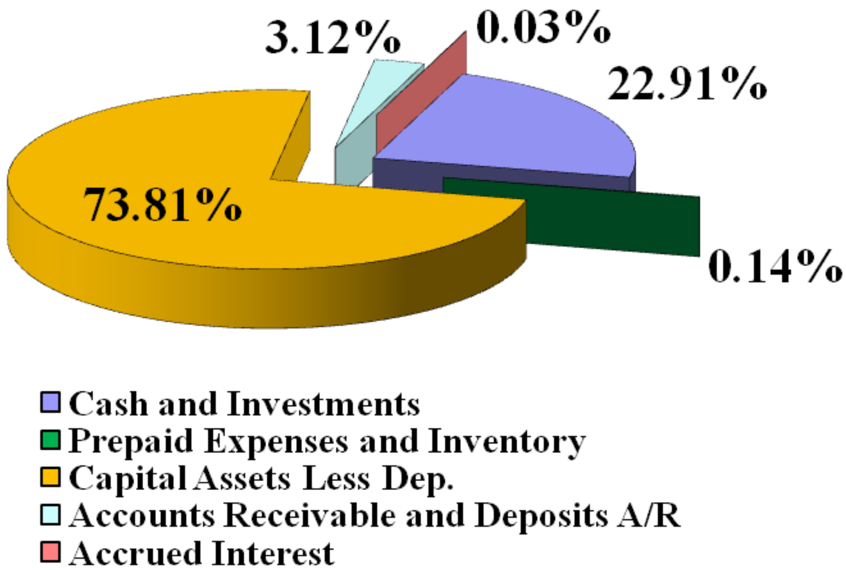
GOLETA SANITARY DISTRICT'S NET ASSETS

	June 30, 2011	June 30, 2010	June 30, 2009
Current Assets	$ 16,926,754	$ 16,404,134	$ 16,711,469
Noncurrent Assets	55,082,513	49,345,254	44,523,201
Total Assets	$ 72,009,267	$ 65,749,388	$ 61,234,670
Current liabilities	$ 774,142	$ 560,642	$ 1,161,187
Noncurrent Liabilities	432,053	616,939	847,059
Total Liabilities	$ 1,206,195	$ 1,177,581	$ 2,008,246
Net Assets:			
Invested in Capital Assets, Net of Related Debt	$ 52,583,978	$ 46,755,138	$ 41,849,806
Restricted	1,930,237	1,889,284	1,843,639
Unrestricted	16,288,857	15,927,385	15,532,979
Total Net Assets	$ 70,803,072	$ 64,571,807	$ 59,226,424

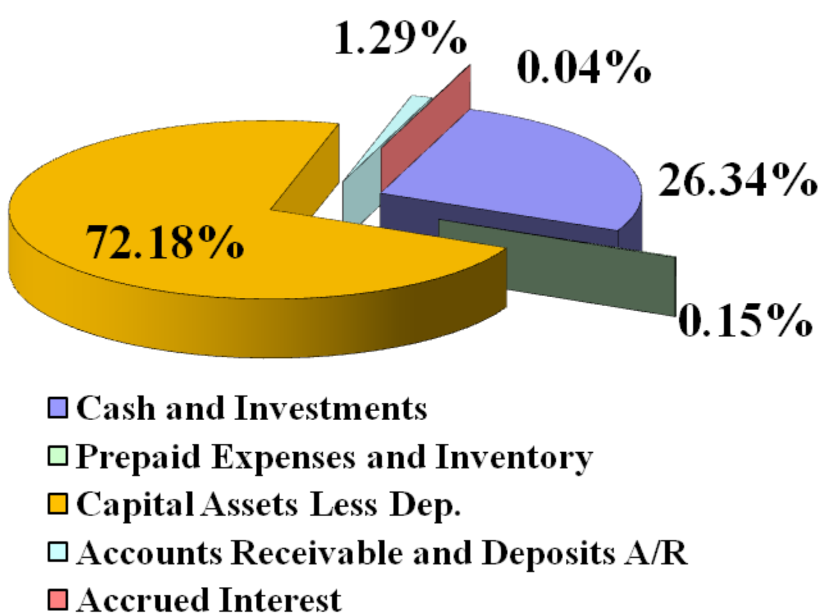
An additional portion of the Goleta Sanitary District's net assets, $1,930,237 (2.72 percent) and $1,889,284 (2.93 percent) as of June 30, 2011 and 2010, respectively, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $16,288,857 and, $15,927,385 as of June 30, 2011 and 2010, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

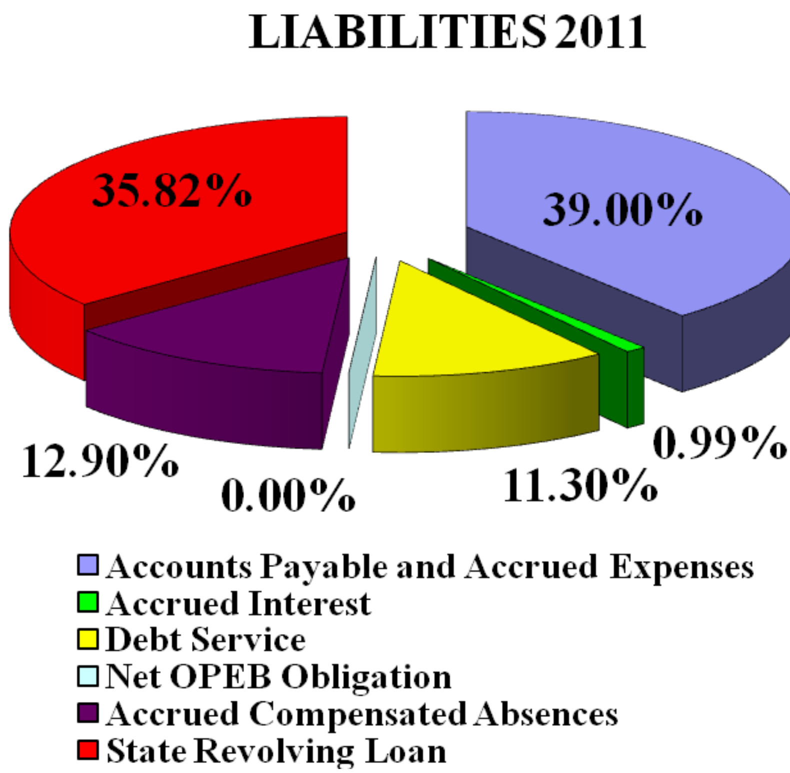
At the end of the current fiscal year, the Goleta Sanitary District is able to report positive balances in all three categories of net assets. The same situation held true for the prior two fiscal years.

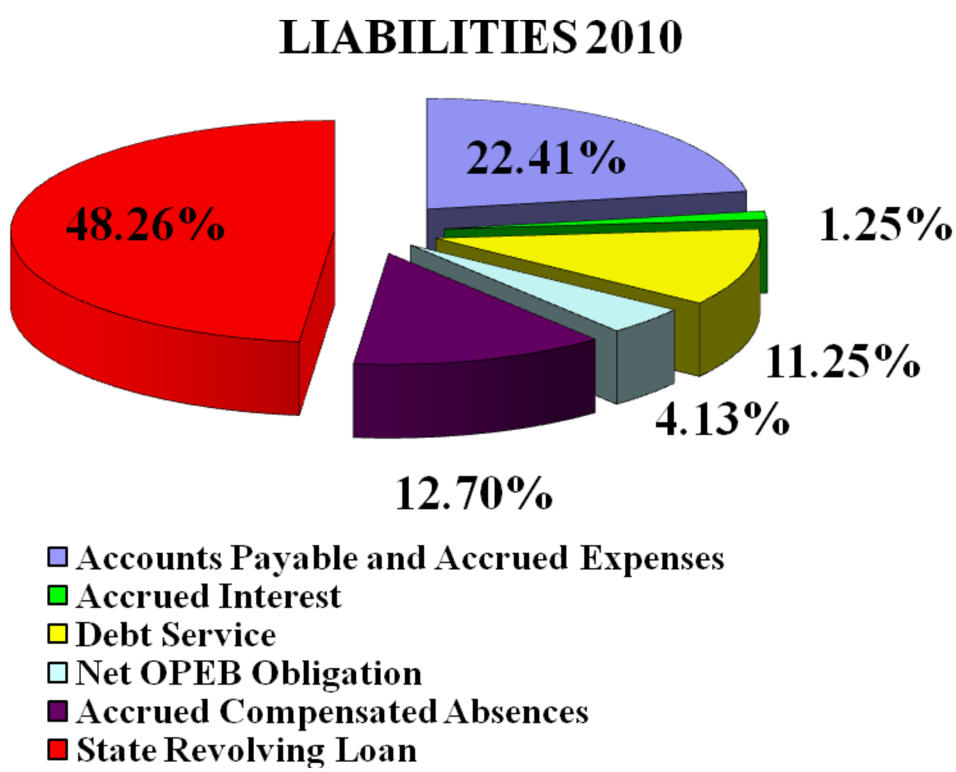
ASSETS 2011



ASSETS 2010



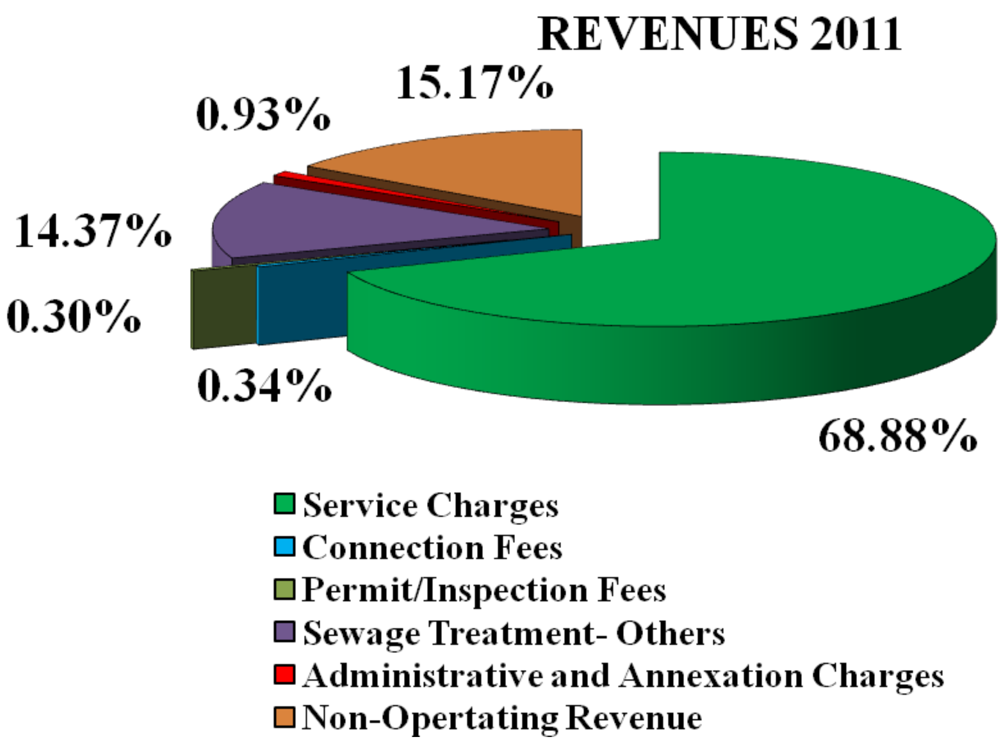

LIABILITIES 2011
35.82%
39.00%
12.90%
0.00%
11.30%
0.99%
Accounts Payable and Accrued Expenses
Accrued Interest
Debt Service
Net OPEB Obligation
Accrued Compensated Absences
State Revolving Loan

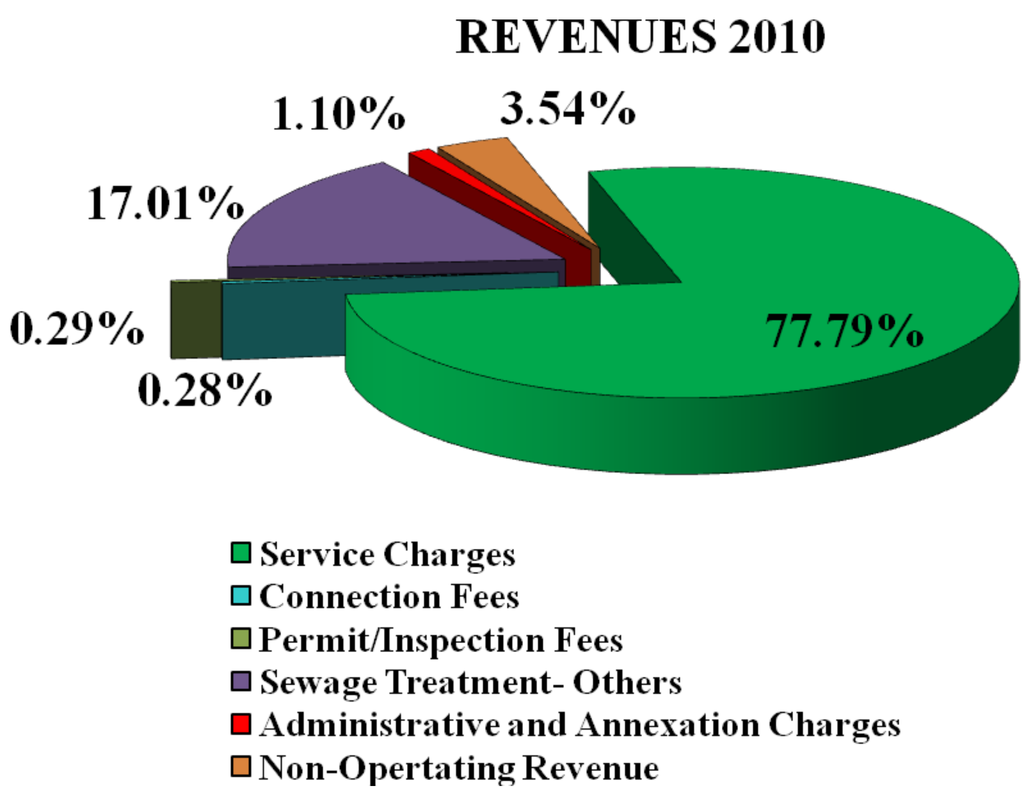

LIABILITIES 2010
22.41%
48.26%
1.25%
11.25%
4.13%
12.70%
Accounts Payable and Accrued Expenses
Accrued Interest
Debt Service
Net OPEB Obligation
Accrued Compensated Absences
State Revolving Loan

Business-type activities. The business-type activities increased the Goleta Sanitary District's net assets by $6,231,265 and $5,345,383 as of June 30, 2011 and 2010, respectively. Key elements of this increase are as follows. Operating and non-operating revenues exceeded operating and non-operating expenses by $4,084,908 and $2,576,178 as of June 30, 2011 and 2010, respectively. Capital contributions to the District's system totaled $2,146,357 and $2,769,205 as of June 30, 2011 and 2010, respectively, for a net decrease of $622,848 as of June 30, 2011 and an increase of $236,779 as of June 30, 2010. Revenues exceeded expenses due to an increase in service charges of $201,601 (2.46%), a decrease in interest revenue of $32,994 (28.94%) and an increase in annexation charges of $9,067 (131.65%) during the 2010-2011 fiscal year.

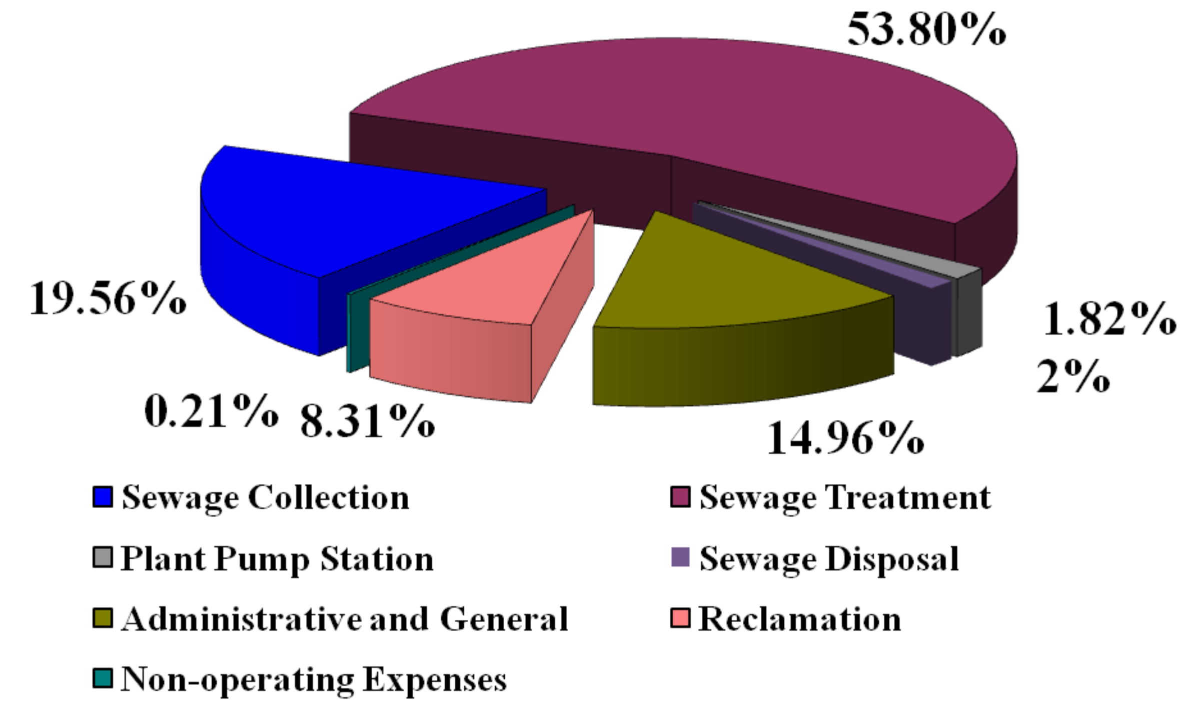
GOLETA SANITARY DISTRICT'S CHANGE IN NET ASSETS

	June 30, 2011	June 30, 2010	June 30, 2009
Revenues:			
Service Charges	$ 8,405,912	$ 8,204,272	$ 7,199,438
Other Operating	1,946,532	1,969,911	1,971,102
Capital Contributions	2,146,357	2,769,205	2,532,426
Non-operating	1,851,372	373,154	591,119
Total Revenues	$ 14,350,173	$ 13,316,542	$ 12,294,085
Expenses:			
Sewer Collection	$ 1,588,120	$ 1,580,518	$ 1,580,124
Sewage Treatment	4,367,716	4,239,898	4,358,614
Plant Pump Station	148,114	132,092	133,781
Sewage Disposal	108,860	113,508	113,176
Administrative	1,231,138	1,210,105	1,010,078
Wastewater Reclamation	674,960	695,038	676,900
Total Expenses	$ 8,118,908	$ 7,971,159	$ 7,872,673
Increase in Net Assets	$ 6,231,265	$ 5,345,383	$ 4,421,412
Net Assets – Beginning of Year	64,571,807	59,226,424	54,805,012
Net Assets – End of Year	$ 70,803,072	$ 64,571,807	$ 59,226,424

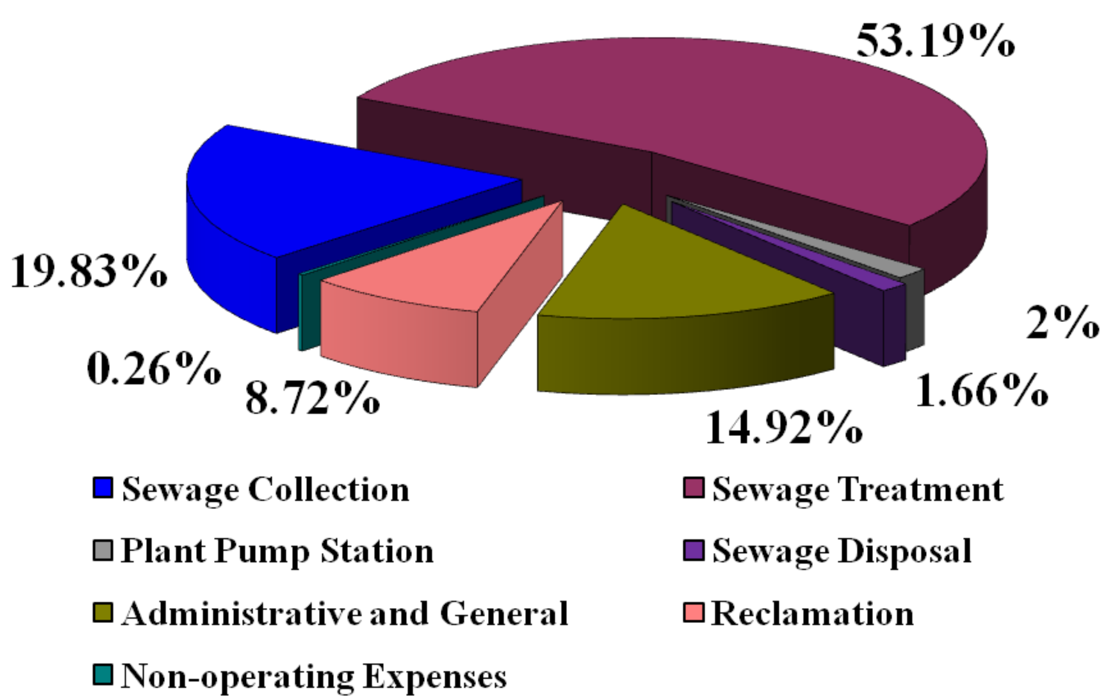

REVENUES 2011
15.17%
0.93%
14.37%
0.30%
0.34%
68.88%
Service Charges
Connection Fees
Permit/Inspection Fees
Sewage Treatment- Others
Administrative and Annexation Charges
Non-Opertating Revenue


REVENUES 2010
1.10%
3.54%
17.01%
0.29%
77.79%
0.28%
Service Charges
Connection Fees
Permit/Inspection Fees
Sewage Treatment- Others
Administrative and Annexation Charges
Non-Opertating Revenue

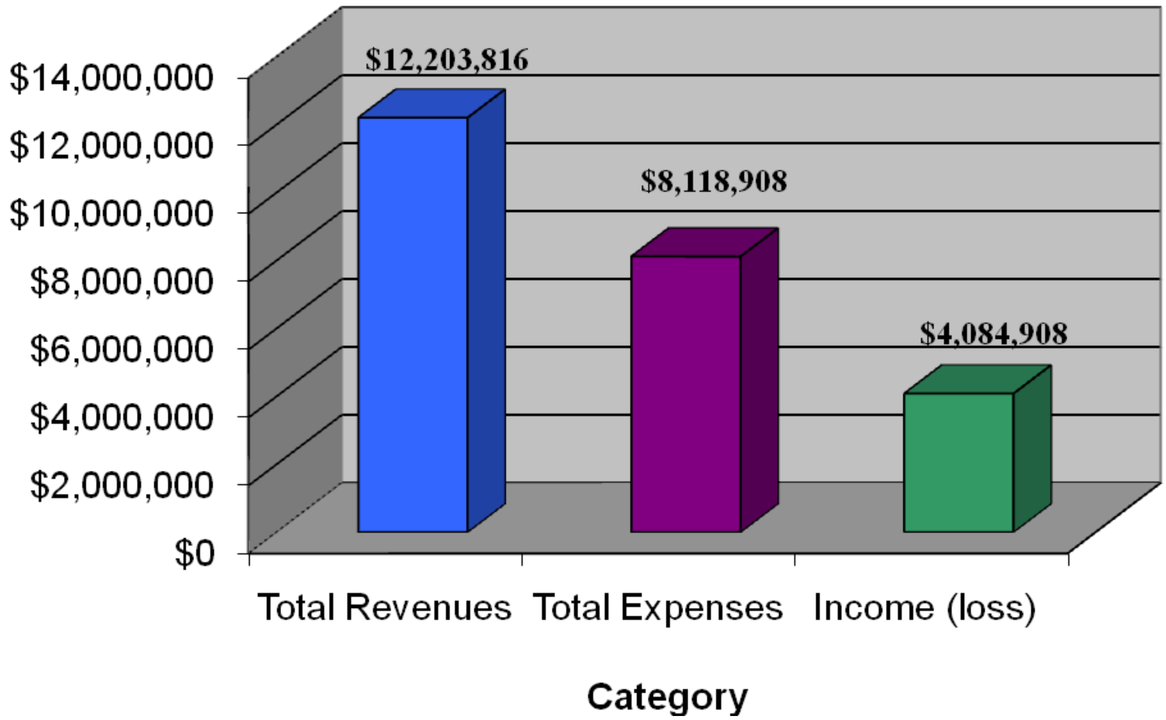
EXPENSES 2011



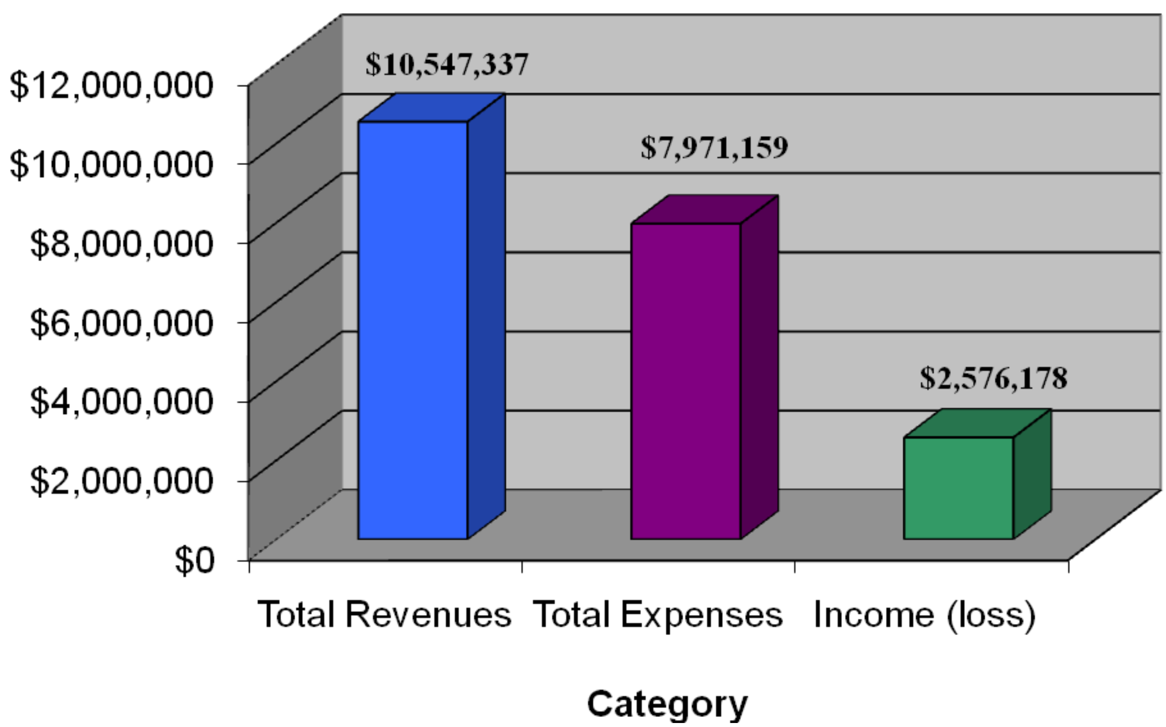
EXPENSES 2010



REVENUES AND EXPENSES 2011



REVENUES AND EXPENSES 2010



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, 2011 and June 30, 2010 amounts to $53,152,276 and $47,455,970 (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 12.00%.

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

Construction in Progress
- Treatment Plant Upgrade Project
- Fairview Sewer Relocation
- Firestone Road Lift Station
- Plant and pump station Refurbishment Project

GOLETA SANITARY DISTRICT'S CAPITAL ASSETS

	June 30, 2011	June 30, 2010	June 30, 2009
Land	$ 327,243	$ 327,243	$ 327,243
Construction in Progress	6,715,772	10,240,703	4,444,812
Collection Facilities	22,295,819	16,298,772	15,683,633
Treatment Facilities	33,674,222	28,700,793	28,620,300
Disposal Facilities	3,743,731	3,752,501	3,752,501
Admin Facilities	2,973,490	3,076,204	3,042,661
Wastewater Reclamation	14,890,713	14,864,852	14,846,230
Total	$ 84,620,990	$ 77,261,068	$ 70,717,380
Less Accumulated Depreciation	$ (31,468,714)	$ (29,805,098)	$ (28,037,818)
Net Capital Assets	$ 53,152,276	$ 47,455,970	$ 42,679,562

Additional information on the Goleta Sanitary District's capital assets can be found in note 4 on page 23 of this report.

Long-term debt. At the end of June 30, 2011 and 2010, the Goleta Sanitary District had a total current and long-term debt of $568,298 and $700,832. 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

	2011	2010	2009
State Revolving Fund Loan	$ 568,298	$ 700,832	$ 829,756
Total	$ 568,298	$ 700,832	$ 829,756

The Goleta Sanitary District's total debt decreased by $132,534 (18.9 percent), $128,924 (15.5 percent), $125,412 (13.1 percent) during June 30, 2011, 2010 and 2009, 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 5 on page 24 of this report.

Economic Factors and Next Year's Budgets and Rates

The District reviewed its sewer service fees for 2010-2011 and determined that an increase was not 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 2011-12. The rate includes $11.31 per month per dwelling unit to finance the District's Plant Upgrading Project. An additional $2.00 per month per ERU is also earmarked for funding other capital improvements at the District. This scenario has been the conventional approach to balancing the District's annual O&M needs inclusive of its depreciation funding. The 2011-12 single family dwelling monthly user charge is $36.86 ($23.55 for O&M, $11.31 for the Plant Upgrading Project and $2.00 for Capital Improvement Projects) which is about 8.86% over the 2008-09 rate of $33.86 per month, the last time an increase was implemented.

The sewer service charge increase is essential to cover anticipated increases in expenses due to inflation, and for partially funding the cost of upgrading the treatment plant to full secondary level as well as other capital improvement projects.

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 2008, the District joined the CalPERS medical program. An actuarial was performed in 2010 to determine the District's Annual required contribution to the OPEB Fund in order to meet the obligation of providing the Retiree Medical Insurance. During Fiscal Year 2010-2011 the District paid the outstanding prior year (2009-2010) liability of $48,641, current year (2010-2011) annual required contribution of $316,060 and made a contribution of $18,161 towards the annual required contribution for Fiscal Year 2011-2012.

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 ASSETS
JUNE 30, 2011 AND 2010

	2011	2010
Assets:		
Current:		
Cash and investments	$ 14,566,774	$ 15,432,656
Receivables:		
Accounts	2,243,177	848,420
Accrued interest	18,057	21,184
Prepaid costs	38,214	51,650
Inventories	42,371	50,224
Net OPEB asset	18,161	-
Total Current Assets	**16,926,754**	**16,404,134**
Noncurrent:		
Restricted:		
Cash and investments	1,927,911	1,886,787
Accrued interest receivable	2,326	2,497
Capital assets - net of accumulated depreciation	53,152,276	47,455,970
Total Noncurrent Assets	**55,082,513**	**49,345,254**
Total Assets	**$ 72,009,267**	**$ 65,749,388**
Liabilities and Net Assets:		
Liabilities:		
Current:		
Accounts payable and accrued liabilities	$ 470,362	$ 262,864
Deposits payable	-	1,000
Accrued liability for compensated absences	155,601	149,527
Accrued interest - state revolving loan	11,934	14,717
Current portion - state revolving loan	136,245	132,534
Total Current Liabilities	**774,142**	**560,642**
Noncurrent:		
Net OPEB obligation	-	48,641
State revolving loan	432,053	568,298
Total Noncurrent Liabilities	**432,053**	**616,939**
Total Liabilities	**1,206,195**	**1,177,581**
Net Assets:		
Invested in capital assets, net of related debt	52,583,978	46,755,138
Restricted	1,930,237	1,889,284
Unrestricted	16,288,857	15,927,385
Total Net Assets	**70,803,072**	**64,571,807**
Total Liabilities and Net Assets	**$ 72,009,267**	**$ 65,749,388**

See Notes to Financial Statements

GOLETA SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating Revenues:		
Service charges	$ 8,405,912	$ 8,204,272
Connection charges	41,295	30,923
Permit and inspection fees	37,200	29,350
Sewage treatment - other agencies	1,754,059	1,793,620
Administrative charges	113,978	116,018
Total Operating Revenues	**10,352,444**	**10,174,183**
Operating Expenses (Including Depreciation):		
Sewage collection	1,588,120	1,580,518
Sewage treatment	4,367,716	4,239,898
Plant pump station	148,114	132,092
Sewage disposal	108,860	113,508
Administrative and general	1,214,298	1,189,579
Wastewater reclamation	674,960	695,038
Total Operating Expenses	**8,102,068**	**7,950,633**
Operating Income (Loss)	2,250,376	2,223,550
Nonoperating Revenues (Expenses):		
Property tax allocated	115,741	113,021
Intergovernmental	1,500,000	-
Investment earnings	81,033	114,027
Interest expense	(16,840)	(20,526)
Annexation charges	15,954	6,887
Reimbursements from participating agencies	67,589	67,676
Other	71,055	71,543
Total Nonoperating Revenues (Expenses)	**1,834,532**	**352,628**
Income (Loss) Before Capital Contributions	4,084,908	2,576,178
Capital contributions	2,146,357	2,769,205
Changes in Net Assets	6,231,265	5,345,383
Net Assets at Beginning of Year	64,571,807	59,226,424
Net Assets End of Fiscal Year	**$ 70,803,072**	**$ 64,571,807**

GOLETA SANITARY DISTRICT

STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash Flows from Operating Activities:		
Receipt from customers	$ 8,957,687	$ 9,989,937
Payments to suppliers	(2,280,112)	(2,793,398)
Payments to employees	(3,815,104)	(3,756,374)
Net Cash Provided (Used) by Operating Activities	**2,862,471**	**3,440,165**
Cash Flows from Non-Capital Financing Activities:		
Property taxes	115,741	113,021
Reimbursements from other governments	67,589	67,676
Annexation charges	15,954	6,887
Other non-operating Income	71,055	71,543
Net Cash Provided (Used) by Non-Capital Financing Activities	**270,339**	**259,127**
Cash Flows from Capital and Related Financing Activities:		
Capital contributions	2,146,357	2,188,787
Acquisition and construction of capital assets	(7,536,099)	(5,963,271)
Principal paid on long-term debt	(132,534)	(128,924)
Interest paid on long-term debt	(19,623)	(23,234)
Intergovernmental	1,500,000	-
Net Cash Provided (Used) by Capital and Related Financing Activities	**(4,041,899)**	**(3,926,642)**
Cash Flows from Investing Activities:		
Interest received	84,331	153,500
Net Cash Provided (Used) by Investing Activities	**84,331**	**153,500**
Net Increase (Decrease) in Cash and Cash Equivalents	**(824,758)**	**(73,850)**
Cash and Cash Equivalents at Beginning of Year	17,319,443	17,656,157
Cash and Cash Equivalents at End of Year	**$ 16,494,685**	**$ 17,582,307**

See Notes to Financial Statements

STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	$ 2,250,376	$ 2,223,550
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:		
Depreciation and amortization	1,839,793	1,767,281
(Increase) decrease in accounts receivable	(1,394,757)	(184,246)
(Increase) decrease in inventory	7,853	46,945
(Increase) decrease in prepaid expense	13,436	22,804
(Increase) decrease in OPEB asset	(18,161)	-
Increase (decrease) in accounts payable	207,498	(488,110)
Increase (decrease) in net OPEB obligation	(48,641)	48,641
Increase (decrease) in deposits payable	(1,000)	-
Increase (decrease) in compensated absences	6,074	3,300
Total Adjustments	**612,095**	**1,216,615**
Net Cash Provided (Used) by Operating Activities	**$ 2,862,471**	**$ 3,440,165**
Non-Cash Investing, Capital, and Financing Activities:		
Contributions from property owners	$ -	$ 580,418

Note 1: Reporting Entity

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 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.

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 ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard 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.

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.

Note 2: Summary of Significant Accounting Policies (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%

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 expenditures 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 31, the District's investments are stated at fair value except for interest-earning investment contracts.

e. 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.

f. 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 estimated fair value of the item at the date of its donation.

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

Note 2: Summary of Significant Accounting Policies (Continued)

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

g. 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 there are on standby. The rates of the accrual vary by employee 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 Assets and the current year allocation has been expensed. The balance at June 30, 2011 and 2010 was $155,601 and $149,527, respectively. The full amount is shown as a current liability because it is expected to be paid out within the next year.

h. 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.

i. 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.

j. 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.

k. 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)

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 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 ended June 30, 2011 and 2010, the District received $115,741 and $113,021, 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.

l. 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.

m. Reclassifications

Certain reclassifications have been made to prior fiscal year amounts to conform to the current fiscal year financial statement presentations.

Note 3: Cash and Investments

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

	2011	2010
Statement of Net Assets		
Cash and Investments	$ 14,566,774	$ 15,432,656
Restricted Cash and Investments	1,927,911	1,886,787
Total Cash and Investments	$ 16,494,685	$ 17,319,443

Note 3: Cash and Investments (Continued)

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

	2011	2010
Cash on Hand	$ 500	$ 500
Deposits with Financial Institutions	(486,767)	(574,337)
Investments	16,980,952	17,893,280
Total Cash and Investments	$ 16,494,685	$ 17,319,443

Investments Authorized by the District's Investment Policy

The District's investment policy authorizes investments 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.

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

	2011	2010
	6 Months or Less	6 Months or Less
State Investment Pool	$ 16,980,952	$ 17,893,280

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 those 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).

Note 3: Cash and Investments (Continued)

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 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 District 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.

The Treasurer, at his or her discretion, may waive the 110% collateral requirement for deposits. Deposit accounts are insured up to at least $250,000 until December 31, 2011.

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 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.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each entity 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.

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 LAW shall not be subject to impoundment or seizure by any State official or State agency."

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Capital assets not being depreciated:					
Land	$ 327,243	$ -	$ -	$ -	$ 327,243
Construction in progress	10,240,703	(10,987,292)	8,567,601	1,105,240	6,715,772
Total Capital Assets Not Being Depreciated	10,567,946	(10,987,292)	8,567,601	1,105,240	7,043,015
Capital assets being depreciated:					
Collection facilities	16,298,772	6,019,593	-	22,546	22,295,819
Treatment facilities	28,700,793	4,967,699	5,730	-	33,674,222
Disposal facilities	3,752,501	-	-	8,770	3,743,731
General administrative facilities	3,076,204	-	24,321	127,035	2,973,490
Wastewater reclamation facility	14,864,852	-	27,553	1,692	14,890,713
Total Capital Assets Being Depreciated	66,693,122	10,987,292	57,604	160,043	77,577,975
Less accumulated depreciation	(29,805,098)	-	(1,839,793)	176,177	(31,468,714)
Total Capital Assets, Being Depreciated, Net	36,888,024	10,987,292	(1,782,189)	336,220	46,109,261
Capital Assets, Net of Depreciation	$ 47,455,970	$ -	$ 6,785,412	$ 1,441,460	$ 53,152,276

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 327,243	$ -	$ -	$ 327,243
Construction in progress	4,444,812	5,795,891	-	10,240,703
Total Capital Assets Not Being Depreciated	4,772,055	5,795,891	-	10,567,946
Capital assets being depreciated:				
Collection facilities	15,683,633	615,139	-	16,298,772
Treatment facilities	28,620,300	80,493	-	28,700,793
Disposal facilities	3,752,501	-	-	3,752,501
General administrative facilities	3,042,661	33,543	-	3,076,204
Wastewater reclamation facility	14,846,230	18,622	-	14,864,852
Total Capital Assets Being Depreciated	65,945,325	747,797	-	66,693,122
Less accumulated depreciation	(28,037,818)	(1,767,280)	-	(29,805,098)
Total Capital Assets, Being Depreciated, Net	37,907,507	(1,019,483)	-	36,888,024
Capital Assets, Net of Depreciation	$ 42,679,562	$ 4,776,408	$ -	$ 47,455,970

Note 5: Long-Term Liabilities

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2011:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
State revolving fund loan	$ 700,832	$ -	$ 132,534	$ 568,298	$ 136,245
Compensated absences	149,527	167,895	161,822	155,600	155,600
Total Long-Term Liabilities	$ 850,359	$ 167,895	$ 294,356	$ 723,898	$ 291,845

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2010:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
State revolving fund loan	$ 829,756	$ -	$ 128,924	$ 700,832	$ 132,534
Compensated absences	146,227	149,783	146,483	149,527	149,527
Total Long-Term Liabilities	$ 975,983	$ 149,783	$ 275,407	$ 850,359	$ 282,061

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.

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

Year Ending June 30	Principal	Interest	Total
2012	$ 136,245	$ 15,912	$ 152,157
2013	140,060	12,097	152,157
2014	143,981	8,176	152,157
2015	148,012	4,145	152,157
Totals	$ 568,298	$ 40,330	$ 608,628

In June 2011 the District entered into a State Revolving Fund Loan with the State of California under the Clean Water Act by the United States Environmental Protection Agency totaling $12,520,448 for the Wastewater Treatment Plant Upgrade to Secondary Treatment Project. Principal payments ranging from $390,591 to $830,791 commence on April 30, 2015 and are due annually. The loan bears interest at the rate of 2.6 percent per annum. As of June 30, 2011, no drawdowns on this loan have been received, therefore the liability has not been recorded on the accompanying financial statements.

Note 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 are a catchall for all remaining net assets not accounted for in the other two categories.

Net assets at year end consisted of the following:

	2011	2010
Invested in Capital Assets, Net of Related Debt:		
Capital assets, net	$ 53,152,276	$ 47,455,970
Less long-term debt obligations	(568,298)	(700,832)
Total Invested in Capital Assets, Net of Related Debt	52,583,978	46,755,138
Restricted Net Assets:		
Restricted assets	1,930,237	1,889,284
Total Restricted Net Assets	1,930,237	1,889,284
Unrestricted Net Assets	16,288,857	15,927,385
Total Net Assets	$ 70,803,072	$ 64,571,807

Included in Restricted 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, 2011 and 2010, this reserve was $1,930,237 and $1,889,284, 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 J50.103:

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.

Note 7: Risk Management (Continued)

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 a 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: Defined Benefit Pension Plan

a. Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts 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 within the Public Employees' Retirement Law. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

b. Funding Policy

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is also required to make an additional contribution at an actuarially determined rate. This rate for the fiscal year ended June 30, 2011 and 2010 was 13.62%

Note 8: Defined Benefit Pension Plan (Continued)

and 12.19%, respectively of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

c. Annual Pension Cost

For fiscal year ended June 30, 2011 and 2010, the District's annual pension cost was $412,654 and $431,227, respectively and was equal to the District's required and actual contributions. The required contribution was determined as part of the new agency actuarial valuation as of June 30, 2008 and 2007, using the entry age normal actuarial cost method.

	Three-Year Trend Information for CalPERS		
Fiscal Year	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	$ 403,949	100%	$ -
6/30/2010	431,227	100%	-
6/30/2011	412,654	100%	-

The District participates in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same risk pool. Participation in risk pools is mandatory for all rate plans with less than 100 active members. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The first year in risk pools, the employer contribution rates are almost identical to what the rates would have been outside pools. Future rates will be based on the experience of each pool. Pooling will reduce the volatility of future employer rates. Mandated participation will occur on an annual basis.

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 for the CERBT may be obtained by writing to CalPERS at Lincoln Plaza North 400 Q Street, Sacramento, 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. Until 2012, the District will use the "unequal contribution" approach to funding retiree healthcare benefits. Commencing in 2012, the District will contribute the full cost of retiree and spousal coverage, up to the cost of PERS Choice coverage. 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. A

Note 9: Other Post Employment Benefits (Continued)

contribution of $382,862 was made during the 2010-2011 fiscal year to cover the annual OPEB cost, to pay for the net OPEB obligation from the prior year and to fund a portion of future OPEB costs. As a result, the District calculated and recorded a net OPEB obligation (asset), representing the difference between the annual required contribution (ARC) and actual contributions, as presented below:

	2011	2010
Annual required contribution (ARC)	$ 315,430	$ 301,198
Interest on net OPEB obligation	3,770	-
Adjustment to ARC	(3,140)	-
Annual OPEB cost	316,060	301,198
Contributions made	(382,862)	(252,557)
(Decrease) increase in net OPEB obligation	(66,802)	48,641
Net OPEB obligation (asset) - beginning of year	48,641	-
Net OPEB obligation (asset) - end of year	$ (18,161)	$ 48,641

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB (obligation) asset for 2010-2011 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2009	N/A	N/A	N/A	N/A
6/30/2010	$ 301,198	$ 252,557	84%	$ 48,641
6/30/2011	316,060	382,862	121%	(18,161)

c. Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Only one year is presented as this is the first year of the plan.

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Actual	1/1/2010	$ 272,130	$ 2,773,266	$ 2,501,136	$ -	$ 2,521,908	99%	7.75%	5%

Note 9: Other Post Employment Benefits (Continued)

d. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2010, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 7.75%.

Investment rate of return, which is a blended rate of the expected long-term investment return on plan assets and on the employer's own investments calculated, based on the funded level of the plan at the valuation date, and annual healthcare cost trend rate of 5.5% to 7.6%. The actuarial value of assets is set equal to the reported market value of assets. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at June 30, 2011, was twenty-eight years. The number of active participants is 32.

Note 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 Goleta Water District's customers.

The 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 of 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 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.

Note 11: Commitments and Contingencies (Continued)

b. 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, the design and construction will occur between 2008 and 2014.

c. Construction Commitments

The following material construction commitments existed at June 30, 2011:

Project Name	Contract Amount	Expenditures to date as of June 30, 2011	Remaining Commitments
Wastewater Treatment Plant Upgrading Project	$ 28,623,477	$ 2,144,601	$ 26,478,876