

GOLETA SANITARY DISTRICT

ANNUAL AUDIT REPORT

Years Ended June 30, 2009 and 2008

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, 2009 and 2008**

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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 of the Goleta Sanitary District, as of and for the years ended June 30, 2009 and 2008, 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 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 basic 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Goleta Sanitary District, as of June 30, 2009 and 2008, 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 October 6, 2009 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 management's discussion and analysis on pages ii through xi is not required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Teaman Ramirez & Smith

October 6, 2009

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 4-14 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 \$59,097,496 and \$54,805,012 at the close of June 30, 2009 and 2008, respectively.

By far the largest portion of the Goleta Sanitary District's net assets, \$41,849,806 (71 percent) and \$38,020,246 (69 percent) as of June 30, 2009 and 2008, 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.

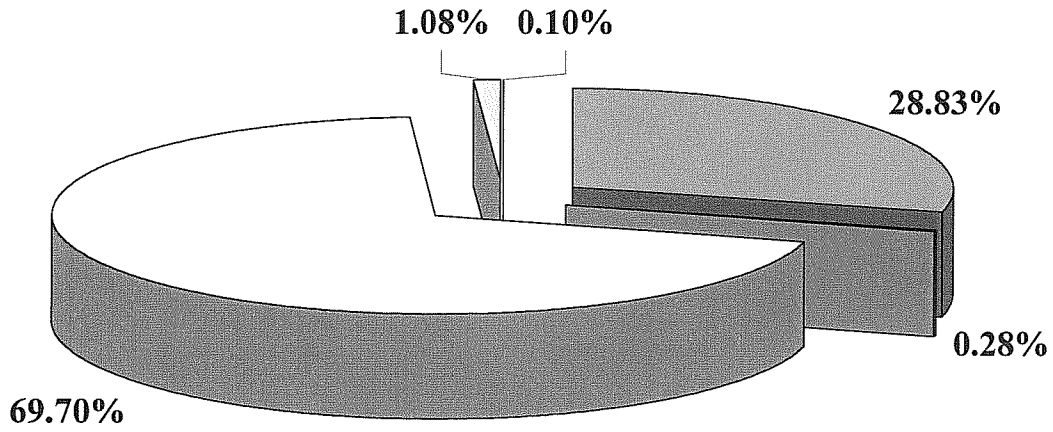
GOLETA SANITARY DISTRICT'S NET ASSETS

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current Assets	\$ 16,711,469	\$ 16,359,702	\$ 15,600,420
Noncurrent Assets	<u>44,523,201</u>	<u>40,712,136</u>	<u>38,220,836</u>
Total Assets	<u>\$ 61,234,670</u>	<u>\$ 57,071,838</u>	<u>\$ 53,821,256</u>
Current liabilities	\$ 1,161,187	\$ 1,138,226	\$ 422,648
Noncurrent Liabilities	<u>847,059</u>	<u>1,128,600</u>	<u>1,240,388</u>
Total Liabilities	<u>\$ 2,008,246</u>	<u>\$ 2,266,826</u>	<u>\$ 1,663,036</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 41,849,806	\$ 38,020,246	\$ 37,113,208
Restricted	1,843,639	1,736,722	1,645,467
Unrestricted	<u>15,532,979</u>	<u>15,048,044</u>	<u>13,399,545</u>
Total Net Assets	<u>\$ 59,226,424</u>	<u>\$ 54,805,012</u>	<u>\$ 52,158,220</u>

An additional portion of the Goleta Sanitary District's net assets, \$1,843,639 (3.12 percent) and \$1,736,722 (3.17 percent) as of June 30, 2009 and 2008, respectively, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$15,532,979 and, \$15,048,044 as of June 30, 2009 and 2008, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

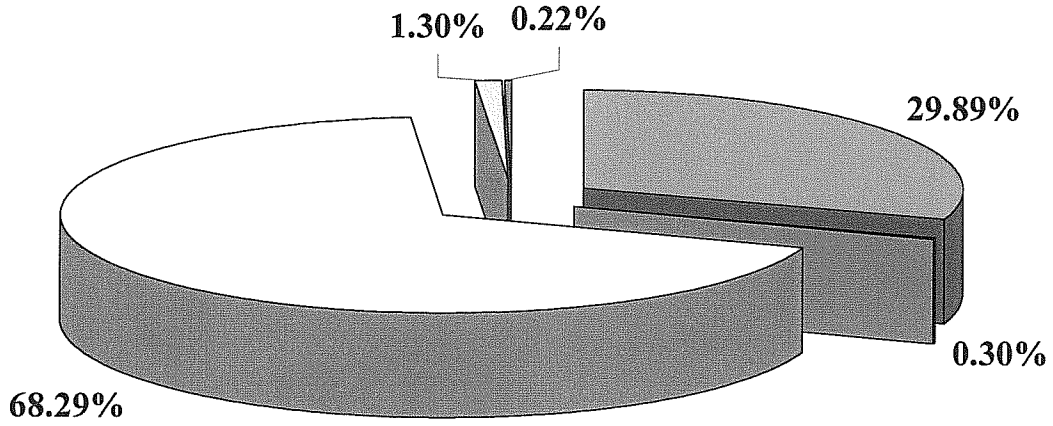
At the end of the current fiscal year, the Goleta Sanitary District is able to report positive balances in all three categories of net assets. The same situation held true for the prior two fiscal years.

ASSETS 2009



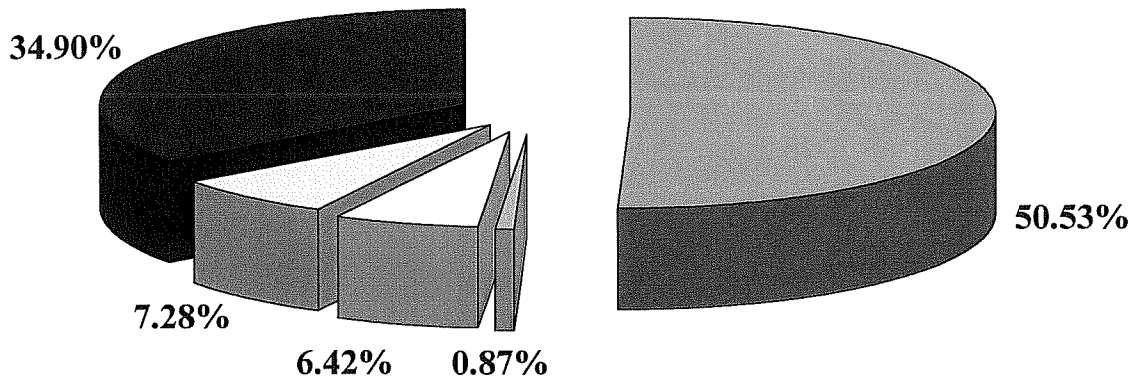
- | | |
|----------------------------|--|
| ■ Cash and Investments | □ Prepaid Expenses and Inventory |
| □ Capital Assets Less Dep. | □ Accounts Receivable and Deposits A/R |
| ■ Accrued Interest | |

ASSETS 2008



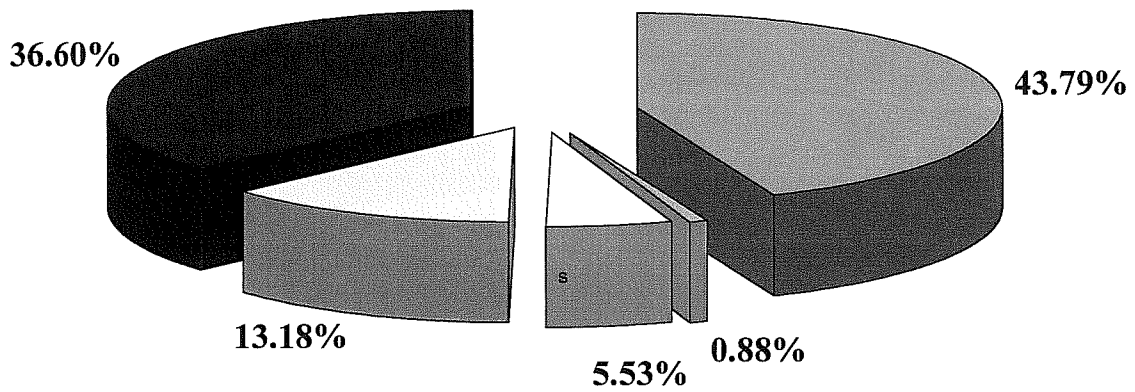
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|----------------------------|--|
| ■ Cash and Investments | □ Prepaid Expenses and Inventory |
| □ Capital Assets Less Dep. | □ Accounts Receivable and Deposits A/R |
| ■ Accrued Interest | |

LIABILITIES 2009



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

LIABILITIES 2008



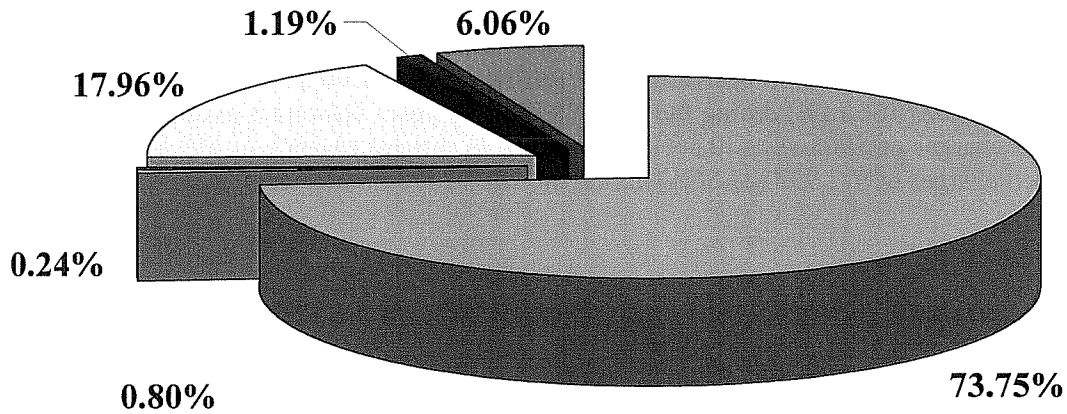
- Accounts Payable and Accrued Expenses ■ Accrued Interest
- Debt Service □ Accrued Compensated Absences
- State Revolving Loan

Business-type activities. The business-type activities increased the Goleta Sanitary District's net assets by \$4,421,412 and \$2,646,792 as of June 30, 2009 and 2008, respectively. Key elements of this increase are as follows. Operating and non-operating revenues exceeded operating and non-operating expenses by \$1,888,986 and \$1,604,896 as of June 30, 2009 and 2008, respectively. Capital contributions to the District's system totaled \$2,532,426 and \$1,041,896 as of June 30, 2009 and 2008, respectively, for a net increase of \$4,421,412 and \$2,646,792, as of June 30, 2009 and 2008, respectively. Revenues exceeded expenses due to an increase in service charges of \$1,845,157 (34.47%), a decrease in interest revenue of \$300,613 (45.94%) and a decrease in annexation charges of \$47,067 (66.14%) during the 2008/2009 fiscal year. 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.

GOLETA SANITARY DISTRICT'S CHANGE IN NET ASSETS

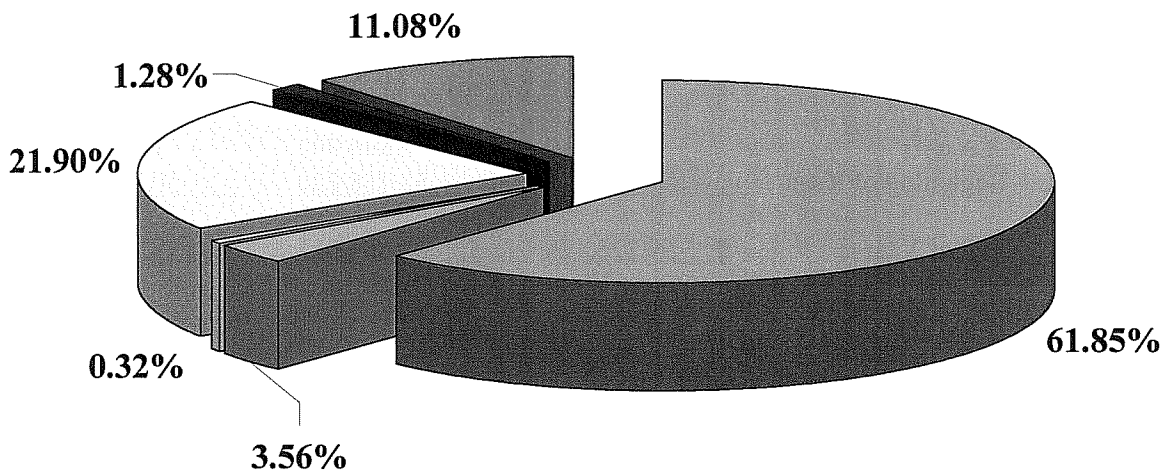
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues:			
Service Charges	\$ 7,199,438	\$ 5,354,281	\$ 4,448,399
Other Operating	1,971,102	2,343,062	2,334,011
Capital Contributions	2,532,426	1,041,896	466,424
Non-operating	<u>591,119</u>	<u>958,970</u>	<u>1,216,431</u>
Total Revenues	<u>\$ 12,294,085</u>	<u>\$ 9,698,209</u>	<u>\$ 8,465,265</u>
Expenses:			
Sewer Collection	1,580,124	1,531,679	1,359,252
Sewage Treatment	4,358,614	3,795,751	3,821,256
Plant Pump Station	133,781	92,756	93,631
Sewage Disposal	113,176	110,117	114,109
Administrative	1,010,078	859,332	875,751
Wastewater Reclamation	<u>676,900</u>	<u>661,782</u>	<u>660,098</u>
Total Expenses	<u>\$ 7,872,673</u>	<u>\$ 7,051,417</u>	<u>\$ 6,924,097</u>
Increase in Net Assets	4,421,412	2,646,792	1,541,168
Net Assets – Beginning of Year	<u>54,805,012</u>	<u>52,158,220</u>	<u>50,617,052</u>
Net Assets – End of Year	<u>\$ 59,226,424</u>	<u>\$ 54,805,012</u>	<u>\$ 52,158,220</u>

REVENUES 2009



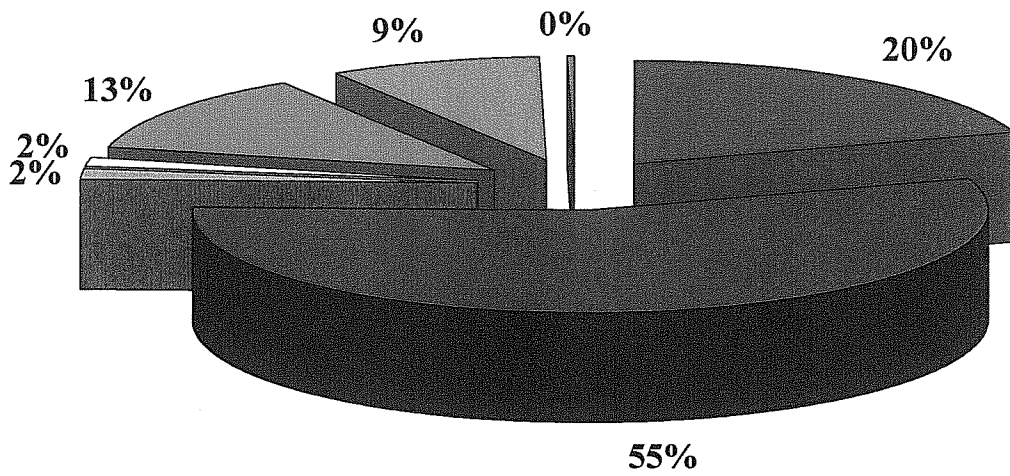
- Service Charges
- Connection Fees
- Permit/Inspection Fees
- Sewage Treatment- Others
- Administrative and Annexation Charges
- Non-Operating Revenue

REVENUES 2008



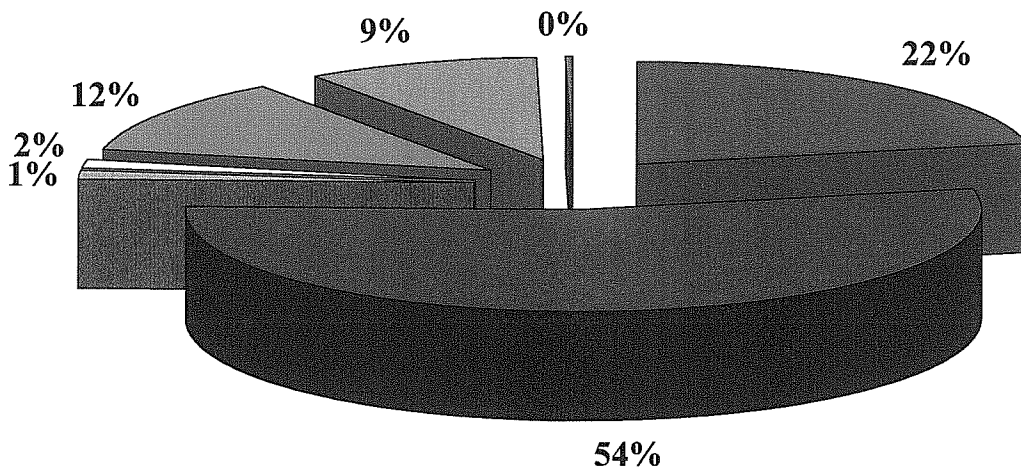
- Service Charges
- Connection Fees
- Permit/Inspection Fees
- Sewage Treatment- Others
- Administrative and Annexation Charges
- Non-Operating Revenue

EXPENSES 2009



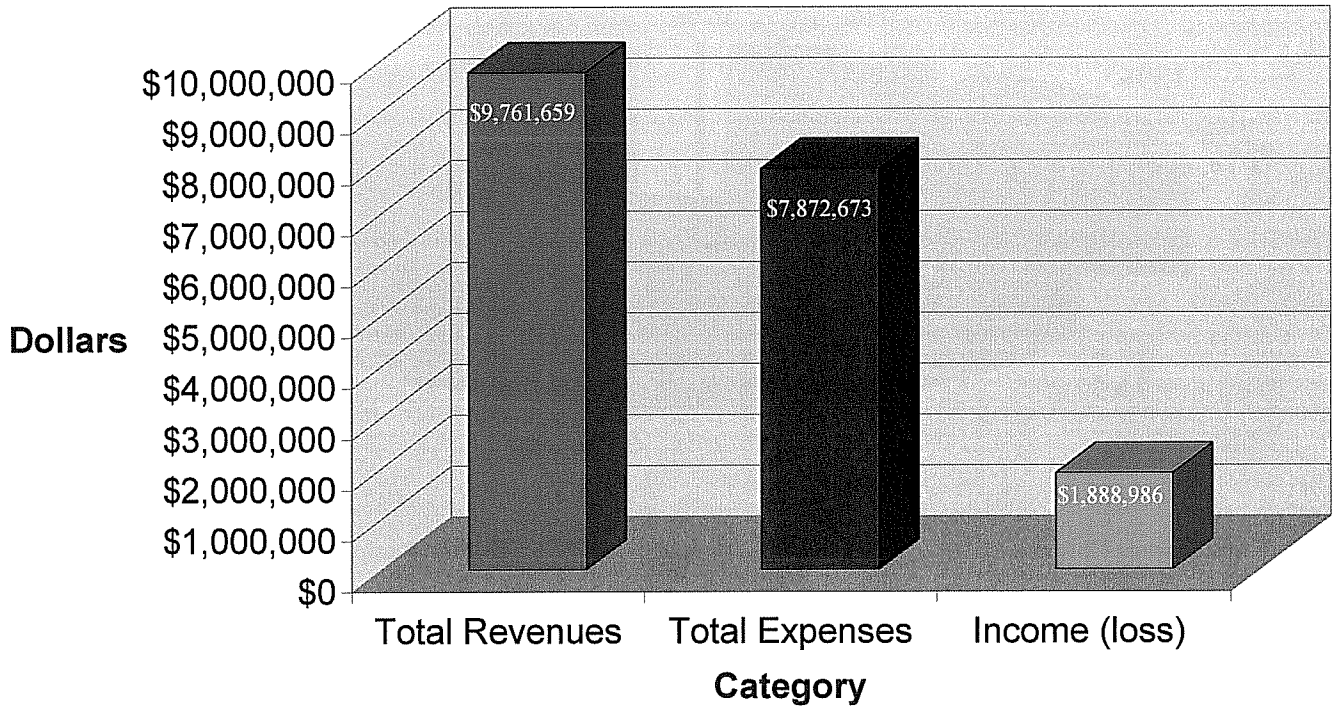
- Sewage Collection ■ Sewage Treatment ■ Plant Pump Station
- Sewage Disposal ■ Administrative and General ■ Reclamation
- Non-operating Expenses

EXPENSES 2008

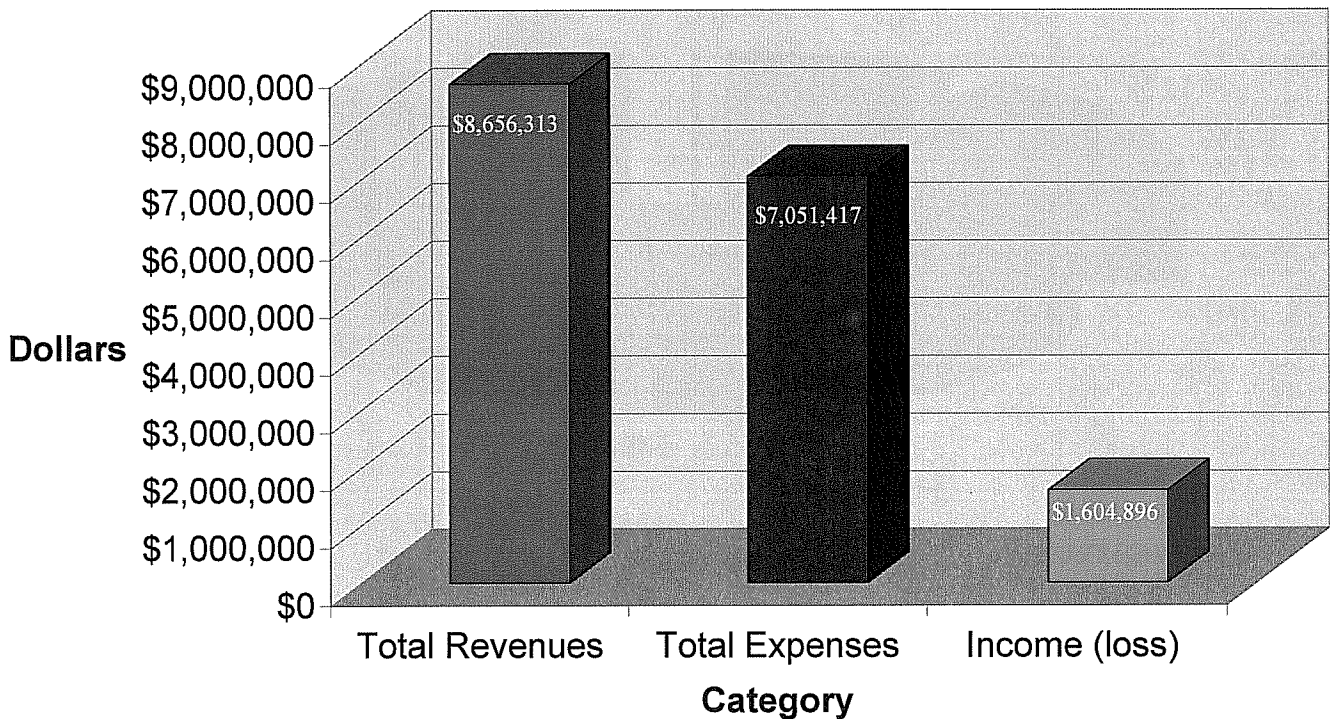


- Sewage Collection ■ Sewage Treatment ■ Plant Pump Station
- Sewage Disposal ■ Administrative and General ■ Reclamation
- Non-operating Expenses

REVENUES AND EXPENSES 2009



REVENUES AND EXPENSES 2008



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, 2009 and June 30, 2008 amounts to \$42,679,562 and \$38,975,414 (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 9.51%. This increase is primarily due to the increase in construction in progress during the year, which increased by 81.66% due to the increase of various projects completed. As of June 30, 2008, the total increase in the Goleta Sanitary District's investment in capital assets was 2.1%. This increase was due to the decrease in construction in progress during the prior fiscal year, which decreased by 32.57% due to increase of various projects completed.

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
 - Treatment Plant Upgrade Project
 - 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, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Land	\$ 327,243	\$ 327,243	\$ 327,243
Construction in Progress	4,444,812	2,446,773	3,628,907
Collection Facilities	15,683,633	12,688,360	10,825,604
Treatment Facilities	28,620,300	28,495,032	26,970,315
Disposal Facilities	3,752,501	3,752,501	3,735,304
Admin Facilities	3,042,661	2,768,208	2,690,054
Wastewater Reclamation	<u>14,846,230</u>	<u>14,838,299</u>	<u>14,755,052</u>
Total	<u>\$ 70,717,380</u>	<u>\$ 65,316,416</u>	<u>\$ 62,932,479</u>
Less Accumulated Depreciation	<u>\$ (28,037,818)</u>	<u>\$ (26,341,002)</u>	<u>\$ (24,742,107)</u>
Net Capital Assets	<u>\$ 42,679,562</u>	<u>\$ 38,975,414</u>	<u>\$ 38,190,372</u>

Additional information on the Goleta Sanitary District's capital assets can be found in note 4 on page 9 of this report.

Long-term debt. At the end of June 30, 2009 and 2008, the Goleta Sanitary District had total long-term debt of \$829,756 and \$955,168. 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>2009</u>	<u>2008</u>	<u>2007</u>
State Revolving Fund Loan	\$ <u>829,756</u>	\$ <u>955,168</u>	\$ <u>1,077,164</u>
Total	\$ <u><u>829,756</u></u>	\$ <u><u>955,168</u></u>	\$ <u><u>1,077,164</u></u>

The Goleta Sanitary District's total debt decreased by \$125,412 (13.13 percent), 121,966 (11.5 percent), and \$118,674 (9.7 Percent) during June 30, 2009, 2008 and 2007, 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 10 of this report.

Economic Factors and Next Year's Budgets and Rates

The District reviewed its sewer service fees for 2009-2010 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 2009-10. This scenario has been the conventional approach to balancing the District's annual O&M needs inclusive of its depreciation funding. The 2009-10 single family dwelling user charge is \$36.86 per month which is about 8.86% over the 2008-09 rate of \$33.86 per month.

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.

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
Statements of Net Assets
June 30, 2009 and 2008

	2009	2008
ASSETS		
Current Assets:		
Cash and Investments	\$ 15,819,216	\$ 15,321,688
Accounts Receivable	664,174	743,938
Accrued Interest Receivable	56,456	125,673
Prepaid Expenses	74,454	37,708
Inventory	97,169	130,695
Total Current Assets	16,711,469	16,359,702
Noncurrent Assets:		
Restricted Assets:		
Cash and Investments	1,836,941	1,736,478
Accrued Interest Receivable	6,698	244
Capital Assets, Net of Depreciation	42,679,562	38,975,414
Total Noncurrent Assets	44,523,201	40,712,136
Total Assets	61,234,670	57,071,838
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses	1,013,838	986,755
Deposits Payable	1,000	6,000
Accrued Interest - State Revolving Loan	17,425	20,059
Current Portion - State Revolving Loan	128,924	125,412
Total Current Liabilities	1,161,187	1,138,226
Noncurrent Liabilities:		
Accrued Liability for Compensated Absences	146,227	298,844
State Revolving Loan	700,832	829,756
Total Noncurrent Liabilities	847,059	1,128,600
Total Liabilities	2,008,246	2,266,826
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	41,849,806	38,020,246
Restricted	1,843,639	1,736,722
Unrestricted	15,532,979	15,048,044
Total Net Assets	\$ 59,226,424	\$ 54,805,012

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, 2009 and 2008

	2009	2008
OPERATING REVENUES		
Service Charges	\$ 7,199,438	\$ 5,354,281
Connection Charges	78,177	308,308
Permit and Inspection Fees	23,161	27,565
Sewage Treatment - Other Agencies	1,753,672	1,895,978
Administrative Charges	116,092	110,811
Annexation Processing Charges	-	400
	9,170,540	7,697,343
OPERATING EXPENSES (Including Depreciation)		
Sewage Collection	1,580,124	1,531,679
Sewage Treatment	4,358,614	3,795,751
Plant Pump Station	133,781	92,756
Sewage Disposal	113,176	110,117
Administrative and General	985,967	831,743
Wastewater Reclamation	676,900	661,782
	7,848,562	7,023,828
Total Operating Expenses		
	1,321,978	673,515
Operating Income (Loss)		
NONOPERATING REVENUES (EXPENSES)		
Investment Earnings	353,760	654,373
Property Tax Allocated	119,414	115,781
Annexation Charges	24,098	71,165
Reimbursements from Participating Agencies	69,775	6,528
Interest Expense	(24,111)	(27,589)
Other	24,072	111,123
	567,008	931,381
Total Nonoperating Revenues (Expenses)		
	1,888,986	1,604,896
Income (Loss) Before Capital Contributions		
Capital Contributions	2,532,426	1,041,896
Change in Net Assets		
	4,421,412	2,646,792
Net Assets at Beginning of Year	54,805,012	52,158,220
Net Assets at End of Year	\$ 59,226,424	\$ 54,805,012

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

Goleta Sanitary District
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 9,250,304	\$ 7,552,882
Payments to Suppliers	(2,205,545)	(1,383,739)
Payments to Employees	(4,072,873)	(3,360,929)
	<u>2,971,886</u>	<u>2,808,214</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	119,414	115,782
Reimbursements From Other Governments	69,775	6,528
Annexation Charges	24,098	71,165
Other Non-operating Income	24,072	111,122
	<u>237,359</u>	<u>304,597</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	1,531,642	144,920
Principal Paid on Long-Term Debt	(125,412)	(121,997)
Interest Paid on Long-Term Debt	(26,745)	(30,170)
Acquisition of Capital Assets	(4,407,262)	(1,486,962)
	<u>(3,027,777)</u>	<u>(1,494,209)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	416,523	721,340
	<u>416,523</u>	<u>721,340</u>
Net Increase (Decrease) in Cash and Cash Equivalents	597,991	2,339,942
Cash and Cash Equivalents - Beginning of the Year	<u>17,058,166</u>	<u>14,718,224</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 17,656,157</u>	<u>\$ 17,058,166</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 1,321,978	\$ 673,515
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	1,703,898	1,598,895
Change in Assets and Liabilities:		
Accounts Receivable	79,764	(149,553)
Deposits Receivable	-	5,091
Prepays	(36,746)	6,808
Inventory	33,526	(54,909)
Accounts Payable and Deposits	22,083	714,743
Compensated Absences	(152,617)	13,624
Net Cash Provided By Operating Activities	<u>\$ 2,971,886</u>	<u>\$ 2,808,214</u>
Non-cash capital and related financing activities:		
Contributions from Property Owners	1,000,784	896,976

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

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

1) 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.

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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) 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%

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 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.

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 constructed assets are transferred to the capital assets account and depreciated over the estimated useful life of the capital assets.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F) Capital Assets - Continued

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. 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.

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 is charged to operations.

J) 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.

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.

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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K) Property Taxes - Continued

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 \$119,414 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.

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.

3) CASH AND INVESTMENTS

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

	2009	2008
Statement of Net Assets:		
Cash and Investments	\$ 15,819,216	\$ 15,321,688
Restricted:		
Cash and Investments	1,836,941	1,736,478
Total Cash and Investments	\$ 17,656,157	\$ 17,058,166

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

	2009	2008
Cash on Hand	\$ 500	\$ 500
Deposits with Financial Institutions	334,874	734,680
Investments	17,320,783	16,322,986
Total Cash and Investments	\$ 17,656,157	\$ 17,058,166

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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

3) CASH AND INVESTMENTS - Continued

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	\$ 17,320,783	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.

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, 2009.

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).

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

3) CASH AND INVESTMENTS - Continued

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 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, 2009, was \$50,784,427,116 and \$50,850,687,766, respectively. 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 District's share of the Pool at June 30, 2009 and 2008, was approximately 0.0248 and 0.0244 percent, respectively. Included in LAIF's investment portfolio at June 30, 2009 and June 30, 2008, are certain derivative securities of similar products in the form of asset backed securities totaling \$2,296,565,000 and \$4,188,272,000, 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."

4) 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	\$ 4,580,038	\$ (2,581,999)	\$ 327,243
Construction in Progress	2,446,773	4,580,038	(2,581,999)	4,444,812
Total Capital Assets, Not Depreciated	<u>2,774,016</u>	<u>4,580,038</u>	<u>(2,581,999)</u>	<u>4,772,055</u>
Capital Assets, Being Depreciated:				
Collection Facilities	12,688,360	2,995,273		15,683,633
Treatment Facilities	28,495,032	125,268		28,620,300
Disposal Facilities	3,752,501			3,752,501
General Administrative Facilities	2,768,208	281,535	(7,082)	3,042,661
Wastewater Reclamation Facility	14,838,299	7,931		14,846,230
Total Capital Assets Being Depreciated	<u>62,542,400</u>	<u>3,410,007</u>	<u>(7,082)</u>	<u>65,945,325</u>
Less: Accumulated Depreciation	<u>(26,341,002)</u>	<u>(1,703,898)</u>	<u>7,082</u>	<u>(28,037,818)</u>
Total Capital Assets Being Depreciated, Net	<u>36,201,398</u>	<u>1,706,109</u>	<u>-</u>	<u>37,907,507</u>
Capital Assets, Net of Depreciation	<u>\$ 38,975,414</u>	<u>\$ 6,286,147</u>	<u>\$ (2,581,999)</u>	<u>\$ 42,679,562</u>

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

5) LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
State Revolving Fund Loan	\$ 955,168	\$	\$ (125,412)	\$ 829,756	\$ 128,924
Total Long-Term Liabilities	<u>\$ 955,168</u>	<u>\$ -</u>	<u>\$ (125,412)</u>	<u>\$ 829,756</u>	<u>\$ 128,924</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 rebalasting 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 End	Principal	Interest	Total
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>\$ 829,756</u>	<u>\$ 83,186</u>	<u>\$ 912,942</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 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:

	2009	2008
Invested in Capital Assets, Net of Related Debt:		
Capital Assets, Net	\$ 42,679,562	\$ 38,975,414
Less Long-Term Debt Obligations	<u>(829,756)</u>	<u>(955,168)</u>
Total Invested in Capital Assets, Net of Related Debt	<u>41,849,806</u>	<u>38,020,246</u>
Restricted Net Assets:		
Restricted Assets	<u>1,843,639</u>	<u>1,736,722</u>
Total Restricted Net Assets	<u>1,843,639</u>	<u>1,736,722</u>
Unrestricted Net Assets	<u>15,532,979</u>	<u>15,048,044</u>
Total Net Assets	<u>\$ 59,226,424</u>	<u>\$ 54,805,012</u>

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

6) NET ASSETS - Continued

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, 2009 and 2008, this reserve was \$1,843,639 and \$1,736,722, respectively.

Including in Unrestricted Net Assets are the following:

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, 2009 and 2008, this reserve was \$331,586 and \$175,684, 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. 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).

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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

7) RISK MANAGEMENT - Continued

b) Self-Insurance Programs of the Authority - Continued

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) DEFINED BENEFIT PENSION PLAN

The Goleta Sanitary District (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.

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, 2009 was 11.96% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS. The District's contributions to CalPERS for the years ending June 30, 2009, 2008, and 2007 were \$403,949, \$378,245, and \$377,677, respectively, and were equal to 100% required contribution for each year.

9) 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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

9) WASTEWATER RECLAMATION PROJECT - Continued

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.

10) 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 2009.

11) 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, certain funds are partially set aside in a special designated fund for the purpose of pre-funding this program. The accumulated balance including interest earnings will be held in the special fund pending payment of qualified insurance premiums.

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

- a. Starting in January 2009, 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 2009, 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.

Goleta Sanitary District
Notes to the Financial Statements
Years Ended June 30, 2009 and 2008

11) OTHER POST EMPLOYMENT BENEFITS - Continued

- 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 June 30, 2010.
- 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.

On July 6, 2009, the District's Governing Board approved participation in the CalPERS OPEB Trust Fund to comply with the requirements of GASB 45 Statement. The effective date that the District joined the CalPERS OPEB Trust Fund is August 5, 2009 which is the date CalPERS executed the OPEB Trust Fund agreement.